



“Shriram City Union Finance Limited Q3FY14
Earnings Conference Call”

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MODERATOR: **MR. KARAN UBEROI – ANALYST, JM FINANCIAL**



Moderator: Ladies and gentlemen good day and welcome to the 3QFY14 earnings conference call of Shriram City Union Finance Limited 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. Thank you and over to you sir.

Karan Uberoi: Thank you. Good morning everybody and welcome to Shriram City Union's earnings call to discuss the third quarter results. To discuss the results, we have on the call Mr. G. S. Sundararajan who is the Managing Director and Mrs. Subhasri Sriram who is the Executive Director. May I request Mr. Sundararajan to take us through the financial highlights. Subsequent to which, we can open the floor for Q&A session. Over to you sir.

G. S. Sundararajan: Good morning to all of you. What I will do before I hand over to Subhasri for discussing the details of the financials, I will give you an overview of what business we are in and some of the environmental factors which are adversely affecting or favorably affecting. I am sure all of you know that the economy is still going through what is going through specifically in the segments of the micro and small businesses which we are dealing with as well as in the auto two-wheeler segments which also we are dealing with. Gold has been more or less stagnant for most of the industry people and some of them are going down because of funding availability and all that. Some of the things which are really regulatory which have worked which are seemingly trending in our favor. It has been Nachiket Mor Committee which has made his recommendations. I am not sure if I shared with you last time or Subhasri shared with you. We have been working very closely with the Finance Ministry and RBI even before the committee specifically on the Usha Thorat guidelines and more broadly on what all we expect RBI to do in terms of facilitating NBFCs like us to actually grow their businesses and therefore contribute more to financial inclusion. In Nachiket Mor Committee, we have been involved with almost most of the decisions as they have been taken they have been recommended to go through the associations as well as through the group company themselves and we have also had individual conversations with some of the committee members as well as the Chairman, Nachiket Mor. You will know that some of the recommendations which are there are going to be very beneficial to us if RBI decides to recommend them speedily.

Specifically one of them is the securitization measure where its 8% cap was removed, we will have a lot more fund availability which is there and for a company like us which is in a way beating the market in terms of having a full capability to grow in the MSME segment, and this will be a big positive for us. We also as we know we have a deposit license and because of the fact that the retail debenture route more or less cutoff about 4 months back. We have switched over to customer deposits as one more source of funding and also because we have a huge customer base, there again the SLR removal recommendation is going to be a big benefit for us and as you go through the Nachiket Mor Committee, you will find that there are several measures which are going to benefit the NBFC sector and I am not sure if some of you has gone

through them, one of the most important things of the Nachiket Mor Committee also is to not to look at provisioning norms based on whether it is an NBFC or a bank, but to look at it more from a customer segment point of view which is one important point which has always been recommending and while there have been some players who have switched over to 90 days, 120 days or 150 days, all of us were clear that in some of these segments where we are operating, the tolerance level need to be much more in terms of provisioning and that exactly is what the committee is defined as looking at risk profile before finalizing provision. Hopefully, there will be some more discussion with RBI on how we define this customer profile and how we are going to go about looking at each of the segments definitely, but it is definitely a positive which is there as against the Usha Thorat Committee hanging over us for the last 2-2.5 years and I think what has also happened overall is that regulatory if you look at Vijaya Bhaskar's, who is the Executive Director, speech in one of the ASSOCHAM and in ASSOCHAM he was so clear that NBFCs are no longer should not be regarded as shadow banking. NBFCs should be given lot more support because we are the only category of financial institution which can actually go ahead and do the last mile delivery and financial inclusion.

So overall I think there is a lot of positive in the regulatory environment and given the new management and leadership at RBI, we do hope that this will all translate into some amount of reality for companies like us specifically. I do not think this is going to benefit the entire NBFC sector, but people like Shriram Group of companies especially Shriram City Union Finance was doing a lot of work on the MSME sector, we should be getting a lot of benefit. With that preamble, I think I will hand it over to Subhasri for taking on the financial. Over to you.

