"Shriram City Union Finance Limited Q3FY14 Earnings Conference Call"

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MANAGEMENT: **MRS. SUBHASRI SRIRAM – EXECUTIVE DIRECTOR, SHRIRAM CITY UNION FINANCE LIMITED.**

Moderator: Ladies and gentlemen good day and welcome to the Shriram City Union Finance Q2FY15 Results Conference Call hosted by JM Financial. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Uberoi from JM Financial. Please go ahead.

Karan Uberoi: Thank you. Good evening everybody and welcome to Shriram City Union's earnings call to discuss the second quarter FY15 results. To discuss the results, we have on the call Mrs. Subhasri Sriram who is the Executive Director and CFO. May I request Mrs. Subhasri Sriram to take us through the financial highlights? Subsequent to which, we can open the floor for Q&A session. Over to you ma'am.

Subhasri Shriram: Thank you Karan and welcome you all. We are only grateful for all of you to join us for this call. We are at the half way mark for 2014-15. On a standalone basis Shriram City for the quarter ended September recorded an income from operations about 848 crores, a growth of 8.1% compared to quarter ended September 2013.

Net interest income recorded a 15% growth on a year-on-year basis and is at 510 crores for the quarter ended September 2014. Profit after tax for the quarter was at 138 crores as against 127 crores same period previous year a recording at 8.34% growth on a year-on-year basis. During the quarter ended September 2014, AUM recorded a growth of 3.51% over the quarter ended June 2014 and on a year-on-year basis AUM recorded a 2.9% growth. Non-gold portfolio in the same period has grown at 8.3%.

Small enterprise finance continues to be the focus segment and 52% of the share of the small enterprise finance of the total AUM. This segment has recorded a 9% growth in AUM as compared to September 2013. Two wheeler portfolio constitutes 18% of total AUM and this segment has grown 22% on a year-on-year basis. Gold loans are at 18% of total AUM, though it shows a degrowth of 16% on a year-on-year basis as compared to June 2014 performance, this segment has grown by 19%. Auto loans and personal loans constitute 9% and 3% of the total AUM and loan disbursed during Q2 FY15 were at 4,155 crores, a growth of 17% as compared to disbursements of same period FY14. On a Q-on-Q basis, disbursals recorded an 8% increase. Yield on assets for the quarter was at 22.19% and it's slightly lower than the previous quarter which is at 22.8%. Net interest margin is at 13.34%, it is again slightly marginally lower than June 2014 which was at 13.47%.

Operating expenses and personal expenses increased by 6.29% over the last quarter, this is mainly on account of increase in our personal expenses. Gross NPA levels have stabilized; currently there is a 2.8% level and the same in the last three quarters. In absolute terms, gross NPA is at 415 crores and there has been increase of 17 crores in non-gold portfolio and 12 crores in the gold loan portfolio. Coverage ratio remains robust at 80% and 88% excluding the gold

loan portfolio; the gold loan portfolio right now is covered at 48% compared with reference to our gross NPA. During the quarter, writes offs have been at 76 crores, marginally lower than the previous quarter which was at 81 crores June 2014. Capital adequacy continues to grow, increase. We have more profit accruals when the balance sheet grows which is now at 30.44% with Tier-I constituting more than 25%.

What is satisfying is return on assets, it continues to be growing and today it is at 3.24%. During this quarter, as of similar June quarter we have not done any fresh securitization and off book balance sheet contribution will come down and is right now at 7.54% of total AUM.

With reference to our subsidiary company Shriram Housing, Assets under management as of September 2014 was at 485 crores, a growth of 27% on a quarter-on-quarter basis and reported a profit of 4.5 crores. The company currently operates at 55 locations and during the quarter Shriram Housing received a credit rating, AA from India Ratings and AA from CARE ratings.

And we are happy to answer your questions. Over to you Karan.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Karthik Chellappa from Buena Vista Funds. Please go ahead.

Karthik Chellappa: Good evening madam, I have three questions. Firstly on our non-gold AUM, can you give us some color on what kind of growth are you likely to see in the near term given the macro challenges that we have had in the south. And related to that, the dispatches from the two wheeler companies seem to suggest a good festive season but surprisingly on a quarter-on-quarter basis we have not seen that much of growth in the AUM on two wheelers. That's my first question.

