



“Cholamandalam Investment and Finance Company
Limited

Q3 FY '26 Earnings Conference Call”

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MODERATOR: MR. NISCHINT CHAWATHE – KOTAK SECURITIES

Nischint Chawathe:

Good morning, everyone. Welcome to the interaction with management of Cholamandalam Investment and Finance Company Limited. We will discuss 3Q FY '26 earnings today. The senior management is represented by Mr. Vellayan Subbiah, Executive Chairman; Mr. Ravindra Kundu, Managing Director and CEO; and 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. Over to you, Vellayan.

Vellayan Subbiah:

Thank you, Nischint, and good morning, everyone. I'm happy to take you through our performance for Q3 FY '26. We had aggregate disbursements of INR29,962 crores, which is a growth of 16% year-on-year, and that takes our AUM to INR227,770 crores. AUM growth remained steady at 20% at the end of this quarter. Disbursements saw healthy growth across all major product segments in the quarter.

Vehicle finance delivered a 17% year-on-year increase in disbursements, supported by broad-based industry momentum across CVs, PVs and 2-wheelers in both new and used categories. GST rate reduction also helped bring down vehicle prices, which further strengthened customer sentiment and supported sustained demand across segments. LAP, Home Loan, and SBPL also delivered strong disbursements growth during the quarter.

This momentum was supported by sustained housing demand across key markets, coupled with healthy traction in mortgage-backed lending for both self-occupied residential properties and SME credit demand. Q3 witnessed robust customer inquiries and improved conversion rates across segments, contributing meaningfully to the overall expansion of our retail mortgage portfolio.

LAP grew disbursements by 26% year-on-year and home loans grew disbursements by 10% year-on-year and SBPL by 30% year-on-year in Q3 of FY '26. AUM growth in these business verticals continue to be strong with LAP registering 31%, HL registering 27% and SBPL having a 52% growth over Q3 FY '25.

Disbursement growth in the unsecured segment was also strong with momentum picking up in Q3, registering a 32% growth over Q2 of FY '26. Due to the withdrawal from fin-tech-based lending, the growth year-on-year continues to be negative over Q3 of FY '25. This will change from Q1 of FY '27 as we had stopped lending through fin-tech relationships from Q1 of FY '26.

Likewise, in SME, also the growth in disbursement over Q3 of FY '25 continues to be negative due to the conscious slowdown in supply chain finance. On a sequential basis, disbursements grew by 16%, driven by term loans and equipment finance. The AUM growth was robust at 33%. The newly introduced gold loan business disbursed INR772 crores during Q3 FY '26 operating out of 118 dedicated branches in the South and Eastern parts of India.

As highlighted in our previous call, NIM improved by 33 bps in Q3 over previous year with the RBI's rate cut progressively impacting our cost of funds favourably.

Operating expenses have remained steady on a year-on-year basis, even after incorporating the impact of the new labour code in this quarter. This reflects our continuous focus on cost

discipline and productivity. Credit costs improved marginally as the impact of running down the fin-tech business continues to influence our credit costs. On the vehicle finance side, the credit costs have stabilized, and we are looking at a reasonable moderation in Q4.

ROA for Q3 FY '26 stands at 3.2% and ROE at 19.11%. With the second half progressing well, we anticipate Q4 to reflect improved performance in line with past trends. In terms of liquidity and capital adequacy, we hold a strong liquidity position with total liquid assets of INR18,857 crores, including undrawn sanction lines. The ALM is comfortable with no negative cumulative mismatches across all time buckets.

Our capital adequacy position stood at 19.16% in December '25 with Tier 1 capital at 14.12%. Out of the total issuance of INR2,000 crores, CCDs amounting to INR307 crores were converted in the month of October 2025. Further, INR1,063 crores of CCDs were converted in January 2026. This will improve Tier 1 capital in Q4 of 2026.

There's a balance of INR633 crores of CCDs, which is expected to be converted in July of 2026. And finally, the Board approved the payment of an interim dividend of 65%, which is INR1.30 per share. So, Nischint, I'll stop with that, and we'll be happy to turn it over to you for questions.

Nischint Chawathe:

The first question comes from Suraj Das of Sundaram Mutual Fund.

Suraj Das:

Sir, one question on the vehicle side. First, in terms of the asset quality, I mean, if I look at the, let us say, overall credit cost on the vehicle that is running a bit higher versus your historical levels. Anything that you want to call out in terms of specific geography or particular OEM or probably any subsegment that is probably giving pain? While you were highlighting that probably the vehicle credit cost will see substantial moderation going ahead.

But what would be the rationale? Is it because of, let us say, the growth and hence, automatically the credit cost coming down? Or it would be more from underlying cash flow improvement from the borrowers or maybe the state governments payment coming in or something like that?

So just first, if you can highlight, I mean, what is the cause of this pain because your vehicle credit cost is running at 2%, which is relatively higher versus the peers as well as the historical levels. That will be my first question.

Ravindra Kundu:

So, a few data points which I would like to tell you about the vehicle finance is that Stage 3 from June quarter of 3.89% has gone up to 4.1% in September and December, it has remained at 4.17%. So, in Stage 3, we have got the stability now. As far as Stage 2 is concerned, it is 3.9% in June and gone up to 3.96%, but it has come down to 3.6%. So, 30 basis point improvement in Stage 2 has been seen.

And also internally, we are monitoring the early default and nonstarters. Stage 3 has come down significantly – in quarter 3 itself and likely to further improve in March quarter. So, this is in line with our plan only. Our NCL numbers in quarter 1 was 2.2%, which has come down to 2.1% in quarter 2 and then in this quarter, it has further gone down to 2%.

So, from the first quarter to third quarter, the NCL has come down, though it is at an elevated level. But as you know that the first 2 quarters in India has got impacted due to rains and also capacity utilization got impacted. That is the case, the seasonal effect. And it is similar to the last year. But this year onwards, we are seeing that there is a good demand coming up. Vehicle demand has improved after the GST rate cut and all those things happen.

