"Cholamandalam Investment and Finance Company Limited Q1 FY'26 Earnings Call"

August 01, 2025

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

Nischint Chawathe: Good morning, everyone. We welcome to the Earnings Conference Call for Cholamandalam Investment and Finance Company Limited.

To discuss the 1Q FY'26 Performance of Chola and share industry and business updates, we have the senior management with us, represented by Mr. Vellayan Subbiah – Executive Chairman; Mr. Ravindra Kundu – Managing Director and CEO; Mr. Arul Selvan – Chief Financial Officer.

I would now like to hand over the call to Vellayan for his "Opening Comments," after which we will take the Q&A.

Vellayan Subbiah: Thank you, Nischint, and Kotak for hosting this call. Good morning, everyone. Happy to take you through the performance for this quarter.

As a backdrop, here is a quick glance at the economic environment that prevailed:

The global economy during April to June faced uncertainty, largely on account of the US tariff and trade policy concerns, and geopolitical risks in the Iran-Israel conflict. Growth outlook has been revised downwards for most major economies. In a bid to stimulate growth in India, RBI took various measures to maintain liquidity in the economy and reduced interest rate by 25 bps in Q4 FY'25 and 25 bps in April and 50 bps in June. In general, while market rates reflect the reduction in rate immediately, banks typically make these reductions over the next few quarters once their FD rates are reduced. Hence, the positive impact of RBI's monetary actions is expected to take effect over the rest of the fiscal year.

In terms of our performance through the quarter, for disbursements:

Aggregate disbursements for Q1 FY'26 were at Rs. 24,325 crores. Disbursement growth was muted in Q1. There was a marginal decline in the disbursements in home loans due to changes in the home registration process in a few key markets. Another contributing factor was our conscious call to exit the partnership business in the consumer loan segment.

In terms of AUM:

Despite lower disbursements, our AUM growth continued to be robust at 23% year-on-year and now stands at Rs. 2,07,663 crores. We launched the gold loan business in Q1 of FY'26 and have opened 73 independent branches in gold loans as of June 2025. Our NIM improved marginally from 7.6% in Q1 FY'25 to 7.8% during the quarter. It is expected to improve in the coming quarters with the impact of repo rate cuts flowing through when banks reduce their MCLR and the benefit of EBLR rate movements accrues on the respective reset dates. Our tight control over cost levels resulted in reduced OPEX from 3% in Q1 FY'25 to 2.9% in Q1 FY'26. This may see some increase in Q2 due to pay hikes to employees in their annual appraisal, which is traditionally affected in July of every year. Our credit costs increased in Q1 by 30 bps over the previous year primarily due to stress in the market in both the auto and the consumer loan segments.

Our Stage-3 numbers have increased to 3.16% in June 2025 from 2.81% in March 2025. The early arrival of monsoon significantly ahead of its usual schedule has impacted movement of vehicles resulting in lower vehicle utilization during these periods. Landslides and water logging in open cast mines hamper the earning capacity of operators and elevated stress on their ability to meet loan obligations resulting in deferrals of payments. Concerted efforts by our team have ensured no sharp spike in delinquencies.

Our provision coverage stands at 43.72 on our Stage-3 assets as of Q1 FY'26. PBT for Q1 FY'26 stood at Rs. 1530 crores which is a growth of 21% year-on-year. PBT ROA for the quarter stood at 3.1%, which is lower by 10 bps compared to Q1 of FY'25. While the Q1 ROA reflects a transitional impact on the market, the underlying business fundamentals remain robust. The strategic focus on improving asset quality and continued refinement of product and pricing strategies positions us for ROA recovery in the coming quarters. The ROE for Q1 FY'26 was 18.8% as against 18.9% in Q1 FY'25.

In terms of liquidity:

We hold a strong position with total liquid asset holdings of Rs. 17,226 crores including G-Sec and T-bills. The ALM is comfortable with no negative accumulated mismatches across all 9 buckets. Our capital adequacy position stood at 19.96% with tier 1 capital of 14.31%.

In terms of the outlook:

With inflation softening considerably, monsoon being favourable and festive seasons commencing in Q2, the economy is expected to bounce back if risk factors such as an extended monsoon and geopolitical issues are in check. A rebound in agricultural income will result in stronger cash flows and liquidity in the rural economy. With our strong collection infrastructure, we expect credit costs to come down post the festive season in Q2.

So, let me stop with those comments, Nischint and we will be happy to take it over to questions.

Nischint Chawathe: Sure, we can start the question-and-answer session. The first question comes from the line of Suresh Ganpati. Suresh, you can unmute and ask your question.

Suresh Ganpati: Thanks, Nischint. So, within just the qualitative assessment of what explains the increase in the vehicle finance NPLs? I mean, on the one hand we are seeing rural inflation being lower, but you know it is income levels of the truckers or freight charges not being up to expectations. What really explains this stress in the vehicle finance segment?

Ravindra Kundu: So, Hi Suresh, this is Ravi Kundu. See, in vehicle finance mainly, two things are important. One is that the vehicle capacity utilization and how the economy is actually doing well or not. So, in the 1st Quarter if you see that the industrial productions are down as compared to last year Q1. And second is that there is an early arrival of rain which has impacted the capacity utilization in many markets. So, the vehicle operators in 1st and 2nd Quarter actually struggle for paying the first EMI and the customer who are in the zero bucket move to first bucket and some customers who are in borderline in Stage-2 moves to Stage-3. So, for the seasonal effect, there is a problem and then little bit macro side also there is an issue. So, we are hoping that if this early arrival of rain gets over in the middle of September or first week of September, then there will be a very good agriculture growth, and festivals start in the quarter 2 end itself. So, if that happens then we start seeing some good results coming from Quarter 2 itself, otherwise Quarter 3 onward we will see better results and that will improve our performance for the year in vehicle finance.