Secondly, when it comes to our NPL especially on the gold loan portfolio that seems to be fairly sticky at about 3% for the second quarter right now, how do you see the asset quality of that portfolio going forward especially given that gold prices have come off this quarter a little bit. And lastly, could you give us some color on the decision behind Mr. Sundararajan to step down as the Managing Director and going forward will we just have only one Managing Director or will we have a replacement for Mr. Sundararajan? Thank you very much.

Subhasri Shriram: Answering your question on SME portfolio and the macroeconomic conditions, I think we are as far as seeing the traction. I think it is growing steadily. As I have been saying in the past that I don't think, maybe the stock market when the macroeconomics is slightly more aggressive and more bullish then what is at the ground level but definitely it is a cheer right now, people are looking forward to growth and I think we have done away from peer and worries about future, it is a question of how fast and how soon we can move on. I think that is a certain right now, all over the country and I don't think south is any exception today, I think the challenges in south are behind us, fortunately whatever is being concern in terms of the loan waivers and others are

now so much of relevance to Shriram. I don't think we have largely targeted the rural and agri customers, it is more in semi-urban, not the farmers specific and that's what it is not too much of a concern. And it think we see a good, with thanks to two states now in Andhra Pradesh and one of them is in the growth mode and more than the growth the construction mode, I think we see a lot of business opportunity for us in southern state.

With reference to two wheeler, I think the festival season is largely in the month of October and November, October specific; September was not so much of a festival season. I think all the two wheeler manufactures and all of us are very thrilled about our Dhanteras and Diwali business. I think you should be seeing that in the December quarter. And traditionally second quarter has actually been a bit of a null and this is not very different. And then there is some amount of push by any manufacturer with new model and make, typically second quarter is not a very active market for the two wheeler.

The second question with reference to gold, I think stickiness is going to be there, we are saying that the customers are coming but we continue to maintain the philosophy that we will not be auctioning in a hurry and the customers continue to exist and the coverage is still valid in the gold ornaments which we have. I don't think we are in the property auctioning and neither are we concerned about the losses but technical provisioning continue to be there. And we will continue to monitor it and I think we are pretty confident that there will not be any major hiccup in the gold loan segment.

The third point with reference to Mr. G.S. Sundararajan, I am happy you raised this question, I would be glad to clarify in this forum that Mr. Sundararajan stepping down as a Managing Director was clearly a technical issue, there is no specific reference to his view or with reference to any company specific. This is more due to the compliance to the Companies Act 2013 where we had to comply with a stipulation on key managerial personnel definition and Mr. G.S. Sundararajan being a whole time director in Shriram Capital, there was an option of only being an KMP1 company and considering a few developments which we are looking at and opportunities we are looking at Shriram Capital, it was felt by the group that his continuing as whole time director in Shriram Capital was required at this point of time. And that necessitate is for him from stepping down from the Managing Director position in Shiriam City and Finance but I can assure and it is assurance from Mr. Sundararajan that he continues to hold all responsibilities, continues to be actively involved in the business and he will be more than happy to meet all the investors and he will be travelling and meeting investors as usual and nothing changes at the company level.

Moderator: Thank you Mr. Chellappa. Our next question is from the line of Digant Hariya from Antique Stock Broking. Please go ahead.

Digant Hariya: This quarter there is strong growth in the gold loan, so is it largely from new customer acquisitions or what are the trends we are seeing at our branches?

Subhasri Shriram: One, I should say that strong is a very relative number because it was very weak in the past, just looking at better than what we were in the past. So I have been for several we have been talking about being very interested in doing gold loan but we are not looking like what we say we are not executing it because we were interested but business is not happening. So it is probably just that it has finally fallen into place but business interest and business execution has we married both. And in terms of the quality of the business which is coming incrementally, I would say two things, one is a smaller portion of incremental new customers but I would say larger is the repeat customers who are waiting in the bench, waiting for markets to see what the gold rates are who are now going back to gold loan. I think we will see more such segment customers coming back who have redeemed in the past, looking at various opportunities and will come back to gold loan as another option of raising short-term funding for themselves.

Digant Hariya: Right. And on the SME front, so do we still maintain the full year guidance of say more than 20% growth?

Subhasri Shriram: Yes, see I would definitely say we should be at least close to 20, I don't think we will be falling way back a way short of that.