And then we are seeing that disbursements are going up. That means the deployment of the customers have improved and the capacity utilizations are improving. So, we are expecting quarter 4 of the vehicle finance is going to be very good and then they are going to maintain it in the next financial year. So, coming back to your point that it is at elevated level, yes, but it started coming down in the Stage 2 and early default and non-starters has come down. Stage 3 is stable. From here, it will go down.

Suraj Das:

Sure, sir. But sir, this early starter or let us say, the early delinquency coming down, is it a factor of underlying cash flow improvement? Or is it a factor of more, let us say, growth? Because this quarter, the disbursement growth has been relatively good on a Q-o-Q basis?

Ravindra Kundu:

Early default is basically pertaining to the first 6 months or 12 months of the book where the customer is getting into the first delinquent. So, it is nowhere related to the denominator effect. If one customer goes into the first bucket, it is early default or nonstarter. Only the period we basically monitor. Nonstarter for 6 months. And so, it is very stringent now, and it is nowhere getting impacted because of the denominator.

And therefore, early default and nonstarter going down and also Stage 2 coming down for the full book is actually the indication that the collection efficiency is increasing. And in the month of January also, we have seen that, which is completed recently. So, this trajectory is going to be maintained in vehicle finance. And not only in vehicle finance, we are seeing the similar impact and benefit coming in CSEL also.

Suraj Das:

And this improvement has been across OEM, across geography?

Ravindra Kundu:

Across OEM, across geography, across the type of product, new and used.

Suraj Das:

Sure, sir. And sir, last question on growth. I think this quarter, the vehicle disbursement growth has been very strong, partly could be pent-up demand also, but how do you see the overall disbursement growth going ahead?

Ravindra Kundu:

Since we have seen the January, I have the opportunity to tell you that things are looking better than quarter 3 in this quarter till now because 60 more days to go. So, quarter 4 will be better than quarter 3 in terms of overall disbursement and across all the businesses, we are seeing the disbursements are up.

Like quarter 3, you would have seen that SME or CSEL are slightly behind in terms of the disbursement comparing the quarter 3 of the last year because they were doing much higher and they have given up some portfolio. But now the disbursements are up.

Suraj Das: Sure, sir. And if I can squeeze in last one question, sir. Can you give the slippages and write-off number in vehicle this quarter or 9 months maybe?

Ravindra Kundu: Those numbers are consistent actually. We have not seen any significant change in terms of write-off.

Suraj Das: INR353 crores.

Ravindra Kundu: INR353 crores up to INR401 crores.

Suraj Das: Okay. And INR353 crores is write-off?

Ravindra Kundu: No, INR401 crores.

Suraj Das: Okay. And INR353 crores is the slippages.

Ravindra Kundu: INR353 crores was the previous quarter.

Nischint Chawathe: Kunal Shah from Citi.

Kunal Shah: So, the first question was on home loan credit cost, not a significant number in absolute term on the base where it is. But if we look at it in terms of the credit cost in home loans, that has gone up. So, anything to read into it? Was there any one-off out there, which has led to slightly higher credit cost? And the second question was on CSEL. So now we have started to see the improvement on the disbursement side.

So, there was a decent traction on a quarter-on-quarter basis on the disbursements. So going forward, maybe last time also you indicated that the stress has peaked out in CSEL. So should we see now significant improvement in CSEL and where should the credit cost stabilize compared to 6.4%.

Ravindra Kundu: Yes. Just to start with home loan, and this is one-off quarter for the home loan in terms of their NCL. What they did is that the non-SARFAESI pool working on and they got into the stage where the collection is visible through the legal. Now they have contacted or tied up with the ARC and given up INR65 crores of their Stage 3, wherein we booked the NCL upfront. So, the NCL hit is in the line of HL P&L is around INR35 crores for the INR65 crores of book, which basically they removed.

And the income line is slightly elevated because of the whole deal has gone up by INR23 crores. So, the P&L line is actually not much gap. Therefore, you can see that the ROAs remain at 4.2%. So that's because of the -- we take NCL line, NCL, not like in -- in some of the players, we have seen that they do it slightly differently. They basically take income also into the NCL line and keep the NCL better. But we have not done that.

And we have also created a little bit of extra provision because now we are going to get this money collected through the ARC. So, we have not taken entire benefit. INR5 crores, INR6 crores extra NCL we have taken. So, net-net, what I'm saying is that and even in the past, we

said that because the NBFC like Chola doesn't have the non-SARFAESI for less than INR20 lakh for SBPL, HL and Affordable LAP.

Time to time, when we get into the situation where we are quite confident that in such situation if we can collect money, then we will route it through ARC and get it done. And that is what is going to be the process even in the future. Once in a while, it will be done. But at ROA level, if you see that they are at very high level, 4.2%, and they will continue to do that. And their target of ROA of 4.5%, pretax ROA, Prashanth has been always saying that he will deliver it. So, we should actually rely on his commitment. Now coming to the CSEL...

Kunal Shah: So, one thing -- sorry, on this. So, there was a sale to ARC during the quarter, and we had taken the provisioning knock of INR35-odd crores on that transaction. Is that the right interpretation?

Ravindra Kundu: Yes. NCL line. I think accounting line; let you understand from our CFO.

Arul Selvan: No, let me explain. So, there is a INR65 crores of assets sold. And when you sell, you have to write it off in the book and the income that comes is coming in income line. This is as per the IndAS. So, it's not like the whole thing has been removed from the book as assets and you have brought the income, whatever the remaining. Provision, which have been carried, would have got reversed. Net impact is around INR35 crores in the NCL line.

Vellayan Subbiah: It is 65 bps of the 1.1%. So, if it wasn't for this, it would have been 0.45%.

Ravindra Kundu: And our overall NCL also would have been better for the company. But this is the right thing for the organization. That is what we are targeting. Now coming to the CSEL, CSEL NCL actually moving right direction. In quarter 1, it was 6.7%. Now quarter 2 was 7%, and now it has come down to 6.4%. And in absolute value also, the NCLs are coming down because of the rundown of the partnership book.