Subhasri Sriram:

Good morning. I am sure all of you would have had the opportunity to see our results which was yesterday morning we had the board meeting and this Shriram City's income from operations is now about 796 crores and the net interest income about 480 crores. This is about 13% growth over December 12 figures. In terms of profit before tax, we have crossed 200 crores for the quarter; a 21% growth over the same period last year and the quarter-on-quarter, the growth is over 7%. There has been a small tax change in because of certain deferred tax liabilities. So profit after tax is about 129 crores and it is about 15% growth where the PBT is about 21% growth mainly on account of tax treatments.

Coming to the AUM, we had just been over 15,000 crores mark. The quarter witnessed a dip of 1% in the AUM over last quarter and a 9% dip over year-on-year, but it is interesting that we have also managed during this period a lot of change in the portfolio mix. Today it is largely the SME portfolio which is close to about 49% of the book is our MSME book. In the same period, the gold book has reduced by 54% vis-à-vis December 12 numbers and currently is around 2,762 crores. This is from an all-time high which we had witnessed in September and December last year 2012 and now it is 18% of the total AUM. Here I should say that we are probably looking to growing this portfolio in the near future as the market stabilizes and we are probably looking at about 20%-24% of our book and we will work at it. The key focus segment which is our small enterprise finance continues to be on target. We continued to have good traction in that segment.



It is now 49% total AUM vis-à-vis 36% in December 12 and this segment has seen a 24% growth on year-on-year basis.

The second most important product for us is the two-wheeler portfolio which has seen a record 37% growth year-on-year and currently 17% of an AUM. This in December 12 was at 11%. This could be also should be seen in the light of flattish growth in the two-wheeler sales business and in that light we have managed this growth and the credit goes to our newer branches, newer segments which we have operated in the North and Western Central India where we have been able to get more business and while at the same time we have been consolidating our business in South especially Andhra Pradesh and Tamil Nadu.

So summing up, the AUM excluding loan against gold portfolio has seen a 3% quarter-on-quarter growth and 18% year-on-year growth. I think the fourth quarter should also be an interesting one and we should be able to achieve and maintain this. The disbursement for the quarter stood at 4,170 crores, a growth of 17% over the last quarter. The disbursement excluding loan against gold recorded a 24% growth on a quarter-on-quarter basis. Net interest margin in all of this, there is no compromise on our margins. The net interest margin continues to be at a 12% over and net spread pretax return an over 5% I think we reached all-time high of 5.37%. This is on light of our composition change of 49% AUM and 18% SME and 18% is gold.

During the quarter, the yield on assets at 21.19% and cost of borrowings, this is inclusive of mobilization cost where in case of Shriram, all costs incurred at the time of origination is booked upfront and there is no deferrals irrespective of tenure of the liability and now is at 11.74%. The NPA recognition remains to be at 150 days now for this quarter as on 31st December. The gross NPA as on December is 2.51% and net NPA at 0.67%. This for a comparison from September 13 was 2.46 and 0.65. It is **0.02%** increase in gross and 0.02% over in the net NPLs and the corresponding figure for December 12 was 1.57 and 0.47 and this is need to be seen in the light of 30% plus book of gold. So effective non-gold book has not seen any stress and it is to be grossed up. We continue to maintain our asset quality in the last one year period. In absolute terms, the gross NPA is about 332 crores as against the 320 crores for NPLs as on September 13. The coverage continued to be one of the best in the industry. We maintain 73% coverage and if this to be seen without gold is over 85%. So almost 85% of our stressed assets have been to either provided for or written off and we do not carry any impact asset on our books. We continue to provide for 150 days and we also have the management provisioning. While at the same time at the gold, we continue to maintain a 10% provisioning and we have a physical hold of the gold.

The write-off during the quarter was 83.39 crores as against 80 crores during the previous quarter ending December 12. During the quarter ended December 13, return on average net worth, we have seen a bit of a slump, 18.95% again may be not a very healthy one compared to our returns have always been over 20%. So this should be seen in light of our capital adequacy. It is now about 24.26% and Tier-I being at 18.64%. As a comparison in December 12, our capital



adequacy Tier-I and Tier-II together was around 16%. The earnings per share is about 21.78 as against 21.42 December 12 figure and book value 467.27 as against 386 December ,,12.