Digant Hariya: So third quarter and the fourth quarter should be quite strong, right?

Subhasri Shriram: Correct. And I think the growth has been in terms of disbursement definitely it will be a good quarter for next two quarters for us.

Digant Hariya: Right. And on the two wheeler front, what part of our portfolio would be coming from South India because I believe in South India the maximum sales happen during Onam rather than Diwali, is that understanding correct in the first place?

Subhasri Shriram: Yes, Tamil Nadu does not react to Diwali at all and Dhanteras is not a Tamil Nadu phenomenon. Yes, North India is not, West-Central India is and these are market for us which I would say a small step and a giant leap for us because the market has been South India specific. So these growth numbers actually show up very well in our performance. And south is, not Onam, Onam is just only Kerala and not Tamil Nadu and Andhra but we do react to Diwali, we do react to Pongal; so there are enough festival seasons during the year for South India, now Onam is only in state of Kerala which is August.

Digant Hariya: Okay, alright. So the South India portfolio of within our two wheeler would be more than 50%?

Subhasri Shriram: No, actually our two wheeler portfolio is very evenly spread between north, central, south. So Andhra and Tamil Nadu I spilt that it is two and west is one region and north is one region, so four. Instead of eastern region we are very evenly distributed. So with your terminology it is like 15% south, 50% north and west and the big growth came in the north and west during the Diwali season. So I think is a significant number for the company as a whole.

Digant Hariya: Alright. And then last question on this, in the two wheeler front are we seeing any excess competition from say TVS, the captive financing arms of TVS or Hero because I believe they have started launching their own captive financing arms in Southern India?

Subhasri Shriram: TVS has always been there, TVS finance has been an old thing along with Bajaj and Hero and Honda is the new entry into the capital financing and I don't think there is any much of concern because actually our point of competition is HDFC Bank and Indusland Bank, it is never with TVS and Bajaj. Their market is very TVS parse itself not a very large player, the Hero and Honda is larger player and so is the case of Bajaj and there are enough opportunity for all of us to play and I don't see the captive finance a bigger threat for the other financials. And if at all we have to look at as a competition it is HDFC Bank and Indusland Bank. We as far have higher market share compared with Bajaj and TVS.

Moderator: Thank you. Our next question is from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

Kashyap Jhaveri: My question is on non-gold NPLs, the number which was about 1.7% of the overall AUM is now up to about 3%. Now within this which is the key driver or which is the largest NPL amongst this?

Subhasri Shriram: Amongst this is I would compare this between, barring SME everything is about 4%, the enterprise loan is about 1.8%.

Kashyap Jhaveri: And that would be about 1.5% in the same quarter last year?

Subhasri Shriram: Yes.

Kashyap Jhaveri: SME one?

Subhasri Shriram: See, SME June 2014 was 1.69% so it is about…

Kashyap Jhaveri: No, I am saying September 2013.

Subhasri Shriram: September 2013 was at 1.5%, you are right.

Kashyap Jhaveri: So 1.5% became 1.64% in the previous quarter and?

Subhasri Shriram: And 1.79% in this quarter.

Kashyap Jhaveri: So that has been pretty stable, actually I mean…

Subhasri Shriram: It is, yes.

Kashyap Jhaveri: So let's say within the others, the largest portfolio is actually two wheelers so in that portfolio would the largest NPLs would have occurred in that portfolio?

Subhasri Shriram: All of them look alike; they are all at around 4% across. All four products, I mean other than SME, two wheeler, auto, PL; all other of them are around 4%.

Kashyap Jhaveri: Around 4%. And you mentioned that you are still confident about doing 20% growth in the SME AUMs, now that would imply that in the H2 over H1 we have to grow something like about 11% to 12%, so what makes you so confident, is there a pipeline which is already there or is this the environment?

Subhasri Shriram: Kashyap, we always say that lot of efforts, lot of preparatory work goes on couple of quarters back, we don't do advances today and it is not as if it is done overnight. A lot of work has gone in the past, it might be off my maybe a couple of months, but the work is roughly happening and that has been happening in the past and that should show up as result. The new initiatives, the new arrangements, adding people at the ground, training people, introducing product; multiple activities happen and they continue to happen. And I always say the result takes a couple of quarters, it is not a fast food joint.