And also, we are seeing the overall NCL of the traditional CSEL, which is like on-ground DSA, DST business, which is done unsecured personal loan business loan and professional loan, there also the absolute value NCLs are coming down. So, we are expecting the 6.4% of NCL of December quarter to further go down in quarter 4, and that trajectory will be maintained in next year also.

You will see that because they have cut down almost INR500 crores disbursement per month from this financial year. And now they are reaching to the same level of disbursement what they used to hit it last year. From the next year, they will get the benefit of base and then disbursement look very high. So once that the disbursements start picking up and NCLs are going to go down.

And even in the case of NCL, I would like to tell you what we have done into the DSA, DST business, where we segregated the entire portfolio into 4 category, diamond, gold, silver and bronze. And every quarter, we have removed bronze, silver and gold and now we are only sourcing the diamond quality of the portfolio, which has got the very lower NCL as of now. But the overall NCL because of the new portfolio will start appearing after 1 year.

So, we are moving in that direction. By doing that, we have also successfully maintained our disbursement growth at the same level. And now we will start growing the disbursement with the better quality of sourcing. So, the quality of sourcing is improving. Disbursement growth is improving and portfolio quality is improving in terms of NCL. So, this is a good news from the CSEL side.

Kunal Shah: Yes. So, the question was where should it settle ideally compared to 6.4%. After doing this, if we are sourcing diamond category, 4 quarters down the line, what should be the steady-state NCL in CSEL?

Ravindra Kundu: That's what I said that this entire book of diamond will be accumulated in next 2 to 3 years' time. And ideally, by that time, we should improve the number significantly. That is the number. So, at this juncture, I don't want to commit any number. 6.4% is very high. And it can come down definitely below 5% in next financial year.

Nischint Chawathe: Next is Piran Engineer from CLSA.

Piran Engineer: Just firstly, in the M&HCV segment, we are seeing demand migration towards large fleet operators, and that's being then tapped by the banks. How is it in the case of LCVs and SCVs? And is that a risk you foresee for this segment also?

Ravindra Kundu: No. First of all, Piran, if you see in our HCV for last 2, 3 years, we slowed down our disbursals as compared to Industry in HCV. And therefore, when the cost of funds started coming down, we started getting benefit to start acquiring more HCV customer. So, some numbers are very, very surprising to you that industry grew by 20%, but Chola grew by 56% in heavy commercial vehicle. But in the case of light commercial vehicle, we were already high. So therefore, our growth and market growth are more or less same.

In the case of small commercial vehicle, the market is actually growing at the rate of, say, 16%, we grew by 28%, which is a high yield book. So, in the commercial vehicle segment, in the new segment, overall disbursement growth is coming because of market share as well as the industry. Banks are always there in the large and captive customer. We were always into the SRTTO. SRTTO were away from the market earlier because they were not seeing the capacity utilization.

After the GST cut, when the cost of vehicle has come down and also EMI burden has come down because of both interest rate cut and also total loan has come down because of the vehicle price coming down. The SRTTOs are now getting into that. So, our disbursement growth is not depending on whether bank is aggressive or not. It is depending on whether our segment is coming to the market to buy the vehicle or not.

So, we are seeing that now that is happening. And therefore, HCV and small commercial vehicle started growing, and we are maintaining our market share at a similar level at the light commercial vehicle. Vellayan, do you want to comment?

Vellayan Subbiah: His question is different.

- Piran Engineer:** Exactly. My question is different. It's more on like the market structure, right? Like, is the LCV market also heavily like towards fleet operators? Or is it more fragmented towards SRTOs, which is why you all can still continue to...
- Ravindra Kundu:** LCV is more into the SRTO and less into the fleet. HCV is more into the fleet and less into the SRTO.
- Piran Engineer:** Okay. And that will continue like this, you feel?
- Ravindra Kundu:** Yes, it will continue. Because in light commercial vehicle, it starts from 3.5-ton GVW to, say, 19-ton GVW. So therefore, the range is large. As of now, the banks are concentrating in a high tonnage vehicle, which is like 10 ton plus. The lower tonnage vehicle is still is actually getting sold in the Tier 3, Tier 4, Tier 5 town where the people are buying for transporting vegetable and all. But they are mainly the market load operator where the NBFC is only financing.
- Balraj Menon:** And to add on that, the retail operators, be it in light commercial vehicle, that is IM LCV, Indian segment, and M&HCV, we are seeing a strong traction of retail operators, which is Chola's set of customers coming in from November, December and that trend is continuing in the month of Jan.
- Piran Engineer:** So, when you have like the Amazons and all the e-commerce players, which need that last mile distribution, do they end up outsourcing that to smaller transport operators? I would assume that this segment also gets more and more formalized with the proliferation of e-commerce.
- Ravindra Kundu:** That is what I said know. In any case, that was there earlier, and they were actually being funded by bank. What I'm saying is that...
- Vellayan Subbiah:** No, no. His question is on the e-commerce shift, right? So, the e-commerce shift, yes. So, Piran, to your question, the e-commerce players will prefer to contract with people that have a larger fleet. And you do see some people getting into fleet. But traditionally, so if you take the percentage that has gone to fleet in terms of these businesses, it is much, much less than heavy commercial vehicle.
- So heavy commercial has always been larger fleets. Here, you see it getting a bit more formalized. But Piran, it's only that the e-commerce segment that basically demands that, right, which is kind of this large level of formalization from their supply base.
- Piran Engineer:** Correct.
- Vellayan Subbiah:** Besides that, there's not that many...
- Ravindra Kundu:** And also, this is there now for quite some time. So, post COVID, we are seeing this -- like e-commerce buying the vehicle being funded by the banks are already there. It is not that this year, it is getting changed. The electric vehicle is getting more funded by the banks because those are getting actually purchased by the large operator. So, if the EVs are going to go up, then you will see the shift in that in terms of the mix between the banks and NBFCs.

