Operator: Good evening, everyone. Welcome to the interaction with the management of Cholamandalam Investment and Finance Company Ltd. We will discuss Q2 FY24 earnings today. The management is represented by Mr. Vellayan Subbiah, Executive Chairman; Mr. Ravindra Kundu, Managing Director and CEO; and Mr. Arulselvan, Chief Financial Officer. I would now like to hand over the call to Vellayan for his opening remarks, after which we will take questions.

Vellayan Subbiah – Executive Chairman: Thank you, Nishchint. Thank you, Kotak, for hosting this call. Good evening, everyone. I am happy to take you through our performance for Q2 FY24.

We continued to witness strong momentum across our lending businesses during the quarter, with broad-based growth across vehicle finance, SME, and consumer finance. Aggregate disbursements grew by 47% year-on-year to 35,872 crores, reflecting healthy demand conditions, execution strength, and the continued expansion of our distribution franchise. This translated into an AUM of {? 168,000 crores ?}, registering growth of 25% year-on-year.

In vehicle finance, industry volumes remained robust across key segments, supported by replacement demand, improving economic activity, and healthy freight utilization. We are particularly pleased that Chola continued to grow materially ahead of the industry, driven by market share gains, deep customer engagement, strong dealer relationships, and disciplined execution on the ground. Vehicle finance disbursements grew by 31% year-on-year to 17,800 crores, resulting in an AUM of 1,29,787 crores, a growth of 21% year-on-year.

The secured SME finance business across all key product lines, including LAP, SME, and SBPL, continued its strong growth trajectory during the quarter, with disbursements increasing by 42% year-on-year to 9,345 crores. This growth was driven by our focused market penetration strategy, strong on-ground execution, and deep engagement with channel partners.

We witnessed consistent growth across all product lines, resulting in overall AUM growth of 27% year-on-year to 72,356 crores, with LAP at 57,447 crores, a growth of 24%; SME at 10,943 crores, a growth of 45%; and SBPL at 3,966 crores, a growth of 35%. This reflects both the scalability of the franchise and the increasing acceptance of our offerings among customers.

Our consumer loans business, comprising housing loans, CSEL, and gold loans, continued to scale rapidly during the quarter, driven by the expansion of our distribution footprint and stronger relationships with channel partners. CSEL and consumer durable financing continued their momentum, leveraging our digital lending platforms. These businesses are playing an increasingly important role in diversifying our portfolio while creating a strong runway for sustainable future growth.

Consumer loan disbursements grew by 103% year-on-year to 8,726 crores, resulting in an AUM of 45,902 crores, up 32% year-on-year. Growth was broad-based across product segments, with housing loans, CSEL, and gold loans registering disbursement growth of 43%, 103%, and 320%, respectively. AUM in home loans stood at 25,240 crores, CSEL at 17,216 crores, and gold loans at 3,446 crores.

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The strong business momentum across these segments reflects our ability to leverage multiple distribution channels, deepen customer engagement, and address a wide spectrum of retail credit needs.

We maintained NIMs at healthy levels despite a volatile interest rate environment. Our strong portfolio performance led to a reduction in credit costs by 37 bps. Consequently, our profitability improved, with PBT-ROA expanding by 40 bps year-on-year. This translated into a stronger return profile, with ROE improving to 19.4%, compared to 18.1% a year ago.

Gross Stage 3 improved to 3.25% in September 2023 from 3.29% in June 2023. GNPA as per RBI norms improved to 4.4% in September 2023 from 4.5% in June 2023.

The company continues to maintain a strong liquidity and capital position, with total liquid assets of 21,974 crores, including undrawn sanctioned credit lines. As of September 2023, the capital adequacy ratio stood at 20.62%, with Tier 1 capital at 16.02%.

As of September 2023, the conversion of CCDs into equity shares was completed. Given the strong growth momentum across our businesses, the board has approved a proposal to raise up to 5,000 crores of capital, subject to shareholder and regulatory approvals. The proposed fundraise will strengthen our capital base and provide adequate flexibility to support our future growth aspirations while maintaining healthy capital adequacy.

Nishchint, thank you very much. I will stop here. We will be happy to turn it over to all of you for questions.

Operator: Thank you, Vellayan. We will start with Viral Shah of IIFL. Viral, you can ask your question.

Vellayan Subbiah – Executive Chairman: Hi, Viral.

Operator: Yes, Viral, you can now ask your question.

Viral Shah – IIFL: Hello. Am I audible now?

Vellayan Subbiah – Executive Chairman: Yes, yes.

Viral Shah – IIFL: First of all, congratulations on a great set of numbers. I would also like to congratulate all of you for the delivery and execution over the last decade and a half through the diversification and scale-up of ROA-accretive segments.

Vellayan, could you throw some light on the capital that we are planning to raise? What would be our strategy over the next 3 years? Are there any new sub-segments that we plan to enter, and could you also provide some timing on that?

Vellayan Subbiah – Executive Chairman: In terms of sub-segments, we have just added gold, and gold continues to grow. First, the capital raise is something that we had said we would do in a situation like this. Our last capital raise was a few years ago, and we continue to look at what we need to do to strengthen CAR and strengthen our balance sheet.

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That is the perspective from which we want to strengthen it, Viral. Growth will continue. Although we do continue to explore, I do think we have a fairly full set of segments right now. A lot of the growth will go into the existing segments themselves.

As you saw, gold loans are growing fast. Our consumer durables business is growing fast. Even our core businesses are growing. Vehicle finance continues to have 21% AUM growth. Across the businesses, we see fairly healthy growth coming up. A lot of it is about how we shore up our capital to be able to handle that growth effectively.