Suresh Ganpathi: What about other segments when everybody everything is gone up QOQ the LAP, the home loans, the personal loans, CSEL everything.

Ravindra Kundu: So, one is that then we have been saying that LAP, HL, SBPL and SME, mortgage based SME lending were in the rock bottom level of the NPA because if you go back to 2022, the NPAs of LAP used to be 6% where they came down to 2%. Now, normalization will happen we have said that and their NCLs are in line with that. So, in the case of like HL, we said that it will be 0.6 and in LAP, it will be 0.3 and that is what the range it is and now when the NPAs are going up, it takes some time to get resolved if you are going through SARFAESI in the case of LAP, it will take one year and then in the case of HL and SBPL, non-SARFAESI in the normal traditional route of arbitration, it takes 2 to 3 years' time. So, to that extent, there will be slight increase going to be and NCL will be in the range bound of that whatever we have said in terms of the product line for example LAP, it will be say 0.3% to 0.5%, HL will be 0.6% to 0.7% and they are delivering the ROA also whatever we have said. In our case, the problem is actually if you see that the vehicle has actually gone up from 1.9 to 2.1 and in the CSEL where the Fintech book we are running it down, there the NCLs are high range. So, there are two businesses where we are seeing more than expected level of NCL which is going to get sorted out by the end of the year. Quarter 4 onward, things will start looking a little better.

Nischint Chawathe: The next question comes from the line of Dhaval Gada. Dhaval, you can unmute yourself and ask the question.

Dhaval Gada: Hi sir, thanks for the opportunity. Just one clarification and one question. First is on credit cost, so for the full year, I think sir mentioned on the channel that it should be 1.4% to 1.5% and therefore should we expect this to be similar or slightly lower next quarter and then a meaningful improvement in 2H so that is one clarification. And second is on growth, so I was a little surprised with the degrowth in home loan in terms of disbursement last quarter, we were thinking about 15% to 20% full year growth, so the ask rate for the rest of the year is about 20% plus, so you still maintain that or is there any change to overall growth thought process at the lower end of your bandwidth?

Ravindra Kundu: In the housing loan, we said that this year we are not expanding and therefore disbursement growth will be lower and asset growth will be 30%. So, asset growth is actually at 30% level. In the 1st Quarter, we see that as the Chairman mentioned in his opening remark that some of the market we are seeing that housing registration processes are getting changed, therefore disbursements are slow which is going to be back in the Quarter 2, Quarter 3, but generally housing loan will be around 10% disbursement only for this year because we have not started expanding further and we are focusing more into OPEX deduction so that is the housing loan story. And when it comes to the overall NCL, overall NCL last year we did 1.4, so it will be if the rains get over ahead of the time, then we will get little benefit in quarter 2 otherwise quarter 2 will be at similar level where we are today and quarter 3 onwards, we will see the reduction coming up. And if the rural economy improves after the agriculture growth and little bit improvement comes from industrial production then obviously, we will be closing our NCL nearby the number where we were last year, otherwise you can conservatively take it 10 basis point increase over the last year.

Dhaval Gada: Understood. And just one clarification then on growth. Since you said 10% for HL, for VF you still maintain 15% plus VF growth and similarly if you can give your thought process for LAP and CSEL as well.

Ravindra Kundu: Vehicle finance, we thought that from quarter one onwards, the market will start at least showing single digit growth, but on the contrary, industry all the manufacturers showing -5% put together, SIAM data is showing that -5% in terms of unit. And against that, we have registered 7% growth. So, most of the product line, we have achieved an increase in the market share, except for one or two products where we are actually deliberately not increasing market share. So, we are doing better than industry. And we are hoping that these disbursements will pick up from Quarter 2 onwards because Quarter 2, this time unlike last year, this time the festival is starting from 25th September itself. So, some benefits will come in the month of September and October also. So, put together, the projection is that we can actually start seeing double digit growth as soon as possible. But whether we will be reaching to 15% or not, it all depends on how the agriculture growth pans out for the full year and how the industrial production other important parameter for GDP also starts improving in the second half.

Dhaval Gada: Understood. And CSEL and overall growth then for disbursement for FY'26?

Ravindra Kundu: CSEL is actually because we have cut down Rs. 1500 crore of disbursement quarterly from the Fintech partnership book and almost Rs. 500 crore disbursement we have cut down from the supply chain finance and other low ROTA product of SME. Both put together, the disbursement shutdown. That is what is pulling down the overall disbursement of Chola which would have been higher by Rs. 2000 crore and we could have achieved 10% growth if you consider that. So, in the case of CSEL, the strategy is to basically focus on traditional and increase our CD and in-house digital lending. So, by the year end quarter four onwards, we will start seeing better increase in terms of the assets as well as disbursement from CSEL and CD. And recently, we have started gold loan, and the initial start is very good. So, we will see some benefit coming from gold loans.

Dhaval Gada: Got it. Thank you, sir, and all the best.

Nischint Chawathe: Thanks. The next question comes from the line of Avinash Singh. Avinash, you can unmute and ask your question.