- Piran Engineer:** Got it. My next question is on yields. Now when I look at, say, SME yields over the last 9 months, they've been the same as it was in March '25 despite 100 bps of repo rate cut. Have we pruned low-yielding business? Or why hasn't the transmission happened? And likewise, even in LAP, and I'm just taking a longer time frame here, if I look versus pre-COVID and today, LAP yields are actually higher today?
- And it's counterintuitive given how much of SME, MSME competition we've seen in the last 5 years. So just your comments on how we've been able to sustain yields in both these segments would be helpful?
- Suresh Kumar:** On the LAP side, so post-COVID, we have also introduced small LAP with a higher rate of interest. And the business mix, which is kind of helping us in sustaining, we understood this is going to be a challenge and we changed the strategy immediately after the COVID.
- Vellayan Subbiah:** In both situations, it's a business mix issue. If you take a like-for-like product, you will see yields coming down. But things we consciously are looking at is if we have to maintain, then kind of we do look at changing the mix as well.
- Ravindra Kundu:** LAP has introduced a small LAP and that small LAP has now started getting the momentum. So, the amount of volume they are generating like INR8,000 crores, in that around 20% is coming from small LAP, which has got high and therefore, they are able to maintain the yield. At the same time, SME has given up the supply chain finance and they have reduced their disbursement by INR600 crores, what they used to do. And also, they have introduced the Micro Term Loan which is high yield
- Pankaj Murpani:** **Also** Increase in equipment finance, which is like our equipment finance business has gone up, which is a shorter term and a higher rate of interest, the Industrial Equipment business. So that is helping us to improve over in the...
- Nischint Chawathe:** Next in line is Shubhranshu Mishra from PhillipCapital.
- Shubhranshu Mishra:** Congratulations on a great set of numbers. The first question is around the growth itself. We're looking at a stellar growth, which is coming because of the GST rate cut. Are we in discussions with various OEMs? Is there any RM inflation, which is to be passed, which could more likely offset the GST rate cut benefits that we have seen? CAFE norms is still in a discussion paper. Are we going to see any kind of rate hikes by OEMs there?
- Second is, if we can speak about various OEMs, what kind of market shares do we enjoy there? And what are we looking at in terms of market share increases, say, the larger OEMs like Maruti, Tata Motors, Mahindra, Ashok Leyland, the larger ones.
- The next question is a bit strategic in nature. When do we do we hit INR1,000 crores PAT on an annual basis in each of the 3 businesses -- new businesses that we have started, which is SBPL, SME and CSEL? And the third is just a data keeping question. What would be our FEMI in the personal loans?

- Ravindra Kundu:** Lot of questions, Shubhranshu.
- Balraj Menon:** For vehicle finance, as far as the OEMs are concerned, 2 things, what has happened from October, November, December across the segment, be it small commercial vehicle, light commercial vehicle, ILCV, M&HCV, passenger cars, all market shares we have grown. And as you know, we have our market share in Tata, Volvo, Eicher, Leyland, these have all grown and most of it are in double digits. Maruti, we have gained substantial market share across. Small commercial vehicle also, we have grown.
- So, in 2-wheelers, we have grown our market share in Royal Enfield, in Honda and of course, in Hero also because we are focusing in these 3 manufacturers mainly. So, to your question that across the board, our market shares have gone up and the growth has been higher than the market growth. And the trend has continued in the month of January. We hope this will continue for this quarter and going forward.
- Vellayan Subbiah:** Okay, FEMI, you asked...
- Sucheth Bharathan:** Yes. What is the question on FEMI?
- Shubhranshu Mishra:** Current FEMI rate.
- Sucheth Bharathan:** For FEMI rate, it used to be peaked at 3.90 percentage. But over the last 3 months, it has come down to 3.1, 3.2 types. –But I would like to tell you that FEMI is never an indicator for any of your metrics because it requires what you call the NACH registration with the bank. All those things are as an indicator. So, I would say it has come down, but it is never an indicator from my past experience, I'm saying.
- Shubhranshu Mishra:** Just one clarification the market share, this is on volumes we are speaking of, right?
- Ravindra Kundu:** Yes, market share in numbers, on number.
- Shubhranshu Mishra:** The last part, INR1,000 crores PAT...
- Vellayan Subbiah:** Yes. I think the broad guidance has always been this, right, which is like when we get into some of the newer businesses, the growth rates will be higher than the growth rates in some of our traditional. But we don't want to give guidance on when each of them are going to give INR1,000 crores in PAT. So so I don't think we'll give specific guidance on that.
- Ravindra Kundu:** Shubhranshu, actually, if you see that the CSEL now has a ROTA of 1.4% and what we have been discussing between me and Sucheth that he will deliver 3.5% ROA, which is normally we targeted in the next financial year. Both Vijay and Sucheth put together driving the CSEL business.
- So, most important thing is the ROA. In the case of SBPL, so if you take one by one new businesses, is already delivering PBT ROA more than 7% and SME started delivering more than 2%. So, they are all moving towards the direction what we have set in the beginning in terms of profit.