During this period, as you would have noticed that there has been a flat balance sheet for AUM. Our borrowings have not been very much needed. So most of the time we have worked at managing the cost or reducing the cost with the bank borrowings now stands at 50% of the total borrowing. We continue get lot of attention and lot of interest from retail customers within investors. Now it is about 31% of total borrowings and during this quarter, we also completed one public issue. This is in light to be seen that we also have a deposit license. So our private debentures are those where we have a deposit and the public issue route post the RBI's guidelines change and currently the average maturity of a liability is about 26 months and about 52% of our liability is on fixed interest rate. I think we are still yet to see an RBI change or direction move. Now every quarter we have been hoping for it. Hopefully 2014-15, we should be able to see some change and while in the next two quarters, we will work at reducing the fixed interest rate liability to more to floating because the company continues to enjoy confidence from the rating agencies. We continue to have AA rating from CARE and AA- from India ratings and CRISIL and we are the highest rating from all three rating agencies for the short-term instruments. During this period, we have not entered into any fresh securitization or assignment transaction and the portfolio under securitization or assignment of book is below 15% as on 31st December.

Coming to our subsidiary, Shriram Housing continues to its growth traction. We have sanctioned loans of 387 crores, disbursals of 284 crores. For this period for the quarter ending December, the profit before tax was 6.31 crores as against 2.81 crores as in September. So almost 2.5 times over the previous quarter. I probably not say that December 12 numbers are very relevant because it was just first year of business and profit after tax for December 13 is 5.8 crores as against 2.5 crores. The company continues to be fully funded out of this equity, yet to go to the market for borrowings and the current net worth is 340 crores and there has been no increase in branches during this quarter and the business is out of 46 branches. Thank you all.

Moderator: Thank you very much ma'am. Ladies and gentlemen we will now begin the question and answer session. First question is from the line of Kaitav Shah from Anand Rathi. Please go ahead.

Kaitav Shah: Should you think the gold loan is now stabilizing in weekend, actually see an improvement from here?

Subhasri Sriram: We definitely hope so because I think a) two things which are in positive sign. One is gold rate movement per se. I think that has more or less stabilized. Market rates for gold have not been too much volatility in the last almost two quarters. The second flip to this industry is current change in RBI guidelines in terms of FD. We will have to see what there has been lot of talk from the Finance Minister regarding the current limitations on gold imports and we will have to see the impact of that in the gold price. We are not sure how much of this will get booked up and I think at least currently even the rupee dollar conversion is in favor of the gold loan market with rupee



weakening. I think we are hoping to the next two quarters we should start seeing a good amount of increase in business.

Kaitav Shah: So keeping your gold loan portfolio in mind, overall how much AUM growth can we expect over 2-year horizon?

Subhasri Sriram: We have always been saying that the growth can always be seen without gold only because gold is a very, a) it is a shorter duration asset. Second is more like a commodity asset. So from a push or pull, it could be a challenge for us to get the customer walking into the branch to the business. I would say minus X gold, the growth should be at least over 20% if not more, but including gold we will have to see for some more quarters.

Kaitav Shah: Correct and in terms of geographies, so are we seeing some geographies or some stage doing better than others and because second quarter I remember Andhra Pradesh was clearly down and out. How is that doing and overall geography wise are we seeing some difference in asset quality?