Avinash Singh: Yes, thanks. Good morning. Thanks for the opportunity. So, just two questions. The first one is this, again, just to clarify this 1.4% to 1.5% full year credit cost guidance. This is basically on total, I mean, balance sheet assets, not necessarily on loans. So, that's the first clarification. Second one, if I were to see the asset quality trends. I mean, one or the other issue started last year Q1 when we, I mean, the industry had the issue of the heat wave and electoral problems. Since then, I mean, even the H2 recovery was hoped that did not play out. So, just my question, broadly, just not one specific category, is this the new normal, I mean, in the business, the kind of credit cost or asset quality that you are seeing and your recovery hope that for H2. Now given, yes, the monsoons are doing good, but then there are kind of floods and extended monsoon problems that might creep up the floods are kind of affecting the infra and some mining related contract and works. And on top of that, I mean, I know it's too early, but these US tariffs and all that also have a kind of linkage to certain MSME sectors. In all this backdrop, you have the series as a sector is not doing well, there is a kind of a challenge from the floods and all, and then this thing, what sort of a again, gives you hope that things will improve better than what they did last year, or rather, they will improve at all. Thanks.

Vellayan Subbiah: See, I don't think there's anything trying to define this as a new normal, right? Which is basically, this is the environment right now. And the environment right now, I mean, the economy has been a bit muted. And so that is the situation at the current point in time. So, and in general, if you kind of observe the trend, usually with the festival season, you do see an improvement in the October, November, and December quarter. So, that's the only observation we are making at this stage, right? So, I don't think we want to define it as a new normal because the environment in India keeps changing, right? And that is our reality. So, I think that's our kind of approach at this stage.

Avinash Singh: And so that the credit cost or that 1.4% to 1.5% that's on total assets or the loan assets?

Ravindra Kundu: Yes, that is the way we calculate, and we are talking we are not going to change the calculation so it will be on total book assets.

Avinash Singh: Okay, very clear. Thanks.

Nischint Chawathe: Next question comes from the line of Shubhanshu Mishra. Shubhanshu, you can unmute and ask the question.

Shubhanshu Mishra: So, two or three questions. The first one is that after a very long period of time, I have seen the urban branches growing up to around 9% of the branches. This is almost after eight or nine years. So, is this like a reclassification or is this a change of strategy? That's first. Second is that given the fact that we are hopeful of a better second half. How are we budgeting for this in terms of OPEX, in terms of schemes, in terms of payouts to our employees, especially in vehicle finance? What kind of discussions have we had so far with the top OEMs that we work with? Thanks.

Ravindra Kundu: So, the 75 gold loan branches which got opened up are actually in the urban market. And that is the reason it has actually increased the penetration in the urban market from the branch count point of view. There is no change in the strategy. Overall level, we are more into the tier 3, 4, 5. In fact, 90% of the branches are in tier 3, 4, 5, 6. But as initially the gold loan branches are going to open up, they will be opening in the tier 1, and then they will move to tier 2, tier 3. So, that's the thing. Second is that as far as the payouts and this thing is concerned, our chairman mentioned in his opening remarks that quarter 2 always comes with the high and therefore it slightly can go up. But at the same time, we are working on increasing productivity, financiers are increasing productivity, they are curtailing their OPEX at the same level. And other businesses are also not expanding the new branches and therefore keeping their OPEX very tight. In spite of gold loan expenses, which are branch expenses, we have increased. Our overall expenses have come down to 2.9 as against 3%. So, we would like to basically keep it at a 3% level, even in Quarter 2, Quarter 3. And with the manufacturer, we are discussing with them. They are also having a concern that the numbers are not going up, and therefore they want to work very closely with us. Our market share is also improving in segments in the vehicle finance. That is because of the very, very close engagement with them.

Shubhanshu Mishra: Right, if I can slip in just one last question, what is our strategy in terms of selection of branches for the new businesses that we have, which is CSEL, SBPL, SME, how do we go about looking at a location and then saying that, okay, we will co-locate this particular branch with our VF branch here in this particular location. Thanks.

Ravindra Kundu: All the branches across all the segment, whether it is new or old businesses, they are co-located mostly. But only thing is that SME are more into tier 1, CSEL is tier 1, tier 2, tier 3. SBPL is more into tier 3, tier 4, tier 5. It depends upon the product, and type of customer. Most of the branches are co-located with vehicle finance branches.

Shubhanshu Mishra: Thank you so much. Best of luck for ensuing quarters. Thank you.

Nischint Chawathe: Thanks. Next question comes from Abhijit Tibrewal. Abhijit, you can unmute and ask your question.

Abhijit Tibrewal: Yes, thanks, Nischint. So, two, three questions. First thing is vehicle, you said the growth of 15% will be possible if economy picks up, festive season is good. So, what I am trying to understand is beyond things which are not in our control, things which are in our control, basically is if we can work to gain some market share. So, what we are trying to understand is, are we also trying to work with OEMs which are beyond our top two or top three OEMs to gain some share with them? And the related question here is why you said earlier onset of monsoons, weak economy. Within vehicles, Ravi sir, if you can give some color around what is weaker? Is it new or used or any particular segments which are weaker relative to the others so that is my first question on vehicle financing. And then the second question for Arul sir is on margins. Sir, while we started seeing some early improvement in cost of borrowings, by when is it going to be 3Q, is it going to be 4Q when we are going to see a large part of the benefits in our cost of borrowings? And yield this time was a little muted. I mean, what were the quantum of interest income reversals that we saw in this quarter? And the last question is again, on the overall growth that we are targeting for this year. Ravi sir, I am just trying to understand if you look at segments today right, while these are smaller segments for you, unsecured MSME, which we do through CSEL, SBPL, which is micro-LAP. Some of these segments, at least in the last three months, have started showing industry-wide weakness. Most other NBFCs who reported earlier have called out weakness in these segments, right? And where both the demand, basically growth and asset quality credit costs are taking a beating. So, would you want to slow down a little bit in some of these segments, unsecured business, working capital loans, micro-LAP, SBPL, right? And will that kind of lead to us growing at the lower end of the guidance that we gave out in the last earnings call? Thank you so much.