- Shubhramshu Mishra:** Understood. This was very helpful and look forward to INR1,000 crores PAT in each of these businesses. Best of luck.
- Nischint Chawathe:** The next question comes from Raghav Garg from AMBIT Capital.
- Raghav Garg:** I have two questions. One, I just wanted to go back to the vehicle finance asset quality bit. See, when I look at your asset quality trends on this portfolio and compare it to peers, your trends seem to be a little inferior. Say, for example, the Q-on-Q drop in credit cost is lower, the Y-o-Y trend is higher. And even when I look at the net accretion to vehicle finance NPAs, it's on the higher side versus peers.
- So, I just wanted to understand, specifically with respect to your customer segment in the sense that why is he finding it difficult to repay you versus what we've seen for other auto NBFCs? Is there some customer-specific colour to this or any vehicle type colour to this? That's my first question.
- Ravindra Kundu:** No. In our vehicle finance, if you know that our mix is not towards the one segment alone. It is actually distributed across all segments. That means we have been financing heavy commercial vehicle, light commercial vehicles, small commercial vehicles new. Suppose you come up with any finance company, which is more towards the used, the used is not so much deteriorated during the last 2 years.
- The small commercial vehicle and light commercial vehicle plus tractor has deteriorated in the last 2 years because of the slight monsoon deficit and then capacity utilization got impacted during last 2 years during the first half. Having said that, what I mentioned in the beginning of today's call that our vehicle finance Stage 2 has come down from 3.96% to 3.61%.
- Whenever the Stage 3 goes up, like it was 4.11% in September quarter, now it is 4.17%, similar level. First, Stage 2 and early default and nonstarter start coming down. And then subsequently, you start seeing the improvement coming in Stage 3 as well. So, the trajectory is looking very good in terms of vehicle finance. You're asking why it has gone up.
- I have said that it's because of the mix of both new and used, not that either new or used, we are doing it. We are doing all product. And that is the reason things started looking slightly high in the Stage 3, but the trajectory is looking good from the early default and nonstarter point of view, and you will see the result in quarter 4 and going forward.
- And as far as the market and product is concerned, product and market across the geography, we do not have any concentration in terms of any particular market or any particular product is basically doing very bad. It is all distributed across.
- Raghav Garg:** Understood. My second question is, I heard your commentary on early starter or nonstarter, those metrics showing improvement. So, my question is that, say, for example, if we see INR100 of credit cost in the vehicle finance portfolio, how much of this would you attribute to this specific bucket of early starter or nonstarter? And then if we see this number as a percentage of, say, 2 or 4 quarter lakh disbursements, would that be the right way to look at it?

- Ravindra Kundu:** Majority of the NCL is coming from Stage 2 assets. Stage 2 is obviously much lower, as I mentioned. So, Stage 3 also, we have not that we have single provisioning. In the Stage 3 as the...
- Vellayan Subbiah:** His question is -- he is saying ED and nonstarter contribute to what percentage of...
- Ravindra Kundu:** The ED nonstarter is part of the stage...
- Vellayan Subbiah:** As a percentage of our NCL over time. So, from a cohort perspective, how much of it flows into this thing. So, I think that's your question.
- Raghav Garg:** Yes.
- Arul Selvan:** The behaviour of these 2 parameters indicates the business of the portfolio. So, if it is coming down, then it means that the current portfolio is behaving better. So the impact of this will be seen over the next 4 or 5 quarters because that means if there is a lesser of early default and nonstarters, then what happens is at a given point in time, the equity of the customer becomes larger, so he will not move out. That's the sort of the attribute we are looking towards as keep reducing this.
- Raghav Garg:** See, my only point behind asking this question is because we don't get segment-wise stage 2 or even the net slippage on a segment-wise basis, just getting some colour as to how much of the credit cost from the vehicle finance is coming from the early bucket would just help in modelling the numbers better. That was the only objective behind asking this question.
- Vellayan Subbiah:** I think understood. So, we can get back with that data.
- Raghav Garg:** That will be helpful. I have one more question. Can I ask?
- Ravindra Kundu:** Yes.
- Raghav Garg:** In the affordable HL, I think you mentioned INR65 crores of principal has been sold to ARC. Is that right? Is that understanding right?
- Vellayan Subbiah:** Yes.
- Raghav Garg:** And despite that, the GNPA has come down only from INR376 crores to INR358 crores, which means that there have been some slippages here too. Is that understanding correct. So, any specific or geographic colour to this?
- Prashanth Kumar:** No. Basically, only the non-SARFAESI pool, there is a slightly increase in delinquencies, which we do all the legal means to collect out of that. So, it is only the non-SARFAESI pool slightly gone up. It is not about any geographies. Geographies, in fact, everywhere the infant delinquencies are coming down. And Q4, we'll see this has started coming down everywhere. So, we'll maintain the NCL as 0.5 going forward.
- Nischint Chawathe:** Next is Shreya Shivani from Nomura.

Shreya Shivani:

Hi, hope I'm audible. I have 2 questions. My first question is on the vehicle book. So, in December and probably end of November, probably there were 2 cyclones that hit Southern part of India. And can you help us understand what has been the impact of these cyclones on our customer base?

Is there some stress that can show up in the 4Q numbers because of this pool? My second question is on the growth outlook for some of the non-vehicle book. We backed out from the fin-tech portion, and we are going to scale up direct digital and consumer durable loans.

Can you help us understand how much time will it take for you to set up the infrastructure for these 2 segments and then the growth can kick in for you? So, is the growth like 4 quarters away or 3 quarters away in these segments, which are basically replacing your fin-tech book? Those are my 2 questions.

Balraj Menon:

So, to answer the first question as far as the South zone is concerned, for the vehicle finance, last 4 months, South zone had the collection across all metrics is that they have done well. For the month of Jan also, in spite of the highest holidays in a year in South zone happens in the month of January with Pongal, Makar Sankranti, all this happening.

So, we have done extremely well in South zone for the month till January. So, we are not facing or we have not seen any kind of pressure or stress as far as the cyclone and it has been very, very, very marginal. So, there's not much of impact on vehicle finance book in South zone for Chola.

Ravindra Kundu:

And as far as the CSEL is concerned, there are 2 segments of CSEL. One is the DSA, DST business, which we are now doing INR700 crores per month and then CD and digital lending book, which we are doing INR300 crores per month, so close to INR1,000 crores per month. Our peak was INR1,200 crores per month. But quarter 1 of this financial year was only INR2,000 crores. So, if we do even INR1,000 crores we will do INR3,000 crores from the quarter 1, you will see significant growth coming up.

And as I mentioned in the call –we have taken corrective measures in order to improve the quality of CSEL traditional in terms of removing the three segment of the portfolio, which we were actually causing the concern in terms of the NCL and still growing at the rate of INR700 crores per month, which is going to grow the disbursement from quarter 1 at the rate of 25% plus.

Shreya Shivani:

Right. And in the digital and consumer durable, you said INR300 crores. I'm assuming that majority would be digital because consumer durable -- the infrastructure as in partnering with all these the stores, etcetera, would take time, right? So, the INR300 crores may be more digital. Is that understanding, correct?

Ravindra Kundu:

Digital is actually INR100 crores and INR150 crores is around Samsung, and then around INR50 crores is the CD business, which we are doing with Open market. So, around INR300 crores. And INR200 crores CD, INR100 crores digital. Still CD is higher than the digital. CD is only going to go up.