Viral Shah – IIFL: As a clarification, when you say that, of course, this is more from a medium-term perspective, that is what you are referring to, right? There is nothing immediate in terms of the capital-raising plans?

Vellayan Subbiah – Executive Chairman: No, we will undertake the capital raise. It obviously depends on market conditions, so we will be conscious of market conditions, but we will do it in the near to medium term, depending on market conditions.

Viral Shah – IIFL: Got it. On the related point, Vellayan, I think you also rightfully pointed out that the consumer business has been scaling up. It has been almost three quarters during which we have been seeing PBT-ROTA consistently crossing the 3%-3.5% mark.

I still think this is not the optimal profitability for the sub-segment, given that there are various other sub-segments folded into this segment. Could you throw some light on some of these sub-segments—consumer durable, mobile, and PL—and what the optimal profitability could look like from a medium-term perspective?

Vellayan Subbiah – Executive Chairman: Yes. [cut off]

Management: I think [cut off]

Vellayan Subbiah – Executive Chairman: Go ahead. Go ahead. Go ahead.

Management: CSEL currently has two businesses: unsecured business loans, and CD and digital lending. The CD, mobile, and digital lending businesses are headed by {? Sucheth Vathan and Vijay Ganesh ?}. We need to start reporting these businesses separately, probably from the next period, once they reach a reasonable size.

By then, you will see that both businesses are doing very well in terms of ROA. They have now started delivering close to 3.6%. If you look at them together, they can definitely deliver more than 4% pre-tax ROA, and they should deliver that as soon as possible.

The major benefit will come from a reduction in net credit costs and a small reduction in operating expenses, which will be purely from the unsecured business point of view. As far as consumer durables and digital lending are concerned, we have fairly reached the optimal number.

Since it has not been disclosed, we are not giving the number. Together, it can definitely go up to 4% pre-tax.

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Viral Shah – IIFL: That is very clear. Just one last question, if I may. At the halfway mark for the fiscal year, we are at around 25% growth, especially with the scale-up of the longer-tenure mortgage book. Would you want to revise your growth guidance for the year?

Management: No, we are not revising it, but we would also like to mention that Q3 and Q4 have always been better than Q1 and Q2. We have to see how much better they will be, but we would definitely like to continue delivering what we have been delivering.

One is the growth, which is 25%, and the other is net credit cost, which is 1.4%. We wanted to deliver this much for the full year from the beginning itself. Since it has been achieved in the first half itself, we do not want to set a much bigger target. Having said that, improvement is possible because of Q3 and Q4.

Viral Shah – IIFL: Got it. Thank you very much. I will come back in the queue if required.

Vellayan Subbiah – Executive Chairman: Thank you.

Operator: Thank you. Kunal Shah from Citi. Kunal, your line is already unmuted.

Kunal Shah – Citi: Hi. Congratulations on a good set of numbers. Firstly, in terms of the credit quality outlook, we have managed this quarter quite well in terms of GS2 and GS3. We have almost 17% exposure to Maharashtra as well as Karnataka. Given the entire drought concern, how do we look at vehicle finance credit costs in particular and the other segments as well? A few players have indicated a build-up of stress in some geographies due to drought. I would like to understand your outlook and assessment of the situation currently on the ground.

Management: The drought-prone areas—Vidarbha, Malwa, coastal Karnataka, and some parts of Madhya Pradesh—have always been somewhat painful for us in the past as well. Therefore, we have always kept our concentration slightly lower in these markets, knowing that they have experienced this kind of stress in the past.

Another point is that tractor financing is more affected by drought, and we have not financed tractors on a large scale for the last 3 years. Our penetration in tractors has [cut off]

Ravi: It has come down over the last 4-5 years. Especially in this market, it has come down significantly. Taken together, we do not see much of a problem.

Our book is also completely diversified with respect to products. Within vehicle finance, it is distributed across products. Geographically, we have multiple regions. Having said that, the concerns mentioned by other finance companies have also been considered, and we have evaluated them. However, we do not see that kind of problem as of now. If and when we see any problem, we will let you know in the future.

Kunal Shah – Citi: We should therefore be quite confident with respect to overall asset quality. Generally, the second half is better than the first half anyway.

Ravi: As of now, we are confident that the second-half numbers will be better than the first half. That is what we have normally seen in the past. We do not want to change our target. Whatever

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target we have given in the past, we will maintain it as it is.

Kunal Shah – Citi: My second question is on home loan and LAP disbursements in particular. There has been a strong uptick both in sequential momentum and year-on-year growth. Home loans have again gone up from a low base. LAP has also increased from approximately 2% disbursement growth to almost 39%–40%.

You indicated geographical expansion, but what are the other factors really driving this? What is the sustainability of this? If we look ahead, will these two be major contributors to growth going forward, apart from the new businesses and the continued momentum on the vehicle side?

Ravi: We mentioned last quarter that home loans and LAP were also growing, but we made a technical correction to align our disbursements with asset recognition. Therefore, the disbursements in HL and LAP, and to a small extent in SME and SBPL, were not appearing last quarter, although they were actually at the same level.

Q2 is slightly better than Q1 across all businesses because the base in Q2 last year was smaller across all businesses. To that extent, there is no difference in the performance of LAP and HL from Q1 to Q2.

Having said that, the benefit is coming because they are consistently keeping delinquencies low. The expansion undertaken over the last 2–3 years has also resulted in productivity gains. As we mentioned last time, last year was full of changes in terms of government norms related to this, you know, uh—

Management: SRO.