Arul Selvan: So, Abhijit, let me take the interest question first. So, you'll see, as I was saying earlier, the benefits have not flown in much in the Q1 on cost of funds. It is hovering at same level because the bulk of the cost of fund reduction in the form of repo rate reduction came at the fag end of the book. See that happening in Q2 onwards. The bank borrowings, 50% of the bank borrowings are EBLR linked. So, that would see the full benefit coming through in Q2. The MCLR linked benefits will come more from Q3 onwards because banks have not started giving the entire benefit out. So, net-net for the full year, you should see here overall 20 basis points, sort of an improvement on account of the cost of funds. We may have to give away part of it at least 5 to 8 basis points by way of yield reductions in the floating rate book. So, I would say we should see around 12 to 15 basis points net impact on NIM purely because of the cost of funds.

Ravindra Kundu: Yes. So, Abhijit, Ravi here. Now, the Chairman has already mentioned that we are seeing that across segment, the economy is slow. And it is likely to improve in the second half because we are going through two issues. One is that the early onset of the rain as well as there is a drop in industrial production and some of the macros are not favorable as of now. But if you take the SME, there are two types of SME. Different, different financiers have discussed it. Our SMEs are purely a mortgaged SME. Whether it is SBPL, SME and LAP, only in the case of CSEL, they have an unsecured business loan, which is much smaller. So, the unsecured SME is not doing well but secured SME though there is an increase in the NPL, which was projected earlier that it is going to go up. We are not concerned about it because it is going to get resolved through either SARFAESI or through the normal traditional route of arbitration and our NCLs are under control as per the projected level. So, as far as the SBPL or SME or LAP or even HL for that matter, the mortgage business, we are not slowing down disbursement. In fact, in the case of CSEL and SME, we were the first to take a decision to cut down on the fintech business last year and now stopped it completely. And also, we have decided to cut down the supply chain finance which is actually low ROTA product. Beyond that, we are not going to reduce anything. As far as the vehicle is concerned, across all product line if you see the growth of SIAM HCV is (-6), we are (+9); light commercial vehicle (+5), (+5); small commercial vehicle (-12), we are (-1); passenger vehicle (-1) industry, we are (+2); three wheeler, it is flat my industry, we are 15%; two wheeler is actually (-6), we are (+16). Only in the case of tractor where we see that the rate competition is very high, we have taken conscious call not to reduce our pricing and therefore we are at flat and also in the case of construction equipment, we are at similar level of the market. So, we are working with all kind of manufacturers for all product segments very closely to keep our engagement level very high during the tough time and helping them to actually sail through this tough time for them actually, which is helping us to keep our numbers higher.

Abhijit Tibrewal: We got it. Thank you for patiently answering the questions and I wish you and your team the best.

Nischint Chawathe: Thank you. Just two instructions before we move ahead. One is participants, please state your company name before you start asking questions. And the other thing is that we have a hard stop at 11:30. So, just be a little brief with your questions. Kunal, your line is unmuted. You can ask your question. Kunal Shah.

Kunal Shah: Thanks, Nischint. So, firstly, if we look at the performance of Q1, was it may be given the environment, was it below our expectations? And then eventually, maybe you indicated festive and maybe early monsoons getting over that would help. But internally, what are the initiatives we are taking just to make sure maybe have we made any credit filters more stringent or have we enhanced the collection capabilities in any of the segments if you can highlight that maybe ex of the external factors what we are doing. And secondly, with respect to the overall growth, maybe 20%-25% which we have guided you have indicated across the segments, how we are looking at it. But given this kind of disbursement now, where do you see the overall growth settling? Will it be at the lower end of the guidance at 20 odd percent or maybe even below that and any measures which you are taking either in terms of pruning the growth or maybe boosting the growth?

Ravindra Kundu: Yes, so the calibration of underwriting and our collection mechanism is a continuous process and it actually improves when you have a tough time and as we mentioned about CSEL underwriting last year itself in the Quarter 4, that we cut down the number of enquiries. We have reduced the trade where we are giving the business loan and also, we were also very clear about it that some of the markets are basically negative in terms of repayment. So, we have done it from Quarter 4 itself. In vehicle finance, they have been continuously improving their underwriting models. So, those are important things, and we also mentioned that this year is actually a year of collection, not the year of disbursement. So, we are trying our level best to ensure our first bucket collection is actually very good and roll forward rates are lower. And if you continue to do that, then obviously we will start getting benefit from quarter 3 onwards and in terms of the loan losses are concerned, loan losses are actually not because of the current collection. It is also because of the roll forward that happened in the past. So, our job is to ensure that whatever roll forward happened, how can we curtail into stage two or stage one in the next quarter and that is the reason we are saying that if the economy improves that will help us to achieve our goal.