Kashyap Jhaveri: Right. And would this sequential increase of almost about 22 to 25 crores in employee expenses be related to that?

Subhasri Shriram: Yes, largely but I would say several things have factor not just instance the only one, we definitely have added people on the ground. It is also a question of timing because I think this time Diwali was in October so much of the expenses for the employee related expenses related to Diwali, bonus, ex-gratia and everything has been **20.04** before 30th September which indicates of last previous year it was largely November, early November. It should have come in October billing and rather than September billing. So some small, I would not say very significant but there are some small differences like for example the provident fund guidelines from 6,500 to 15,000. Some amount of additional expenses have happened but there is no justification to the increase in employee cost but this is one of the many things which has happened. In fact the important cost is on account of adding more people on the ground.

Kashyap Jhaveri: Right. And eventually when this SME growth bounces back, what is the cost income ratio that you are looking at let's say second half of let's say FY16?

Subhasri Shriram: I don't think that at any point in time we will go below 30.

Kashyap Jhaveri: It is about 37.5 right now so I mean 30 would still be…

Subhasri Shriram: See, it is already around 32-33, that is the number, I don't think we will go below 30 any point of time.

Kashyap Jhaveri: But that's like next year, 32 looks to be next year?

Subhasri Shriram: Yes, next year we should reach that, but we will stay at that level. The growth volume scale will not bring in any further reduction because we will be continuing to be increasing manpower, it is largely man power intensive business. We I fell plan to grow we need to have people on ground, see we strongly believe make the business and not necessarily technology.

Kashyap Jhaveri: But 34 next year or 33 next year looks to be likely, at least 33 if not below that?

Subhasri Shriram: Yes, it looks very reasonable but my only concern, I am little bit of holding back my answer to you is, by the time 33 and if the market is still bullish I would again invest in more people for next year, year after. 33 is only, if I reach close below 30 it means that we are very concerned about future but this means we are not investing in people.

Moderator: Thank you. Our next question is from the line of Shantanu Chakravarty from ICICI Securities. Please go ahead.

Shantanu Chakravarty: Just a couple of questions. One has to do with the repayment run rate on your loan book which it got discussed in the earlier calls that it has risen a little bit, there has been some relief in the quarter. So if you could throw some light in terms of how that put ins with respect to what kind of durations you are now willing to do across your asset book? And the second question pertains to your auto financing business that has been weak for three quarters straight not, what is the outlook on that going forward or is there a specific granularity out there that we are missing?

Subhasri Shriram: One is on the repayment fraction of SME, I think I have clarified some three four quarters back when we definitely did not see Narendra Modi as our Prime Minister and we were still concerned about the government and the economic outlook. In 2013-2014, we had taken a little bit of, I won't call conservative maybe it is little pessimistic view, and actually cut down our tenure of the loans and the loan amounts. And we were a little worried about taking risk in that segment in a big way. So that had sort of led to the disbursements not leading to growth in yield. Even in June quarter we had explained this, that even from June quarter itself we have already increased our tenure and the loan amounts are gradually increasing, we had capped the loan amount and reduced it's per ticket exposure which we have again sort of are relaxing I would say, we are not completely relaxed but we are empowering people with higher limits. And as a consequence of increasing the loan amount the tenure needs to increase to keep and ensure the pressure on EMI is not for the borrower, which is showing up now. So we will see that is probably one reason why I am still confident about the growth in the business because we are getting back to the product which we think the customers deserve and customers will be happy to take that. But we had earlier strictly a risk averse product and which probably the customer is not very enthusiastic to look at.

And the other question on auto loan, third quarter fourth quarter you will probably see a little more reduction in that segment, we are not definitely planning anything at this point of time to grow that segment. We are still watching it, we will let the leaders lead us from the front and then we will follow that segment on the auto loans, we are no hurry to set any trends in that

market. We have continued to watch the segment, we are a little concerned about the market condition, largely not because know much about it, we are waiting for leaders to set that path for us, obviously we have within the group one and then we will take such products to the next level.

Moderator: Thank you. Our next question is from the line of Jyoti Kumar from Spark Capital. Please go ahead.

Jyoti Kumar: Just a couple of questions, first on SME loans. What would be the proportion of non-chit customers in our loan book now, in SME book alone?