- Vijay Kini:** Yes. So, we have the tie-up in Samsung Finance Plus. So already the infrastructure is all set as far as the platform is concerned. So, our distribution is based on the Samsung Finance Plus platform itself. We're able to acquire more customers across the country. So, I think from a time lag perspective, that has been taken care of.
- Shreya Shivani:** Okay. Interesting. So but you will be looking for more tie-ups in the CD, right? I mean, this must be your first -- yes, all right.
- Vellayan Subbiah:** Yes. How many tie-up we have now?
- Vijay Kini:** We already have about 9 tie-ups. We have broadly covered about 75% of the entire mobile market. So, we are actually working on distribution on the open market platform for CV.
- Vellayan Subbiah:** In addition to this, we just moved out of mobile into household appliance segments as well. So, this is going to grow in different tiers over time, right? So, the first part is going to be mobile. And then the second part is going to be non-mobile, other household appliances.
- Nischint Chawathe:** Next comes from Viral Shah from IIFL.
- Viral Shah:** Sir, I had 2 questions primarily. One is I was looking at your comments with regards to within the vehicle finance industry and therein, you have mentioned that the used vehicle finance prices saw good demand with replacement cycle kicking in or expected to kick in and prices declining. So over here, I just wanted to understand, first of all, two parts to it?
- Which subsegment of this, I would say, within vehicle, the used segment is seeing a demand pickup because of replacement? And secondly, what is the extent of the used CV prices declining? And if at all, you see any concerns with regard to asset quality over there? I'll ask the second question after this.
- Balraj Menon:** See, there are 2 things. And see, immediately after the GST reduction was announced, there was a lull for almost 15 days. Subsequent to that, the market got corrected. And the initial spurt in demand happened in the M&HCV segment at the retail operator level. The real movement in and subsequently, it has flown towards the ILCV segment. So, M&HCV to ILCV segment. And in the M&HCV segment also in the used business, the initial was on the haulage segment.
- And in January, we are seeing a traction coming up in the tipper segment also because a lot of contracts have been released and the usage for the secondary segment, there is a demand for tipper also coming in. So, this is where it stands. See at the small commercial vehicle segment and all, we are yet to see a huge but it's more or less BAU as far as the small commercial vehicle segment is concerned in used business. ILCV, we are seeing a traction coming up. M&HCV started from haulage; it has moved to tippers. So, this is what the current scenario is.
- Ravindra Kundu:** Just to continue, Viral, this is also linked with the new HCV and new LCV sale. As the HCV market is growing, the replacement cycle also kicking up for the used. The people who are buying the vehicle, they are not only adding the vehicle, but they're also sometimes replacing

the vehicle what they have. So, when they sell their existing fleet and buy the new vehicle, new vehicle sales picks up and old vehicle sales also picking up.

So, both are going to get benefited because when the existing customer having the vehicle are selling and that vehicle comes in the market, quality of the vehicles are good and that vehicle gives better price than the vehicle, which comes through the repo sale and all. So now the quality of the used vehicle coming in the market after, say, December or, say, after November, are quality-wise better.

Little bit drop is there in terms of valuation of the vehicle, which is hardly 5%. But it doesn't matter because at the end of the day, if someone wants to buy new vehicle, wants to sell the vehicle, he need it for his replacement, customer need it for their deployment. So that is not important. Important is that the vehicle is available for us to finance. And therefore, our used business is going up from December onwards, which is likely to go up further in quarter 4.

Viral Shah: Right. And how long, sir, do you see this replacement cycle playing out? Is this something that you expect over the next few quarters? Or is it just 4Q?

Ravindra Kundu: Yes. So, it is simple. Last 2 years, there has been lull in the new vehicle sale. So new vehicle sale now only it started picking up. Commercial vehicle did not pick up immediately after the GST cut. It has started only in December. In fact, December was very low. January, I'm seeing the peak impact is coming.

And the passenger vehicle, whatever we have seen in the Q3, that remains same. It's not going up. So now the disbursements are driven by the new vehicle sale of commercial vehicle side, which is going to also support the used vehicle side. Suppose new vehicle is continuously, I'm talking about the heavy commercial vehicle and light commercial vehicle. It's continued to grow at the rate of, say, 15% or even 10% to 15%.

Obviously, to that extent, the used vehicle is also going to come in terms of unit. Now when you are financing it, the GV value is actually matter for financing. So, if that is the case, 10% to 15% in the unit number, it converts into the value, it comes to 20% plus. And it can continue until such time, new vehicle sales continue.

Viral Shah: Got it. And secondly, sir, the question was more for Arul, sir. Sir, how do you see now the cost of fund trajectory for you, given how the bond yield movements have been especially not just today, but I would say, over the last 3, 6 months as well, we have barely seen any reduction in the G-SEC rates. So how should we think about it? And consequently, the margins also going ahead?

Arul Selvan: You're right. There has been no tightness in the liquidity as well as on the rates. But I think the good part is that, we have a mix, which is also partly fixed rate borrowings. So still there is steam left in that to reduce more on the NCD side, on the market borrowings and the MCLR side on the bank borrowings. These two will still give us another 5 to 10 basis points on the cost of fund reduction in next quarter is what we are working on, which should at least to a large extent, flow through to the NIM.