Kunal Shah: Any growth guidance?

Ravindra Kundu: So, growth is actually what you said is right because we have been discussing 20% to 25% but we will be actually trying to achieve at least 20% without fail. Let's see that, it all depends on second half also and we are at 23% now. So, if it deteriorates, then only it will go down to 20, otherwise we will be maintaining the same level.

Kunal Shah: Thanks. Yes, that's helpful.

Nischint Chawathe: Next question is from Mahrukh Adajania. Mahrukh, you can unmute and ask your question.

Mahrukh Adajania: Yes, hello, sir. Mahrukh from Nuvama. Actually, I had only one question. It's already been discussed. But last year, we were expecting improvement. Of course, there was heat wave, there was MFI, and therefore all NBFCs had indicated that they are tightening their collections. And yet the expected improvement in third quarter did not come around. So, are we really seeing on ground? Is that the feedback on ground because monsoons happen every 1st Quarter, sometimes delayed to 2nd Quarter. But it looks like we have given up all the COVID post-COVID recovery, right? We are back in terms of NPLs to September 22 levels in VF. So, are we seeing enough on-ground factors and feel goods to assume that there will be a massive recovery in the third quarter because last time also that was the expectation, and it did not come through and it's kind of spilled over to the next year for different reasons. So, I mean, it's really very hard for us to assess then if there is any geography specific thing or any segment specific thing like mining that will help us better understand this issue, because otherwise it's very hard to assess, right? All the gains post-COVID look like they were being erased in the last 4-5 quarters.

Ravindra Kundu: So, last year I said that Quarter 3 will be flat, and we will be seeing the result only in quarter 4 onwards. It happened at a similar level, similar way only. And this year again, we are seeing that there is an early arrival of monsoon. And that is what has created an issue in terms of vehicles, in addition to the market itself the environment is slow. So, if the environment is slow, the results will be in line with that only. As far as your comparison between pre-COVID and post-COVID, pre-COVID level Stage-2, Stage-3 used to be 10%. We are at actually 7%, still much lower than that. So, our efforts are to achieve best result, but it depends on the environment and condition in the market.

Mahrukh Adajania: Yes, sir. So, I was not talking about pre-COVID, post-COVID. I was just talking about post-COVID in the 3rd Quarter of 2023, the recovery that we saw. I mean the GS3 was 2.2 or something then. But anyways thank you. Thanks a lot.

Ravindra Kundu: Thank you.

Nischint Chawathe: Pranav Tendulkar you are next. You can unmute and ask your question.

Pranav Tendulkar: It's not just you, but there are many other NBFC's and banks that have like two-wheeler, three-wheeler, and unsecured retail asset quality worsening. So, isn't it just monsoon or is it over-leverage of retail people like retail asset class that is having the problem? How do you assess it differently from say seasonal factor from a structural topping of leverage that a retail asset class can take? Thanks a lot, sir.

Ravindra Kundu: No, it is more seasonal and then also related to the economy of the country as of now slightly looking slow. So, both put together are actually impacting on the NCLs and NPL and likely to improve from Quarter 3 after having better results coming up through more mainly in the rural market and after the agriculture growth status showing up.

Pranav Tendulkar: Right, sir. So, this is I think 4th or 5th Quarter for us for asset quality little bit worsening. So, it just makes me worried a little bit. Thanks a lot for your confidence.

Ravindra Kundu: Thank you.

Nischint Chawathe: Thanks. Next question from Viral Shah.

Viral Shah: This is Viral Shah from IIFL Capital. Two questions largely. One is, see historically we have been kind of say more counter cyclical in terms of growth. Whenever we have seen early signs of say stress, we have tended to be more conservative, pullback. We saw some glimpses of it in FY25 in the vehicle finance segment, say in two wheelers we had pulled back. You were referring to those few quarters back and you compared the growth rates for OEMs and versus now what we are doing, are we actually seeing now signs of structurally underlying environment improving? Again, we are being counter-cyclical and starting to gain market share and growing aggressively on the vehicle side that is one. Second is on non-vehicle side, I think a couple of participants have pointed this out, and this is these are segments where we are relatively smaller as a lender, there we are actually seeing worsening of stress. So, does that mean that now we are going to say relatively pull back on growth in these segments? And my second question is for Arul sir. Sir, you mentioned of course on the cost of funds side how it will pan out and maybe you may have to give on some of the rate cut benefit on the floating rate book. What about the interplay of the say mix change adverse mix change on the asset side because we will be growing the probably the non VF book may grow a bit slower and also have we passed on any incremental say rate cuts on any of the fixed rate products also, so vehicle finance and any of those things? Thank you.

Arul Selvan: On the interest rate, on the fixed rate we have not started passing on and even if that happens it will be more than the marginal book and it is not on the existing book. The existing book as we tend to raise the borrowings related to those lending. On the floating rate book, actually the floating rate book is growing better. Like if you look at both LAP and HL, their AUM growth is above 30%. So, they still have a lot of growth coming through and funding for that would continue. But as we move on, in the near term, we should actually also benefit more in LAP because BT-in will be more is what I look at if there are rate reductions that are happening both from our side as well as from the market.