Subhasri Shriram: I think this was sometime earlier also asked in previous call, I think we have come out of this whole concept about chit customers, we are trying to get into not the chit customers is only one of the options available, we are looking at chit references and chit localities rather than chit customer per se. Chit customer, it is a finite population, we are not looking at business to grow from a finite number, that will limit our growth in the long-run. But answering your question, probably today in the southern state business of Andhra and Tamil Nadu, the ex-chit customers not current chit customers; customers who have had a chit account of chit transaction in the past should probably be close to 70% to 80%. And then currently they are chit fund customers, we are not encouraging our customer to have an account both on chit and Shriram City at this point of time.

Jyoti Kumar: Both asset and liability, okay.

Subhasri Shriram: No, they are not, it is a bit of a conflict in terms of saving and repaying the loans. So we are going out of that and trying to tell the customer to move into the stocks with additional security rather than continue to be invest savings in the chit.

Jyoti Kumar: Okay. So rather 20% of your customers will be outside what has…

Subhasri Shriram: No, who have never had probably a Shriram Chit account but this we are talking about Andhra Pradesh and Tamil Nadu where they have come through references through state branch managers or chit customers, a chit agent and maybe about 5% coming from purely market references.

Jyoti Kumar: Okay. And on incremental disbursement basis how does that number look like?

Subhasri Shriram: It will shift to more from references and the chit customer in maybe another four to five years from, a chit customer having a chit fund account earlier than coming to Shriram will probably get reduced to 20%. So this should go completely in next five years' time. Gradually, quarter-on-quarter there will be incremental customers coming not necessarily having a chit track record through the same branch network.

Moderator: Thank you. Our next question is from the line of Nishchint Chawathe of Kotak Securities. Please go ahead.

Nishchint Chawathe: Just wanted to check, when you said that you have kind of resuming the old business loan product, in terms of the rate of interest on this product has there been any change or are you able to charge a (+20%) kind of income?

Subhasri Shriram: Absolutely, no change in any of this, we have not revisited at all. Some amount of rate reduction in some pockets we gave for gold loans and getting reversed. We will push the rates up again during this quarter. Again, that was not across all branches, just to get some branches back into the business mode we had reduced it but that is again coming back. But answering your question on business loans, no rate reduction, no way. We are confident that at these rates we should be able to get business to our requirement. I mean if you want to double triple, yes, the rate reduction is required. If I am only looking at 20% growth I think rate reduction is not required.

Nishchint Chawathe: Okay. And on the funding side, are we able to kind of get any benefit at all on the borrowing side because of the interest rates coming down? Have you seen any reduction in margins borrowing cost during the quarter?

Subhasri Shriram: Interest rate reduction I don't know why banks reduce rates but I don't think no bank is acknowledging the fact that it's cost of funds have trimmed down, everybody is still worried about his high cost and everything. The demand supply and the quality of loans available for them I think is largely is a driver for banks reducing the lending rate. Banks, I don't think their cost of funds have not come down, a couple of banks have reduced the deposit rates but it's too small and too incremental business to be able to cult across and anyway I don't think any bank has actually reduced their base rate, so obviously it is only reducing the spreads on the base rate and there was not much to reduce in our case, anyway we were not borrowing more than 50 basis points above base rate. So that is maybe reduced in couple of banks at 40 basis points and 30 basis points, that's it.

Nishchint Chawathe: Let me just put the question a little differently, if I look at all other NBFCs, in fact most NBFCs that have declared results till now, the share of bank borrowings and the total borrowings have actually gone down and market borrowings have gone up. In your case the share of bank borrowings has increased marginally, that has been kind of almost stable in that range. So I was just wondering whether you are approaching bond markets more actively now or is it something that you would say that it is incrementally not making a difference. So you might want to wait before really approaching, I mean I am not talking about banks changing rate of interest but I am saying more in terms of you approaching bond markets or raising more funds from the bond markets.

Subhasri Shriram: I definitely that Shriram City going forward will be approaching the bond market more actively and we should be able to get access to it. I think we are just waiting for that critical credit rating number of AA+ which came through this quarter for us. And that was very important milestone for us to go and access the market at a very competitive pricing. I mean rating lower than that was not significantly different from the bank loan rates. Now that we have achieved that number of AA+ and AA rating, I think we will definitely go in coming quarters, coming periods we will

be accessing the bond market quite actively. And I have already started that, we have done our bit of meeting the funds and others and we hope we should get some traction. But I think the challenge is to keep my bankers who are very happy with us to continue to support without giving us more fund.