Ravi: —SRO change. Last year, we were moving slowly. Now we have achieved the goal of completing everything within the specified timeline and completing the disbursements. Therefore, disbursements have started appearing in a better manner.

Kunal Shah – Citi: The question was that home loan disbursements increased from approximately 1,800 crores in Q1 to 2,400 crores. In LAP, they increased from 4,800 crores to almost 6,400–6,500 crores. Are these now sustainable numbers, or were they specific to Q2? What growth should we expect over and above this?

Ravi: The majority of their business is still concentrated in the South compared with the rest of the country. They are also expanding across the rest of the country.

Approximately 40% of the business comes from the South, and 60% comes from the North, East, and West because of the number of branches available in the rest of the country. Therefore, there is still scope for both businesses, as well as SBPL and SME. Penetration of all the mortgage businesses outside the South is still pending.

We expect that within 1–2 years, the distribution across all zones will start becoming equal. By then, they will obviously reach a better number than what they are currently achieving. This will continue to happen, and therefore, we expect the growth we are seeing to continue for some more years.

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Kunal Shah – Citi: Okay, great. That answers the question. Thank you.

Operator: Thank you. Next, we have Abhijit from Motilal.

Abhijit – Motilal: Thanks, Nishant. Congratulations on a good quarter, and thank you for taking my questions.

Ravi sir, my first question is on the vehicle segment. While you have already said that the second half is seasonally better than the first half, apart from tractors, are there any segments within vehicles that are vulnerable to droughts?

My second question is related to vehicles. We have already seen Navratri. Could you give us some sense of the festive season? I ask this because last year the second half was somewhat strong because of pent-up demand. How are we looking at the second half in vehicle finance this year?

Ravi: We had the opportunity to see how October was progressing. We have seen that October numbers are looking much better. As of now, October numbers are showing growth of around 18%–20% compared with October last year, and we expect [cut off]

Arul: We will be at 18%. We will be growing at around 18% over last October. The advantage this year is that last year the festive season was confined to only 1 month, October, whereas this year we are getting 2 months, October and November.

We expect the same growth. Last year, November disbursements were very subdued. It looks like we will almost reach the same October number next month as well. Therefore, we are looking at almost 20%–22% growth in Q2 over last year.

Ravi: Q3.

Arul: Q3 over last year.

Ravi: From a growth point of view, the momentum appears to be continuing. There is no need to worry about what happened last year in terms of the base.

Coming to your point, the first is tractors, and the second is small-ticket used vehicles. These are mostly sold in small towns, especially in places where cash flows are not consistent. Those vehicles are the ones that will be impacted. Therefore, we have been cautious about marketing those vehicles with respect to disbursements.

As of now, regarding El Niño or drought, we have seen that some markets are actually doing very well in terms of rainfall, and the rains are still continuing. The deficit is continuously reducing. We need to wait and watch to see what impact will emerge. It will become clear only after perhaps December.

Abhijit – Motilal: Got it, Ravi sir. What would you say about the MSME segment? Are you already seeing some cash flow mismatches in this segment, or is it also holding up well so far?

Ravi: In terms of MSME, we finance loans against property, SBPL, unsecured business loans, and SME term loans. Across the businesses, we see delinquencies coming down.

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Only in some small markets have we seen that secured loans below 5 lakh are going through a somewhat difficult period, which we have also seen in the past. That has now started improving as well. For our business, MSME is mostly secured lending.

Abhijit – Motilal: Got it, sir. My last question is for Arul sir. Given that we have already seen one repo rate hike and more are expected, I am trying to understand the sensitivity of our cost of borrowings and margins to, say, a 50-basis-point hike in the repo rate.

The other point is the capital raise that the board approved today. In the past, we used to do this much closer to when Tier 1 was lower. Is there now a thought process that capital raises at Chola Finance will start happening at a lower leverage than in the past?

Arul: An interest cost movement of up to 50 basis points during the second half should move the overall cost of funds year-on-year by around 15–20 basis points.

Currently, our cost of funds is still lower than last year because last year the first half was high and the second half was low. This year, the trend will reverse, with the first half being low and the second half being high.

Around 25% of our borrowing is repo-linked, and another 25% is linked to other benchmarks. These two portions are vulnerable to rate movements if persistent interest rate hikes occur.

The remaining 50%, which is at fixed rates with banks or linked to MCLR, is also relevant. MCLR has not moved up much, but it will also start tending to move up. In my opinion, this will not have a large impact this year, but it will have a greater impact next year.

As for the capital raise, we have taken an enabling resolution. We will wait and watch and, accordingly, sometime within the next 6–9 months, we will raise this capital depending on pricing in the market and other factors. It is more of an enabling resolution as of now.

Abhijit – Motilal: Got it, sir. This is useful. Thank you very much, and I wish you and your team the very best.

Arul: Thank you.

Operator: Sorry, just one clarification, Arul. Did you say a 10–15 basis point rise in the cost of funds for the entire year or for the second half?

Arul: For the entire year.

Operator: Okay. So the second half could be slightly higher.

Arul: The second half will be higher, which will take the year-on-year rate up by 15 basis points.

Operator: Got it. I think that is clear. Next, we have Abhishek from HSBC.

Abhishek – HSBC: Hello.

Management: Yes.

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Abhishek – HSBC: Am I audible?

Ravi: Yes.

Abhishek – HSBC: Good afternoon, and thank you for taking my question. My first question is on opex. There has been quite a significant increase in branches, employees, and other areas, which has probably led to an increase in employee costs as well.

Is this a run rate of approximately 1,400 crores now? Should this be considered the baseline, or is there a one-time element here and the baseline could be lower? I am referring specifically to employee opex.