- Viral Shah:** And sir, beyond that?
- Arul Selvan:** Beyond that, I don't think there is...
- Ravindra Kundu:** Beyond that, we need to increase the NIM through business only. So, in the quarter 4, obviously, due to better collection your other income goes up, and you have seen that last year, if you take the investor presentations, you are able to see quarter 4 NIMs are always higher. So, we are going to expect that also in this quarter.
- Nischint Chawathe:** Next comes in a question comes in from the line of Akshay Jain, from Autonomous.
- Akshay Jain:** So, my first question is again on margins. So, while you have indicated that next quarter, the margins will go up because of two impacts. One, cost of funds will come down. And number two, other income being pretty well in 4Q. So currently, the NIMs are around 8% odd and maybe next quarter, given your guidance or given your outlook, it can go up to, say, 8.1%, 8.2% range?
- But how should we look at F '27? Like should we expect the margins to be held around similar levels, 8.1-ish, 8.2-ish levels? Or how should we think about NIMs incrementally? And what will be our incremental cost of funds in this quarter?
- Arul Selvan:** First of all, I said 5 to 10 basis points, you took it to 20 basis points.
- Akshay Jain:** No. So, I included the other income as well?
- Arul Selvan:** No, no, all put together only income, so 8.1% would be the quarter 4 number. So overall, we should end the year with around shade less than the 7.9% we are talking here. I expect it to hold next year to a large extent unless there is some drastic increase. I don't see any reduction coming through beyond current levels. So I hope unless there are some macro issues cropping up, that should not be increased also. So, we should hold at the current level.
- Akshay Jain:** Understood. And on the AUM growth, while you have guided for a wide range of 20%, 25% and given the strong Q3 and your comments on continued strong January. So, should we expect the AUM to grow at the higher end of this range?
- Arul Selvan:** No. See, it is the same thing in the reverse way. When disbursement dropped in Q1, Q2, AUM didn't drop that far. So same way when in 1 or 2 quarters of disbursement peaking, AUM will also not react so fast. So still, we hold a 20% to 22% AUM growth for the current year. Yes, we will look at opportunities to improve, but I don't want to give any guidance beyond that.
- Akshay Jain:** Understood. And any guidance on the credit cost front also? Because for this year, you had mentioned around 1.6 percentage and 4Q is expected to be strong for Chola?
- Arul Selvan:** So, this is a third question. So, let's skip it.
- Nischint Chawathe:** Next question comes from the line of Aravind Ravichandran from Sundaram.

Aravind Ravichandran: So, my question is on SBPL business, where like net credit cost is moving up continuously for the past few quarters. So, do we see any risks to growth there in the near term into that business? And are we comfortable with this level of credit costs? That is my first question. And second question is on LAP business.

Should we consider then spreads and margins to hold largely despite rate cuts, which has come through because of the mix change which is happening continuously? And if I can ask one more question, in affordable housing segment, should we start to see again the disbursements growth picking up?

Ashish Potulwar: For SBPL, the credit cost for Q3 may look higher, but it has basically reached a peak. We don't see any more increase as far as credit cost is concerned. In fact, actually, if we go geographically, two of our zones have already started improving in December and January. It will reflect in Q4 end and in Q1, definitely, you'll see stabilization of that. And further to that, it will start going down.

Ravindra Kundu: And also, we've mentioned that in the past that SBPL is entirely a non-SARFAESI book. So, the collection is through a traditional way of doing legal and also the follow-up on ground. So traditional way of doing legal means, that means it takes 2 to 3 years' time. It requires a cycle of resolution of the case which is there in the pipeline. So now we started getting resolution through legal in some markets.

And in some markets, we are yet to get it. So that's the reason Ashish is commenting that the NCLs are picking up now here. And from here, we can actually expect that NCL will go down. And also, in the case of SBPL, from time to time, we'll see that how we can actually do some ARC sale and reduce the Stage 3. That is also in the pipeline. Their PBT ROA is quite good at a very high level at 7.3%, and they will continue to deliver this. In the case of HL...

Suresh Kumar: In case of LAP, if we look at it last year to current year, there's a 20-basis point increase in the margin, but this is primarily because of the product mix. We have continued to expand our higher interest product. But equally also, we are expanding our geo to the Tier 3, Tier 4, which is also helping us in sustaining our yields. Now this NIM will be about at the same range.

We will continue to hold it at the same levels. And that would be a slight increase in the -- if you look at the Q3 opex, it's about 1.8%, and the YTD opex is 1.7%. It will again be at the same range bound, 1.7% to 1.8%. I think there should not be any material impact on the overall ROA, if at all it would be 10 basis points maximum. Otherwise, it will be at the same range.

Prashanth Kumar\0: And for HL growth side, we have seen a good quarter, and we hope to see -- we have always maintained that the book growth -- AUM growth will be around 28% to 30%, and we see that coming for the next 2 years.

Nischint Chawathe: Next, we have Nidhesh Jain from Investec.

Nidhesh Jain Sir, my question is on growth and asset quality. So, if I look at segmental data in home loans, our GNP has been increasing, if I add the ARC transaction. In SBPL also, our GNP has been

increasing. There is slight increase in SME also. So, what gives us confidence in growing these segments? In the CSEL segment when the GNPA's were increasing, we have slowed down the growth. But in these segments, we are continuing to push growth. So, what is giving us confidence to continue to grow despite increasing GNPA?

Ravindra Kundu:

So, we have seen that in the case of HL, LAP and SBPL, even in the SME, there are 2 type of customers who are getting into this Stage 3. One are they who can be resolved by the SARFAESI and one is non-SARFAESI. SARFAESI cases are getting resolved because in these property business, mortgage business when you have a property, you will get the money because they're appreciating asset. So, there is no point that you're going to lose money unless you have a problem in the property itself. So, we are confident that the underlying security is in place.

It's just a matter of time, either SARFAESI 9 months to 12 months and non-SARFAESI, it takes 2 to 3 years. So that's the reason we have done the deal in the case of non-SARFAESI in HL book. And we are seeing that even after doing all this thing in HL, the steady-state NCL is going to be 0.5% to 0.6% and the PBT ROA is going to be 4.5%. And similarly, in the case of LAP, they are commenting that they will continue to deliver 3.7% to 3.8%. And in the case of SBPL, again, they are delivering 7% plus PBT ROA.

In the case of SME, as we mentioned that since the term loan book, which is actually, again, with the mortgage of the property of the customer, which takes time because here, the entire book is SARFAESI. But it is a corporate customer where the SARFAESI takes a little bit more time because the customer contests for a longer period.

And that is the reason SARFAESI cycle in the SME, it takes 1.5 years. And we are seeing that some results have started coming in the month of December, which is going to continue in quarter 4. And quarter 4 onwards, you will see with a better result in the SME in terms of the Stage 3 reduction and NCL reduction.