Nishchint Chawathe: Okay. And on the securitization side, you have said you have not done any deals this quarter and I guess that is the scenario across the board, are you getting a sense that the securitization markets would be much weaker this year as compared to the previous year?

Subhasri Shriram: Totally agree with you, it is going to be touch on several accounts, I think the guidelines changes, the segment at which it is being operated right now and the bank themselves not going so significantly over the last previous years, I think the securitization has been a bit tough for almost all players. And if you are able to do a lot of agri business, I think there is a lot of demand, for non-agri there is bit of a sluggish market right now but I think we will keep our fingers cross for the fourth quarter for us to start feeling the need for non-agri but PSL asset.

Nishchint Chawathe: And if I understand rightly, last year you've sold some assets which are non-PSL.

Subhasri Shriram: No, we did all PSL. We did negotiate but we never did a non-PSL asset. Non-PSL there are buyers, it is just question of pricing the structure. Unless you require capital adequacy you don't require to do a non-PSL asset securitization.

Nishchint Chawathe: Okay. And finally a very-very clichéd questions, what would be the impact or how would one look at the movement to 120 or 90 day NPL recognition norm?

Subhasri Shriram: This is like saying we repeat it, it might become true, so we are trying to not to say that and not use those words. So yes, my 90 could actually be double right now.

Nishchint Chawathe: Okay. And in terms of the provisioning side, how would be I mean kind of…

Subhasri Shriram: See, I have 80% coverage and I have to see on a case-to-case basis where it is available and where additional provisioning is required but I could firstly say that the coverage ratio can drop to about 40% from the 80% and that's probably absorbed some of the impact of the incremental requirement on account of shift from 180 to 90.

Moderator: Thank you. Our next question is from the line of Kunal Mehra from Visium. Please go ahead.

Kunal Mehra: It is a qualitative question, I want to pick up on the point where you addressed the need to grow beyond the ex-chit fund customers and you referred to chit from cities and chit fund areas, would love to get your thoughts on how you expect to realize that growth while managing the quality the way you used to? And second, how do you address the competition because these areas there are a lot of other banks that are also opening branches more into rural areas are talking about addressing?

Subhasri Shriram: Yes, I think this is where we were talking about work which goes around for few quarters before than I can say that the business will grow. So when we are talking about that we are also accessing non-fund chit customers and it is not as if the decision was taking this quarter and overnight and we are now doing, this has been a work-in-progress for last several years and gradually we piloted at several locations, we have studied the product, we develop the man power, that's where the man power movement happens, training happens and then we bring them to this level. So I don't think when we say what we are doing it, this is not I guess a decided discussion in the last board meeting, much of the work has happened and has been happening around for several years, I mean two to three years before we move in, it is starting with moving people, training people, starting in few locations. So we are very confident that what we are now planning and what we are now starting to executing in acquiring customers not necessarily with chit track record is not going to put any strain on asset quality and we have no such worries at this point of time. But the point about competition, I think this space is open for another 10 companies like Shriram to operate and still we all of us are space to work with and it is not as if we have step on each other's feet. The market is completely at Greenfield, it is a virgin market. There are no such very active players. Even the current players who sort of use the word SME are actually targeting the 1 crore, 50 lakhs, 5 crores loan segment. I don't think we are yet to see a competition of any relevance size who is looking at 10 lakhs, 20 lakhs customers in the semi-urban market which is a business segment oriented. There may be the closest competition is the LAP component obviously they have their own restrictions, limitations, the segment is not probably entirely fitting into it. Yes, if at all we see some players they come through the LAP route rather than the SME route and this is a very limiting numbers.

Kunal Mehra: And just two follow-up ma'am on the LAP part briefly, are you seeing, I would not call it heightened competition but just a presence fit, is it resulting in either a price-led competition or slight lowering of standards of credit assessment. And the reason I ask is, every time we have some of the large players come in with what is a buzz word or a high growth category into new geography, we see them go a little more aggressively than they should other that than the business warrants which results in some collateral impact and I was just wondering are you seeing some early signs of that?