Arul: Regarding employee opex, you are seeing that line change because we have moved many people from our outsourcing entity into the company. If you recall, about a year ago we moved part of them, and now we have moved everyone into the main company itself.

That is why you see salary costs being higher compared with last year. However, you will see a similar amount of reduction in outsourced costs. There has been almost a 100-crore drop compared with Q1, despite the volume, which has an absolute value. The outsourced cost would otherwise have been much higher, but it has now been moved into salary costs.

Overall, opex is at the same 3%–3.1% level, which is where we have always said our opex would trend.

Abhishek – HSBC: If I look at overall opex on a quarter-on-quarter basis, there is also a 10% increase. What is that about? I can understand the intra-segment adjustments [cut off]

Arul: I will explain that. There are two reasons. First, all our salaries are repriced, or annual increments are given, in the second quarter, specifically in July. Therefore, the full impact of the salary cost comes through.

Second, we also hold an annual business meet. That cost has also come through because we took everyone to Australia. That cost is a one-time expense, but the salary cost will continue.

Abhishek – HSBC: How much would the one-time cost be, so that we can understand that [crosstalk]?

Arul: That cannot be shared, Abhishek. Thank you. [laughs]

Abhishek – HSBC: Okay. [laughs] I hope you enjoyed it, though. [laughs] The other question is [cut off]

Ravi: The only thing, Abhishek, I will—

Abhishek – HSBC: Yes.

Ravi: There is one thing I would like to mention from the investor presentation, page 18. Q1 FY24 was 2.9%, and it went up to 3.1%. As of now, it has gone up by 20 basis points. Last year also, it went up from 1% to 2%. This time, it has gone up by 10 basis points.

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The benefit goes to us because operating expenses are coming down in vehicle finance, home loans, and loans against property. These old businesses are performing slightly better. Some of the businesses are doing better, especially vehicle finance, where expenses have come down significantly.

Arul: From 3.3 to 3.

Ravi: Despite the fact that we are expanding into gold, CD, and other businesses, vehicle finance expenses have decreased. We are now slowly starting to see some release, and hopefully we will continue to do that and try to bring expenses down somewhat.

As I mentioned, for some time we will remain at the 3%–3.1% level, but—

Abhishek – HSBC: Right.

Ravi: —in 2–3 years, we would like to bring it down to 2.8%.

Abhishek – HSBC: Got it. So 3.1% should not be breached, right? You see yourself achieving 3%–3.1% in the next half as well?

Ravi: It could go to 3.2% for some time, so we should not state it that way, but it will remain very close to the range. Our endeavor is to reduce it.

Abhishek – HSBC: Got it. My second question is on yield. Your aggregate yield has moved from 14.9% to 14.6%, a decline of 30 [cut off]

Abhishek – HSBC: They have dropped. But if I look at your individual segment yields, most of the segments, except perhaps vehicle finance, have seen yields increase. How is this happening? Am I missing something? Why is this trend diverging?

Arul: If you look at it, you are looking at the gross level. You have to refer to the published accounts. We stopped gains on assignment and did only one deal this quarter. Therefore, that is another 0.3 to 0.2 {? 2 ?} 20 bps drop in the yield.

Abhishek – HSBC: Okay. So that should normalize next quarter.

Arul: Yes, that will normalize. We had committed to certain banks on these assignment deals, so we executed one deal until the limit was exhausted. We have now exhausted that limit, so we may not undertake it again in the near future.

Abhishek – HSBC: On a full-year-to-full-year basis, would NIM still be flat, Arul? Last year's average was 8%–8.05%. We are already at approximately 8.05% in the first half. Would it remain flat on a full-year-to-full-year basis?

Arul: I told you that the cost of funds will go up by 20 bps. We are trying to stretch and increase the income side to match it. We will endeavor to do that, but there is a possibility that you will have to factor in at least a 10-bps fall in yield.

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In my opinion, this will be more or less, and perhaps more than, offset by credit costs and CL, which should still keep overall ROTA better than last year.

Abhishek – HSBC: So you are essentially guiding for 3.5% ROTA. That remains unchanged. Got it. Thank you very much, and all the best.

Arul: Thank you.

Operator: Next is Raghav Garg from Ambit. The only request from management is that we restrict ourselves to two questions in the initial round.

Raghav Garg – Ambit: Am I audible?

Arul: Yes.

Raghav Garg – Ambit: Good afternoon. I had one question, circling back to one of the questions asked earlier. Could you provide some information on what percentage of your vehicle finance customers, or the number of vehicles you have financed, are directly or indirectly engaged in agriculture and allied activities? What is the corresponding number for industrial activities?

This is to understand the potential impact on fleet utilization if crop harvests are affected due to deficient rainfall, particularly for vehicles tied to agricultural activities. You have mentioned tractors, but even within LCVs and SCVs, which could be used to transport agricultural produce from point A to point B, what would be the exposure in those portfolios? That is my only question. Thank you.

Arul: We are looking at only one side of the situation. The deficit in rainfall is 13%, but we are not seeing a decline in sowing. Sowing is actually at par with last year.

Because mechanization has increased and pumps and electricity are available, people have undertaken agricultural activity to the same extent as last year. At the end of the day, agricultural output is important for the customers who are engaged in these activities, especially farmers.

The next factor is yield. Yield depends on inflation. Fortunately for them, inflation is increasing, so they will receive better yields and better income, and that is important for everyone.

The second point is that the deficit is mostly due to a higher deficit in the Northeast, Kerala, and the southern part of the country, where agricultural activity is lower.