Ravindra Kundu: So, Viral, you are right actually two years back we said that the rural economy was not looking great and that point in time we observed two years of back-to-back bad months soon and then we cut down our tractor funding as well as two-wheeler funding ahead of the time, but now that is not the case and our vehicle finance is predominantly into the rural market and we see that every year last year onward, the monsoon is actually looking better. So, that is the reason some of the products which we are not doing it in two years back or last two years, we started focusing more on that, which is showing up in our disbursement growth as against the industry growth of -5% to +7%. In the case of unsecured SME, our percentage is hardly anything. So, it is in CSEL, which is 7%, very small to the other players. Therefore, we do not have any problem, and we don't want to increase significantly. There in CSEL we are trying to increase consumer durable and in-house digital lending book and CSEL traditional book which are actually almost Rs. 500 crores-Rs. 600 crores disbursement, they remain at same level. We have curtailed the number of enquiries and in the case of say number of loans which are existing customer coming for the second or third loan. So, thereby, tightened the credit norm last year itself. So, we are expecting that portfolio will also start improving. In fact, if you see that CSEL NCL from Quarter 4 to Quarter 1 it is static, it is slowing now though, their numbers are looking very high. And from Quarter 4 of this financial year, you will see that CSEL NCL will further go down.

Viral Shah: Got it sir. So, just one clarification on the comment that Arul sir had made. Basically, on the NIM benefit of say around 15 odd basis points from here on incrementally does this take into account the benefit of the CCD conversion which will come on NIMs?

Arul Selvan: It is at 7.5%, so that when you will be substituted by similar loan on their conversion. So, it's not when we are growing, we are borrowing more than Rs. 1,000 crores every month so that they would get subsumed in that.

Viral Shah: Okay, but just I was thinking from a leverage perspective. The leverage may reduce a bit.

Arul Selvan: The 2,000 getting converted into equity will give a very marginal benefit, but on overall 1,74,000-1,75,000 crore, borrowing side it may not--

Viral Shah: Got it, sir. Thank you.

Nischint Chawathe: Thank you. The next question comes in from the line of Zhixuan Gao. Zhixuan, you can unmute and ask your question.

Zhixuan Gao: Hey, this is Zhixuan from Schoenfeld. Thanks so much for the opportunity. I just want to understand a bit more about the credit cost guidance. So, let's take the higher end of the guidance 150 basis points. First quarter we started at 180, 2nd Quarter 170. So, this sort of implies the second half we need to go down to somewhere about 120-125 basis points. Now I am just looking at this pace of seasonal improvement, first half versus second half and compared to last year it seems that we are forecasting a much better half of half forecast versus last year. So, just want to double check is what we are seeing right now? The magnitude of the seasonality and macro improvement second half versus first half. Is that the way that we should understand it?

Ravindra Kundu: Last year if you see that we actually you know started from 1.5 and in the last quarter we did 1.3 and the average was 1.4, so we are starting from 1.8 and that's the reason we saying that this year we might end up at 1.5, 150 basis point, but this reduction will be coming up only from the Quarter 3 onwards Quarter 2 is still actually we have a monsoon which is going to go and if in case we get the monsoon in the first week of September itself then little bit better result can come. So, the trajectory of the NCL will be starting from 1.8 it can either be 1.8 in the 2nd Quarter or it will be 1.7.

Zhixuan Gao: Got it. That is clear. And lastly on the 15% vehicle finance for this whole year. Is that loan growth or disbursement growth?

Ravindra Kundu: Asset growth is actually at 18% level and what we said is that the asset growth will remain at 18% level. As of now, disbursement is looking at 7%, which is going to go up to 10% to 12 % in this financial year.

Zhixuan Gao: 10% to 12 % disbursement growth for the Vehicle Finance. How about the overall disbursement growth this year?

Ravindra Kundu: That's what we are saying. Overall disbursement growth for the year. For a company we are at flat level as of now.

Vellayan Subbiah: No, he is asking for full year growth.

Ravindra Kundu: 10%.

Zhixuan Gao: Okay, got it. Thank you so much. All the best to our next caller. Thank you.

Ravindra Kundu: Thank you.

Nischint Chawathe: The next participant is Raghav Garg. Raghav, you can unmute and ask your question.

Raghav Garg: Thanks Nischint. I am Raghav from Ambit Capital. Just two questions. Most of my questions have been answered. One, in the vehicle finance asset quality, can you highlight some of the broader trends across, say, the M&HCV and LCVs and also what is UCV segment doing and what are you picking up in terms of truck movement on the ground? I ask this because I see that your disbursements' growth in M&HCV has been slowing down while LCV has been picking up. So, that's the first question. The second question is how much of the gold loan disbursements in this quarter were to the existing vehicle finance customers? Those are my only two questions. Thank you.

Ravindra Kundu: The gold loan is actually purely a new customer. We are not given it to our existing customer. And in the case of vehicles, we have never given the segmental data of any product line. But in general, the NCLs are higher into the small commercial vehicle product and tractor. These are the two products within the high NCL, and others are slightly lower. It is not that it's gone down, but it's gone up slightly across all product segments in the commercial vehicle sector.

Raghav Garg: In tractor specifically, so I think the industry has been fairly optimistic, right, in terms of growth because of the rainfall being good. And so why is it that there are higher NCLs in the tractor portfolio?

Ravindra Kundu: No, higher NCL is actually because of the old book, the stage 2 is actually when for the tractor has improved.

Raghav Garg: Understood. Okay. Thank you. That's all from my side.

Ravindra Kundu: Thank you.

Nischint Chawathe: Thank you. We will take the next question from the line of Renish Bhuva. Renish, you can unmute and ask your question.