Subhasri Shriram: It is a constant phenomenon. It does not happen once in a while, it happens in pockets, sometimes it is seen in many locations, sometimes seen sporadically in one or two locations but in my 20 years of experience we will see it on an ongoing basis. Yes, I agree that LAP is today the fashion statement what gold loan used to be couple of years back, I think housing finance and LAP is something which every NBFC should be doing, it is now becoming an order of today and therefore there will be some amount of stress and strain in the system both in terms of credit quality assessment, pricing but I think the market is large for all of you. I think there is room for everybody to play here and it is up to you to dilute your credit quality and get into grow your business or you can stick to your policy and still grow the business. The market is large for all of us. It is a question of how confident and hungry you are for growth which can determine the quality. I think in our case I think we are very reasonably certain that we have the model, we have the people who can deliver not the

lending business but also manage the post-lending activity of recovery and I don't think we are untowardly worried about this segment growing slightly faster pace than it ought to grow, but I think it will settle down in a couple of quarters. So we are not getting worried about it, it has happened in gold loan, it happened in two wheeler loan in the past and I think we are seeing one more cycle here.

Moderator: Thank you. Our next question is from the line of Karthik Chellappa from Buena Vista Funds. Please go ahead.

Karthik Chellappa: Madam, on the 90 day NPL thing, does it change anything on the ground for us because it may not change our ultimate credit loss. And secondly, some NBFCs seem to be hinting that even if the 90 day comes through it will happen over a staggered phase allowing our current loan book to run down, do you see that as like a good compromise? And secondly, a housekeeping question, the other income in the second quarter jumped significantly year-on-year and quarter-on-quarter, could you give us some color what drove that growth?

Subhasri Shriram: One is on the 90 day ground, as I said repeatedly business happens on best effort basis, I don't think we drive our business because Reserve Bank has 90 day a good day and 180 as bad day, so I don't think that works at the ground and we are now trying to educate our people how to manage the book from 90 day or 180 day norm, I think this effort is more important rather than watching the clock. The second one is, the ground reality is all of us are hopeful of three year period I think we are all naturally optimist, we only talk good things, we only wish good things and therefore we are hopeful that three year time will be given and hopefully that will materialize. And it think maybe the silver lining here is the Usha Thorat Committee also talked about it but we don't know how much of those can be used and therefore this statement is going to be continued to forward is something is a question mark.

Karthik Chellappa: No, my second question was on the other income growth which grew sharply both year-on-year and quarter-on-quarter.

Subhasri Shriram: See, growth was purely thanks to Mr. Ajay Piramal the equity money came in mid-June and therefore there was a bit of an investment, surplus funds was invested during the second quarter. So we did absorb the entire, we didn't have any debt to repay or any liability to pay off so the capital which came in, 780 crores which came in first week of June, the full impact of the income was felt in this second quarter in the investment income, etc., in the surplus cash which we had which is now near zero, as on 30th September it has been fully absorbed in business and no surprise investments other than the long-term investments nothing….

Moderator: Thank you. We have a next question from the line of Preeti R.S of UTI Mutual Fund. Please go ahead.

Preeti R.S: I had one question on the provisions front, so if we see last to couple of years it has been in the range of 300 crores, we had written-off around 300 crores. I just wanted to understand how will

be the trend going forward for the next two to three years and if you could just give like some color on…

Subhasri Shriram: Going with the trends with the current guidelines on the current assets portfolio in the company, I think as I said we have come to a little of stability at the gross NPLs and therefore we will probably see a very similar numbers in our provision write-off. I don't see any significant increase or change in that number. There has been some marginal reduction in this quarter. I don't want a second year that would be continuing, this is the way it will continue for couple of more quarters. Give me time for one more quarter, I think we will have more direction on that. But definitely whether the reduction will happen or not we will see one quarter from now, but increase or a bit of a reduction in asset quality is not a concern right now.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Karan Uberoi from JM Financial for closing comments. Please go ahead.

Karan Uberoi: On behalf of JM Financial, I would like to thank Mrs. Subhasri Sriram of Shriram City Union Finance and all the participants for joining us for the call today. Thank and good bye.

Moderator: Thank you very much. On behalf of JM Financial that concludes this conference. Thank you for joining us and you may now disconnect your lines.