The third point is that there are some parts of the country where drought has occurred, but these were drought-prone areas in the past as well. Therefore, there is no need to worry about this as of now.

We can provide all the detailed data; it is available with us. We have seen that we are not being impacted as of now by the deficit we have observed in general.

Coming to tractors, the mix we have is 3% of the overall book, which is a negligible portfolio within vehicle finance. If you take the entire book, it will be much smaller.

Management: In these markets, we are relatively much lower than that as well. We are [cut off]

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Raghav Garg – Ambit: Understood. That was my only question. Thank you very much for the explanation.

Operator: Next question from Shreya from Nomura.

Shreya – Nomura: Thank you for the opportunity. Circling back to the NIMs portion, my first question is: have we decided to increase lending rates? If so, for which products and from what timeline? Or are we still looking at market practice before taking a decision?

My second question is on insurance. The distribution reform relating to insurance has been a significant reform for the credit life product. What has been our conclusion? Have we worked out how much of an impact this could have on ROA, ROE, and other metrics? Those are my two questions. Thank you.

Arul: One important point regarding yields is that the overall yield increases through overall collections and other income. We have seen that our overall yield automatically increases in the second half. You can compare the first half with the second half.

This happens because, as collections are made, other income such as repo charge collections, other collections, shortfall collections, and revenue collections increases. That is one important factor supporting the yield.

Coming to the increase in the cost of funds, as we receive the cost-of-funds reference rate from finance and treasury, our businesses are continuously incorporating it and increasing marginal lending rates.

Second, as and when the floating book is ready for repricing, we will undertake that increase. As of now, we have a 25-basis-point increase. Affordable housing, loans against property, and SME may implement this within 1-2 months; they are working on it. This is the position on the yield side.

As far as insurance is concerned, if insurance income declines, we obviously need to determine how to bring the revenue line back to the required level and deliver 3.5% pre-tax ROA. We have completed the analysis, and the work is ready.

We are waiting for the final conclusion. Once that is available, we will incorporate it.

Shreya – Nomura: Just a clarification on the repricing. You mentioned three segments. Which was the third segment along with affordable housing and SME, where you will reprice within 1-2 months?

Arul: Loans against property.

Management: The floating book, basically. All of the floating [crosstalk]

Shreya – Nomura: Yes, obviously. All right. On insurance, you will let us know after the draft reforms are released, including the extent of the impact on us?

Operator: Next, we have Nitesh Jain from Investec. Nitesh, you can ask your question.

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Nitesh Jain – Investec: Thank you for the opportunity. Regarding DA income going forward, will we not undertake any DA income, or is that the correct understanding?

Arul: DA is something that I will undertake if liquidity requires it. If there is a bank with which we have a large relationship and it wants us to participate in some of its initiatives, we will do so.

It is not a complete no or always a yes. We try not to do it wherever possible because it results in upfronting of the profit, while the expense comes in a later period. To that extent, we have been avoiding it.

Broadly, we have also decided internally to keep anywhere between 5%–7% of the book as an assigned book. That is the level we will work toward maintaining.

Nitesh Jain – Investec: Sure. My second question is on vehicle finance. The number of branches has been broadly flat, so we have not added branches in vehicle finance for some time. What are the plans for next year in terms of branch additions in vehicle finance?

Arul: You have to consider both branches and resident locations. Resident locations are continuously increasing, and together they have reached almost 2,600. What is the number altogether?

Management: 1,600 plus 600.

Arul: 1,600 plus 600. 2,289. That is the number. This number is increasing, so there is no problem.

They will convert these resident locations from RLSs into branches and then open new RLSs. This is a continuous process. We are moving approximately 125 branch RLSs to branches because they have already reached critical disbursement numbers. That will happen, and once this process continues, we will add more RLSs. It is a work-in-progress item, and we will see the numbers increase in the coming period.

Nitesh Jain – Investec: That is all from my side. Thank you.

Operator: Thank you. We have Piran Engineer from CLSA. Piran, you can ask your question.

Piran Engineer – CLSA: Hi, team. Congratulations on the quarter. Going back to Shreya's question in another way, have we already increased PLR in home loans and LAP, or is there a plan to do so this month?

Arul: We are doing it during this quarter. We will not do it instantaneously; we will implement it through the quarter.

Management: We have not done it yet. We will do it in the coming quarter, Q3.

Piran Engineer – CLSA: Got it. Secondly, what explains the surge in disbursements in CSEL over the last couple of quarters? It has been fairly strong. Could you talk about your sourcing profile, loan yields, and how we have been able to scale it up so quickly?

Arul: It was not sudden.

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Management: It was not sudden. We did not ramp it up suddenly. We had been doing our groundwork over the last couple of quarters. We put our underwriting model in place and our credit scorecard in place. We became confident that this sourcing was in a better position, and that is why we were able to scale it up. [crosstalk]

Arul: This is the unsecured part. First, regarding unsecured lending, we can discuss what we have done in CD, mobile, and [crosstalk]

Management: On the CD side, the growth has come from mobile financing. We had partnered with Samsung to begin the CD business. However, over the last 12 months, we have entered the open market and established tie-ups with all the other OEMs in the mobile space.

We have been operating across the country, particularly in a majority of the Tier 3 and Tier 4 markets. That is where the scale of business is coming from for us on the CD side.

Arul: There is also a base effect from last year. Last year, we reduced the business. The year before last, we had reached 1,000 crores per month and 1,200 crores per month. From there, we came down.

Now we have returned to the same level that we used to achieve, including the partnership business. We achieved the number we did this quarter. Therefore, we are doing a similar amount of business, but because of the base effect, the percentage growth looks better.