Renish Bhuva: This is Renish from ICICI Securities. Sorry, sir, just again going back to the vehicle finance business. So, many players are highlighting stress in this segment. some are saying UCV, some are saying new retail CV. But just, you know, from our perspective we have been gaining market share. So, I just wanted to understand your broad strategy about sort of why to gain market share when there is stress and you also mentioned that Q2 is sort of looking weak. And in that scenario, while we might continue to gain market share, but how will we ensure that we are onboarding quality customers and not getting to a cycle?

Ravindra Kundu: So, one in vehicle finance, we have tightened the underwriting norm as I mentioned, and we are working more closely with the manufacturer. So, there are two things. One is that when you work with the more closely with the manufacturer, get a first right of rejection. First right of rejection means you get the best quality of customers. Second is that if you are underwriting, models are tightened, then the rejection rate goes up. And in spite of your increasing market share, you get good quality of customers. So, that's the strategy we are trying that only. Second is that why we are doing now, why we have not done it two years back. Two years back we saw that the rural economy is slowing down and most of the vehicle finance branches in the rural market and therefore the impact can be bad from the industry perspective, environment point of view. As of now what we see the rural economy will be, it is improving, and it will be further improving after this dimension gets over. That will help us to basically maintain our quality in time to come.

Renish Bhuva: Got it. Just clarification. So, you are saying our rejection rate in vehicle finance currently, let's say, would be higher than two years back?

Ravindra Kundu: Higher than in the past.

Renish Bhuva: Yes. Okay. And we are still gaining market share at biggest point.

Balraj Menon: See, as far as all these products are concerned, small commercial vehicles and all, we have tightened our credit policy. So, in terms of the acquisition stage itself, customer acquisition stage itself, the filtration is going in. And plus, when you move, when you are in the first right of refusal at major counters, we are not active across. That is helping us in getting, acquiring the best of best customers. So, we are not running after them.

Ravindra Kundu: Another thing is that when the market is looking bad, manufacturers are also down. And at that point in time, if they are coming to us, that is the best time to basically gain market share. When market is doing very well and you start gaining market that is not a great idea we have seen.

Renish Bhuva: Got it and so basically, we are gaining market share at the dealer's point and not when gaining market share by expanding on the distribution. How should one look at this?

Ravindra Kundu: Both, both happening distribution has already been continued to be there as we mentioned in the past that our resident locations have gone up to 700 towns where we will open up the branches in time to come. So, the network has more than 1,613 branches.

Renish Bhuva: Okay. That's it from my side. Thank you and best of luck.

Nischint Chawathe: We are moving on to Hardik Shah. Hardik, you can unmute and ask your question.

Hardik Shah: Yes, thank you for the opportunity. Can you hear me? Yes. Perfect. Sir, my first question is about the asset quality in the vehicle finance space, given that we have seen elevated stress for a few consecutive quarters. How has the loss given default trended across product types of commercial vehicle, used vehicles? Is there anything different that you see versus historical trends?

Ravindra Kundu: LGD is same level as now. There's no change in LGD. Loss on sale on the asset, whatever we repurchase, is 32% to 35% varies from product to product.

Hardik Shah: Understood. And sir, my second question is about growth. If this slowdown were to sustain in Vehicle Finance, are there any other levers that you think you could pull to meet your AUM guidance of 20% to 25% or the lower end of 20% growth guidance? How are you thinking about it?

Ravindra Kundu: You're saying vehicle finance you are saying if it doesn't go up then how will you achieve 20 % growth?

Hardik Shah: Yes.

Ravindra Kundu: At the overall level?

Hardik Shah: Yes.

Ravindra Kundu: Obviously, if one business goes down significantly it will impact on the overall growth. But our hypothesis is that vehicle finance will be there at 17%-18 % level and mortgage businesses will be there at 30% and CSEL business will be slightly lower. With that we are reaching 20% to 22 % asset growth. Anything goes down will it further reduce the overall growth.

Hardik Shah: No, so you are saying that you are okay with achieving lower growth versus guidance if vehicle finance were not to improve, not grow significantly on other segments. Is that understanding, correct?

Ravindra Kundu: No, vehicle finance, we said that our disbursement is at 7% level in quarter one. And here our disbursement is going to go up only because we are seeing that now the manufacturer and dealers have started stocking the vehicle for and preparing for the festivals. So, with that indication is that it will go up to 10% to 12%. If that happens obviously vehicle finance is supposed to remain at same level.

Vellayan Subbiah: I think the question is if vehicle finance growth does not come, then what happens right? And in general kind of our perspective has been that we do have the opportunity because of the overall portfolio to see if other businesses can basically kind of fill up some of that. So, is that your question?

Hardik Shah: Yes.

Vellayan Subbiah: So, that's how we would manage it. So, if vehicle finance continues to be muted in the second half, then we will obviously look at mix of other businesses like LAP, home loans and some of the other businesses.

Hardik Shah: Got it, got it. And my last question is on the MSME versus commercial vehicles or vehicle finance overall. We see profitability trends in MSME have improved while that for vehicle finance has come off. So, what is it that you are seeing differently in SME versus vehicle finance space? Are we going down the risk curve there or how should we think about it?