Nischint Chawathe:

Our next question comes from Sonal Gandhi of AMSEC.

Sonal Gandhi

So my question was more on the PBT ROTA. So, for a long time, we've been guiding that we'll be closer to 3.5%. Obviously, we understand this issue with credit cost. But going ahead, maybe when we are also talking about consumer durable business, okay? So that's a high infra-heavy business, probably ROAs would not come until you reach a scale?

So how do you see opex and how do you see PBT ROTA for CSEL and overall business, say, for FY '27 and FY '28? And second one was on the impact of new labour code. So, are we done with the entire -- have we taken the entire impact in this quarter? Or is there anything to meaning for the Q4?

Arulselvan:

Well, CSEL still is a very small percentage of the overall AUM, so around 7% of the overall AUM. And as we scale up, we will certainly make sure that it starts contributing at the same or a similar expectation levels of about 3% ROTA and progressively build thereon from there. So that should not be a change. The larger impact will be once we correct the Vehicle Finance

business and then the other businesses coming in, with their expected levels of ROTA. Those two will be the contributing factors to reach the 3.5% pretax ROTA.

And with regard to the labour code, yes, we have provided for the gratuity fully for all the past period based on the actuarial value, which is but that's been completely covered. The rest will be only on a month-on-month basis changing. So, there may be a slight difference in the salary cost as we do some corrections with regard to the page definition per se, but I don't see that as a big game-changer.

Nischint Chawathe:

We'll take the last question from the line of Abhijit from Motilal Oswal.

Abhijit:

Ravi, sir, just 2 questions. One is, I mean, if you look at this financial years, FY '25, '26, right? I would say, I mean, difficult years from March '24 to now. I mean, we've discussed in the past, right, that infrastructure spending has actually been very slow. I think I heard on the call earlier today that GST cuts, and we're seeing very good momentum in Q3, expecting that to continue into Q4?

But if you look at the asset quality, right, I mean, from March '24 to now, right, I mean just one direction, things have kept deteriorating. Do you think this is just to do, I mean, with the weak macro that we are seeing and for a significant improvement because, obviously, we are in Q4, we would look at a better Q4. But then we, again, head into the seasonally weaker first half of the next fiscal year?

So, I mean, what do you think we really need, right, as an industry, at Chola for things to substantially start improving from here in terms of asset quality? And the other thing is, in terms of noninterest income, are there any initiatives that we are taking to improve the fee income or the noninterest side of things, noninterest income side? Those two questions.

Ravindra Kundu:

Good morning, Abhijit. See, for the last 1.5 years, starting as you mentioned, 2024 immediately after the election or from the election year itself, that quarter itself, we started seeing that there is a problem in terms of vehicle finance, in terms of the NCLs are going up. And then it is couple with -- so in our business, we have 8 business lines.

Out of 8 business lines, we have only 2 business lines where the NCLs are high, one is Vehicle Finance, the CSEL. So, Vehicle Finance is entirely due to the macro. And CSEL is because of the partnership business has gone slightly higher. That is one reason. So, it is not related to macro, I'll say. It is because of the segment.

And also, in the case of CSEL traditional, which is unsecured, given the professional, personnel and the business loan, it is because of the type of process it is being adopted by the entire industry that at that point in time, the multiple fundings were happening for a customer. Number of loans being given to one customer where high, number of inquiries were high.

And that is the reason in that segment, the NCL went up, which is because the number of players suddenly went up and then the DSA, I think I can say the little advantage they have taken and

therefore, that segment got impacted. Otherwise, when that segment was done by a few, that problem was not there.

So, if you see CSEL and VF business where INR600 crores and INR300 crores put together INR900 crores NCL is coming in the quarter. I am expecting that, that number will start significantly going down because the capacity utilization in vehicle has improved significantly. And as you mentioned that Stage 2 is coming down, that means collection efficiency has improved. That is going to start showing up in the NCL also from the quarter 4.

Now coming to the future, the seasonality effect is going to be there. There has been 2 problems in vehicle, seasonality and cyclicity. So, I am expecting that the cyclicity problem is going to get resolved if the vehicle demand is continued to be there, from now onwards till next 3, 4 years, as we have seen that the cycles are actually 4 years up and 1 and 1.5 years down. So, Vehicle Finance has a good news if the cyclicity gets resolved.

Seasonality impact is going to be there. And that is the effort we need to put it on ground, which I think because during the cyclicity, we improved the collection, feet on the street, on ground more. Then after the cyclicity problems gets resolved, our collection efficiency improved significantly. So, Vehicle Finance is going to be better, significantly better from quarter 1. If the cyclicity program is not their, seasonality is there.

Now coming to the CSEL, as I mentioned, the indication is that the numbers are looking better because the partnership book has already come down from INR3,000 crores to INR600 crores. So, the partnership book NCL is completely getting eliminated from the next financial year. And traditional CSEL business, their NCL has also started coming down. So, both put together, there, NCL will look better as we mentioned that they can go down as low as 5%. So, both the sides, we are benefited in time to come.

Abhijit: And the last thing on the noninterest income side, are we taking any initiatives there to improve?

Ravindra Kundu: **Non** interest as such in our business is not much the fee income, what we do it, by doing the protecting the asset and the life of the customer. What we do in insurance is with the income is coming and then other income is coming from the additional finance charges and all in fee collected. So, what is going to happen in the time, when the collection improves -- I mean, this is very specific to Vehicle Finance.

Whenever collection improves, the other income goes up. And that is the reason the fee income or other income, whatever you say that it's going to go up in the quarter 4. And if that continued, as I mentioned, if the cyclicity is improved in quarter 1 onwards, and their collection is improving, stage 3 is coming down. During that period, for start period, for at least 1 year, you will see that the overall income will be high.

Nischint Chawathe: Thank you very much. This concludes the call. Thank you, participants for joining us today, and thanks a lot to the management for giving us an opportunity to host the call.

Ravindra Kundu: Thank you. Nischint.