Piran Engineer – CLSA: Correct. So without the partner, you are doing the same amount of business, and the partner was significant. Is it fair to say that a large portion of the year-on-year growth in disbursements has come from CD financing?

Arul: Both. CD is the majority, approximately 60%. The remaining 40% growth is because of unsecured CSEL as well.

Management: The majority is from CD.

Arul: Business loans and personal loans.

Piran Engineer – CLSA: So 60% is from CD. Fair enough. Lastly, what are your views on CV and car demand going forward?

Arul: As of now, it appears very steady and is growing steadily. We recently reviewed our vehicle finance business and provided its outlook. Please go to the next page.

Piran Engineer – CLSA: Your outlook for the next 3 years shows a lower growth number in every segment than in the past 3 years. That is the industry outlook you have provided. Therefore, I would prefer to hear your views directly.

Arul: Give me one second. I will explain product by product in vehicle finance what they have achieved and what they have provided.

The heavy commercial vehicle segment recorded robust growth of 40% in Q2 and 27% in H1, achieving its highest-ever H1 sales. Industry demand was supported by strong freight movement,

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and it appears that this will continue in the second half.

We may not achieve the 40% growth delivered by the market in Q2, but I think industry growth of 20%–30% is possible. We need to observe this. As of now, for October, it appears that the industry is delivering around 18% growth. In November, because of Diwali, it will again deliver a better number than last November.

For Q3, it appears that growth of more than 20% will come from the market, especially for heavy commercial vehicles. Light commercial vehicles also recorded 25% growth in Q2. Small commercial vehicles recorded approximately 26% growth. Passenger vehicles recorded 31% growth. Two-wheelers recorded 15% growth.

Taken together, it appears that, in the worst-case scenario, growth of 15%–20% will come in the second half.

Management: 15%–20%.

Piran Engineer – CLSA: Sorry, I am referring to the charts on slides 30 and 31.

Arul: Okay.

Piran Engineer – CLSA: They show the prior 4-year CAGR and the future 3-year CAGR.

Arul: Yes.

Piran Engineer – CLSA: That is what I was referring to.

Arul: Yes, we are referring only to the industry numbers there.

Management: Yes.

Piran Engineer – CLSA: I will take this offline. I do not want to hold up the queue.

Management: Okay.

Piran Engineer – CLSA: Thank you, sir, and I wish you all the best.

Management: Thank you.

Operator: Thank you. Next, we have Sanket Chheda from DAM Capital.

Sanket Chheda – DAM Capital: Hi, sir. This is a very good set of numbers. I wanted to understand the capital raise. Historically, we have been mindful of anchoring on ROE and structuring the raise through equity and, for example, convertible warrants or debentures. Do we expect a similar structure this time?

Management: We are looking at both options: either a full equity raise or a combination. We have been quite successful with the CCD conversion and that route, but we need to assess the appetite in the market and decide. As we come closer to the date of {? issues ?}, we will decide.

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Sanket Chheda – DAM Capital: Besides this, we are reasonably confident of achieving around 24%–25% growth this year. Usually, after a couple of years of muted growth, we perform well for a period of 2–3 years. Do we expect a similar kind of growth over the next couple of years, if you would like to provide that outlook?

Management: We continue to maintain 20%–23% on a {? steady-state ?} basis because volatility is possible. As we move closer to the end, we will change and adjust our expectations.

Sanket Chheda – DAM Capital: On cost of funds, I understand the guidance for the second half and the full year. However, this quarter, I think the reported cost of funds increased by 10 bps, but on an absolute basis, the calculated increase appears to be more like 17–18 bps.

Is there anything specific there? Did a particular borrowing cost more, or will it be regularized or corrected in the following quarters? I wanted to understand why the absolute finance cost was somewhat higher this quarter.

Management: It increased by 10 bps compared with last quarter.

Sanket Chheda – DAM Capital: Okay.

Management: I do not know how you calculated your borrowing cost. You can take this offline and speak to {? Arul sir ?}.

Sanket Chheda – DAM Capital: Certainly, sir. I will understand it from you.

Lastly, picking up from the earlier questions on new businesses that are likely to be ROA-accretive, if I take a view for 2–3 years, our guidance is anchored on PBT-ROA of 3.5%. After 2–3 years, when the new products also become a reasonable size, do we expect PBT-ROA at the entity level to converge closer to 4%?

Management: [laughs] Let us not count our chickens before [laughs] Let us hold that thought. Let us see these new businesses gain traction and settle down, and then we will see.

Sanket Chheda – DAM Capital: Those were my questions. Thank you very much.

Management: Thank you.

Operator: Thank you. The next question comes from Harshit Toshniwal of Premji.

Harshit Toshniwal – Premji: Hello, sir. Am I audible?

Management: Yes.

Operator: Yes.

Harshit Toshniwal – Premji: My question is on the gold loan business. We have seen some peers highlight issues relating to short-term loans, stage 2 and stage 3 recognition, and the subsequent shift to long-term loans.

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Are we facing anything similar? Could you help us understand, within our mix, the portion of short-term loans of less than 4 months, less than 5 months, and 6-month loans?

Management: It is not related to short-term loans. It is related to EMI-based funding versus bullet loans. A bullet loan is a 12-month-term bullet loan.

If you lend to a customer through an EMI structure, the customer has to service the EMI. In this business, we observed in the past, and confirmed through our analysis, that most customers were not paying EMIs. Therefore, from the beginning, we decided to offer bullet loans.

Wherever a customer requested an EMI and said, "I want an EMI," we provided it, but that was negligible. We have seen that it is 1% of the overall book.