Ravindra Kundu: Mainly lever is only one here in between them. All MSME businesses are basically a secure business and their asset backed MSME has a lower NCL and SARFAESI benefit is there in order to get back and those are appreciating assets. In the case of vehicles, it is a depreciating vehicle, if you repossess then obviously the NCLs are high, and we are at higher level of NCL which is actually dragging the ROTA of vehicles. Thats is the comparison between auto and MSME ecosystem. OPEX is also high in the case of auto ecosystem as compared to SME ecosystem because the ticket size in the SME is much higher than the auto.

Hardik Shah: Understood. Okay. Thank you. Thank you for your answers.

Nischint Chawathe: Thanks. We move to Abhishek Murarka. Abhishek, you can unmute and ask the question.

Abhishek Murarka: Yes. Hi. Thanks Nischint. I am Abhishek Murarka from HSBC. So, the first question is that in CSEL, how much of it is unsecured business loan? And can you give some thoughts in terms of ticket size, geography, customers where you are seeing stress, is there anything specific to note over there? And how much of the CSEL is actually partnership based and by when does that run? So, that's my first question. I will just come back for a quick second question as well.

Ravindra Kundu: CSEL partnership Rs. 2,500 crore balance is between the CSEL business loan, personal loan, professional loan, and a CSEL CD and D2C and everything is unsecured. Entire CSEL is unsecured. Only that CSEL is only unsecured. So, that's 7% of overall book.

Abhishek Murarka: Yes. So, outside of the partnership business, are there any particular pockets of stress or it is across all these different segments?

Ravindra Kundu: No, one is that the CSEL business loan which is having little higher NCL than what we expected and that's the reason we started cutting down the number of inquiries and also reducing the existing loan to keep the second loan or third loan which is basically done in Quarter 3, Quarter 4 last year itself. But the disbursements are at same level what we used to do earlier last year we used to do Rs. 500 crores now also we are doing similar levels.

Abhishek Murarka: Okay, so the CSEL business loan is how much?

Ravindra Kundu: CSEL business loan is almost Rs. 7,000 crores.

Abhishek Murarka: And within this 7,000, do you see any particular geography like maybe Karnataka, Tamil Nadu, or anything particular in terms of ticket size where the stress is concentrated? Some cuts will be helpful to understand the problem.

Ravindra Kundu: Across the country, in the CSEL business loan, actually the problem was where the customers have multiple loans. So, that was around 5%. It's not concentrated in a particular geography. It is spread across.

Abhishek Murarka: Okay, 5% of the Rs. 7,000 crore book

Ravindra Kundu: Yes, they are having a multiple.

Abhishek Murarka: Multiple loans, okay, that helps. Okay. And the second question is, when I see your vehicle finance slide, the assignment part for this quarter is just Rs. 6 crores, it was Rs. 9 crores last quarter, it's been coming off. So, what is the plan? Are you looking to assign more vehicle finance going forward? Or is this just a product you don't want to do? How are you looking at that?

Arul Selvan: Actually, we have not been doing assignments for a long time and of late some demand came from one specific bank which wanted LAP book and since we have a long and a large relationship with them, we have started doing some assignments over the last two quarters. So, that has been restricted to LAP. So, we don't want to go around seeking assignments, know, especially in vehicle finance or other products. Vehicle finance, we do a lot of securitization. That is not shown greatly because that is coming as part of borrowing. We are not seeing that.

Abhishek Murarka: Understood. Okay. Thanks so much and all the best. Thank you.

Nischint Chawathe: Thank you. We will take the last question from the line of Nidhesh Jain.

Nidhesh Jain: Thanks for the opportunity. I am Nidhesh from Investec. So, two questions. Firstly, in your products, do you see cross-sell opportunity synergies of cross selling your products to the same customer and are you looking for the business from a customer lens or from a product lens? And secondly, how do you benchmark yourself in terms of technology with your peer group within the NBFCs, specifically the top NBFCs?

Ravindra Kundu: So, the cross-selling, as of now, within vehicle finance we are doing, so around 25% of disbursement is actually coming from the existing customer, where the vehicle customer is going for second loan or commercial vehicle customer is going for car loan or two-wheeler loan. As of now, we are not cross-selling LAP against vehicle finance or vehicle finance against LAP. That's cross-selling across the divisions is not happening. It is happening within the division only, restricted to within.

Suresh Kumar: It happens like when the customer inquiry comes, we do that. It's not that we don't do those products, but we don't drive them as a cross-sell product, but it naturally happens.

Vellayan Subbiah: One of the things we started from an analytics perspective is looking at the propensity of customers. So, we are taking each of our customer datasets and looking at their propensity and interest in buying other products that we would start cross-selling. So, we are definitely making that transition from product-based views to a customer. And I think that's a shift that we are beginning to make.

Suresh Kumar: So, we are also using our internal bureau data, our existing bureau data to kind of leverage on the cross-sell aspect.

Ravindra Kundu: Yes, but the opportunity in the cross-sell is more into if you do CD and then give, say, personal loan, that opportunity is more. So, our CD book is very small. And our digital lending as of now we are doing Rs. 100 crore is actually coming from the existing customer only.

Nidhesh Jain: Sure. On technology, how do you benchmark yourself?

Ravindra Kundu: I think we are having the best IT team; think we can say that. Most of the loan origination systems are internally developed. We are relying on the LMS being supplied by very top-notch IT company. And all other subsystems are also developed internally.

Nidhesh Jain: Okay, that's it from my side. Thank you.

Ravindra Kundu: Thank you.

Nischint Chawathe: Thank you very much. That was the last question for today. We thank the management for providing us with the opportunity to host this call and we thank participants for joining us today. Have a nice day.