Management: It is less than 1%.

Management: Less than 1% of the book is EMI-based. Therefore, that kind of delinquency is not present. If you finance through EMIs, delinquency will be higher.

Harshit Toshniwal – Premji: For us, the entire expansion this time has been based on the bullet-loan model, largely and predominantly?

Management: Yes, it is largely based on that model. It is predominantly so. In fact, almost everything is bullet-based.

Management: 99% is bullet-based.

Harshit Toshniwal – Premji: Also, could you provide some context? Gold prices have started to moderate, but we are midway through our gold loan expansion journey. How should we look at the growth of this book?

It is obviously growing at a much faster pace today. Could you help us with our branch expansion outlook and where we stand today? That would make it easier for us to assess how this business can develop and how it can be a growth lever over the next 2-3 years.

Management: We are selectively identifying markets and branches, and then looking for people to run those branches. Only after that do we decide to open a branch. We do not have a plan to open 1,000 branches or anything similar.

Last year, we opened 120 branches. This year, we are opening approximately 380 branches.

Management: 360 branches. By the end of this year, we should have 480 branches.

Management: We will continue opening branches, but we do not need to open a very large number of branches. We need to see whether the branches we have opened are reaching a critical AUM level.

For example, in the P1 branches, or phase-one branches, the AUM per branch has reached—

Management: 21 crores.

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Management: 21 crores. We then need to see the performance of the P2, or phase-two, branches.

Our branch openings depend on achieving the required productivity level. The second important factor is whether our processes are working well. As long as that is working, we will continue opening branches steadily and cautiously.

Harshit Toshniwal – Premji: Is the 450 branches you mentioned by the end of this year, at approximately 20 crores per branch, capable of generating approximately 9,000 crores of AUM?

Management: No. The 20 crores relates to the first phase.

Harshit Toshniwal – Premji: The first phase. Got it. What about phase two?

Management: Phase-one branches.

Management: These were opened last year.

Harshit Toshniwal – Premji: Got it.

Management: The phase-two branches also have to reach a critical level, which is a threshold of between 15 and 20 crores. We need to plan accordingly.

Harshit Toshniwal – Premji: Understood. Perfect, sir. Thank you.

Management: Okay.

Operator: Next, we have Shreepal Doshi from Equirus.

Shreepal Doshi – Equirus: Thank you for giving me the opportunity, sir, and congratulations on a good set of numbers.

My first question is on growth. Given that the second half of last year had higher volume growth, especially in vehicle finance and OEM growth, should we expect some slowdown in the second half of this year on a year-on-year basis?

Second, given the macro challenges and drought-like conditions in some larger markets, do you see any slowdown if conditions worsen by December, as you have highlighted that you will have a better picture by then? In that case, what range of growth would you like to highlight?

Management: First, when we say that we will know more by December, we mean that the districts that have been impacted are limited markets, very limited markets. What happens in those small portions of the country will become clear by December.

As of now, sowing has not been impacted. Despite the decline in rainfall and the deficit, sowing has not been affected. That is what I was saying.

The larger markets have not been impacted. In most markets where Kharif is cultivated, we have not seen a rainfall deficit. The rainfall deficit was more pronounced in Vidarbha, Malwa, some parts of Madhya Pradesh, and some parts of Karnataka. These are drought-prone districts where this has happened.

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We do not see this impacting the growth momentum. That is the first point.

The second point is that, as of now, because of the base, the growth momentum should slow down. However, that is not visible from the October numbers. The momentum also appears likely to continue in the second half.

The percentage growth will decline when comparing the second half with the first half, but it will not decline to such a low level that we would say growth is slowing down materially.

Shreepal Doshi – Equirus: Got it. Does our full-year guidance of 20%–23% hold, or is it now 24%–25%?

Management: We maintain the commitment we have given in terms of growth.

Shreepal Doshi – Equirus: Got it. My second question is about the mix. Since some of the smaller and higher-yielding segments have started growing at a much faster rate, what mix do you expect by FY28, particularly for products such as CSEL and SBPL?

Management: We have said that vehicle finance is 52% as of now, home loans are approximately 10%, and LAP is 22%. Therefore, the mortgage businesses together are approximately 36%–37%, which is likely to increase slightly by FY28–FY29.

We cannot specify the exact year, but within 3–4 years, we expect the mortgage business to increase because it is funded for longer tenors. Vehicle finance, which is financing for 5–6 years, will obviously decline from 52% to below 50%. That is the change that will happen.

As far as small-ticket-size and consumer businesses are concerned, including CSEL, CD, and gold, they will be within a maximum of 15% in the near term.

Shreepal Doshi – Equirus: Thank you very much for answering my questions, and good luck.

Operator: Thank you.

Management: Thank you.

Operator: Next, we have Aravind from Sundaram Alternatives.

Aravind – Sundaram Alternatives: I had two questions, although one question on costs has already been answered. I have one clarification. You mentioned that the cost of funds could increase by 10–15 basis points for the full year. Does that assume another 50-basis-point rate hike, or does it not assume that?

Management: It assumes another 25 basis points.

Aravind – Sundaram Alternatives: Another 25 bps.

Management: Twenty-five basis points have already happened, and another 25 basis points may happen. Therefore, the overall assumption is 50 basis points.

Aravind – Sundaram Alternatives: Understood. Thank you.

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Operator: Thank you. Next, we have Renish. Renish, you can ask your question. Renish is from I-Sec.

Renish – I-Sec: Hello?

Operator: Yes, go ahead. We can hear you.

Renish – I-Sec: Congratulations on a good set of numbers. On the LAP business, when we look at the IRR, there has been a steady increase over the last 7-8 quarters, from approximately 12.5% to almost 13.40%.

Is there a change in the mix within the LAP book? Is the share of micro-LAP driving the higher IRR, or what is driving the improvement in IRR in the LAP business?

Management: We mentioned that we have started a small-LAP business as well. It now has two products. One product is for the urban market, and the other is for markets between urban and semi-urban areas.

The product being offered by S-LAP has started generating almost 500 crores of disbursements per month. Its yields are higher, and that is the reason the overall yields are being maintained.

Renish – I-Sec: What would be the average ticket size in the small-ticket LAP business?

Management: The average ticket size is between 50—

Management: Between 15 and 20 lakh. That would be the average ticket size.

Management: 20 lakh is the average ticket size.

Renish – I-Sec: The yield would be above 14%?

Management: We have not disclosed that yield on a segment-wise basis as of now.

Renish – I-Sec: Got it. One last point, which is slightly hypothetical. I am curious to ask about this.

The challenges currently include the draft paper on insurance commissions, possible NIM moderation due to the rising rate cycle, and the ECL exposure that you clarified. I understand the FY27 standpoint, given that the first half has been very strong and we are already in October, with things looking better.

However, when we enter FY28, if some of these events unfold differently from what we are currently expecting, do we have any levers in place to mitigate the adverse impact that could arise from these events in FY28, so that we can sustain the 3.5% PBT-ROA in FY28?

Management: Over the years, if you look at the last 15 years, there have been many occasions when this kind of ups and downs have occurred in our business, not only for Chola, but for [trails off]

Management: —the entire country and the entire industry. The industry has managed to move through these challenges. Let us hope for the best.

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There is no clarity yet on the impact of a decline in insurance income or on whether drought will occur. These matters are being discussed currently.

As I mentioned, I do not think drought will create a major problem in terms of farmer income. Farmer income is not being impacted as of now from the Kharif perspective.

We need to assess reservoir levels and determine how much Rabi sowing is affected. That is where the impact will be seen in the next year. This is why we will know only in December whether Rabi sowing is going to decline.

If it does not decline, we will wait for next year's rainfall. If next year's rainfall is deficient, then we will have a problem next year.

Regarding insurance income, as I mentioned, we have already evaluated the situation and determined that it will not create a major problem for us because we have a Plan B ready. We are waiting to see how much income declines. Accordingly, we will formulate a plan and roll it out.

Renish – I-Sec: Could the increased share of these high-profitability products be a lever for us? Is that the right assumption?

Management: No. In any case, that was already part of our plan. It is not specifically for handling insurance income or drought. That will continue regardless.

We have always tried to diversify and add products in order to continue growing at a sustained income level and navigate problems from time to time.

Renish – I-Sec: This is very helpful, sir. Thank you, and all the best.

Management: Thank you.

Operator: Thank you. We will take one last question from the line of Shubhranshu. Shubhranshu is from PhillipCapital.

Shubhranshu – PhillipCapital: Thank you, Nischint. I have two or three questions.

First, Maruti increased its guidance yesterday on its call. How do we look at passenger vehicle growth over the next 12-18 months?

Second, which are our largest states in terms of total exposure, including vehicle finance, LAP, and all our other businesses? Could you identify the top five states?

Third, how many people do we deploy in collections and C-Sec? Thank you.

Management: [off-mic discussion] He said collections are easy to answer.

Management: I have a large collection team. I can say that the collection team is larger than the sales team. I have more people in collections for—

Management: [off-mic discussion] How many? What is the count he is asking for? What is the count, Vijay?

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Management: I have around 1,800 [cut off]

Shubhranshu – PhillipCapital: Specifically for C-Sec, sir.

Management: For vehicle finance—C-Sec, part one is 1,800. Part two?

Management: [off-mic discussion] That is agency.

Management: Agency. Taken together, approximately 2,800 people are working in C-Sec collections.

Shubhranshu – PhillipCapital: Are those all on-roll, on our payroll?

Management: Half are on-roll and half are agency.

Management: [off-mic discussion] Agency.

Shubhranshu – PhillipCapital: Right.

Management: C-Sec unsecured is entirely on-roll, which is approximately 1,800. Then approximately 1,000 people are in the agency team.

Shubhranshu – PhillipCapital: Understood. What about the first two questions?

Management: Are you asking about the states in terms of overall disbursements?

Shubhranshu – PhillipCapital: For passenger vehicles in particular, what is our market share in Maruti, and how do we expect that to increase with Maruti's guidance being raised?

Management: We do not want to provide details by state and by market. However, I would like to mention that we are one of the largest players in Maruti cars. We have been continuously increasing our market share with them, especially in the upcountry and rural markets.

Whatever entry-level cars they sell, we are their partner. We are one of their preferred partners. As they grow, our numbers are likely to grow as well. We are also gaining market share with Maruti.

Shubhranshu – PhillipCapital: Which would be our top five states in terms of total exposure?

Management: As far as Maruti is concerned, we do not want to disclose that.

Shubhranshu – PhillipCapital: No, I am not asking about Maruti. I am asking about total exposure across all businesses. That is only for vehicle finance. You do not provide it for the other businesses.

Management: Correct. We have provided it for vehicle finance. We may provide the number for all businesses together once we are ready with it.

Shubhranshu – PhillipCapital: Thank you.

Operator: Thank you, everyone. That concludes today's call. Thank you very much for joining us. We thank the management for giving us the opportunity to host the call.

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Management: Thank you, Nischint.

Management: Thank you, Nischint. Thank you.

Operator: Thank you. Goodbye.

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