Subhasri Sriram: Let me first clarify the Andhra last quarter. It was nothing to do with Shriram's Andhra. It was the state and the political situation there. So therefore we still continue to have the concern over us about what could be today if Kiran Reddy is in Delhi and he talking about, we do not know what could be the impact on Andhra tomorrow. So if the state missionary needs to work for us to work. So there have been few challenges in our lending business. So that has not much translated into our asset quality or collections. So therefore till such time the Andhra-Telangana issue is fully resolved, we are going to have some amount of disturbances there, but I hopefully do not be have a very long duration disturbance. It might be a couple of days and then we back again, but with reference to the other states, I think it is not that we do better than the existing state, but this is a new state with the business which is just ramping up. So in terms of percentages, they definitely look much better than the more established states, but for in rupee terms and quantum of number of customers which these new branches put together, probably all branches put together can never overtake any of my existing established branches. Like for example, Andhra Pradesh or Tamilnadu, we have more than 300 branches per state and rest of the India all put together about 300 branches and these two states are definitely large matured established branches. So we do see a lot of growth in percentage. We could probably see a 50% growth, 70% growth in some of the branches, some of the states, but to become significant in overall Shriram City's numbers, it might take a couple of more years.

Moderator: Thank you. Next question is from the line of Rohit Shimpi from SBI Mutual Fund. Please go ahead.

Rohit Shimpi: I had just two questions. First one is on margins. So now if you look at it as the loan book mix has changed over last few quarters, clearly margins have moved up. What trajectory do you expect for this going forward? Do you think the margins are peaked or there is still some room to improve on it?

Subhasri Sriram:

I do not think. The margin is as I would like to I keep reiterating again and again, I think the margin is just a reflection of multiple products. We have not changed our lending rates or cost of funds has not gone up any significant percentage in the last 1.5 years. We continued to be lending, maybe our gold loan book has slightly come off and that has become irrelevant now. The portfolio itself is reduced, but rest of the products, our lending rates have not changed it for any significant percentage anywhere and in the last 1-2 years, we have found more or less at the same rate. So the margin is more a reflection of asset mix and the cost of funds has also been quite steady. Barely again a change between retail liability and wholesale liability, some change in the margins, but in terms of segment wise, borrowing cost more or less has been stable in the last 2 years.

Rohit Shimpi:

Thanks and second question ma'am is just a broader on this on the overall consumer and commercial finance space. Sir if you look at it, you had a downturn now for over 2 years and it seemed initially that single legs actually of the story started falling. So earlier you had in commercial vehicles for example you had HCV falling and then more recently we are seeing even LCV sales declined whereas still mortgages and certain segments of SME seemed to be holding up quite well, I have seen in your numbers too. Would you exercise any caution at this stage on the products which are holding up well or you think that they should continue?

Subhasri Sriram:

I totally agree with you. This I think everything needs to be looked at and should be done very cautiously in calibrated fashion. Not that because something has happened and other segment is likely to happen here, but I think more in reference to the MSME customers, they are in the lower end of it and largely the costs have been supported on equity. Today the concern is if too much money chases these customers, then it is going to be a bit of good money chasing bad money. The alternative revenues of lending are not open out and money needs to flow whatever finds its own level, hope it does not find level with the MSME class. So it is probably not in a position to absorb too much credit in one go. It has to be spread over a period of time. So we need to be cautious. I would say we will not rush into it. We continue to may be 20%-25% and that is a very healthy number considering that there are not too many lenders there and we probably scratching the surface. The entire industry when you look at, gold loan industry can support 40,000 crores that MSME customers do not even have 10,000 crores money. When you are talking about consumption can take 40,000-50,000 crores only by a few NBFCs put together, I think there is a lot of room for the MSME to do 5-6 times more, but just that it has to spread out to more customers rather than money chasing few customers.

Moderator:

Thank you. Next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe:

Just one micro number. This is on what would be the NPLs excluding gold? I am not sure if you mentioned it at the beginning of the call.

Subhasri Sriram:

You want rupee terms or percentages?



- Nischint Chawathe:** Rupee terms.
- Subhasri Sriram:** 282 crores, gross NPLs.
- Nischint Chawathe:** Would my reading be right that the borrowing cost has declined a little bit on a quarter-on-quarter basis?
- Subhasri Sriram:** Yes, very small. We have actually been struggling for bankers to reduce the rates.
- Nischint Chawathe:** On the business loan side, just trying to figure out, it seems that repayment rate kind of increased during the quarter.
- Subhasri Sriram:** Yes, you are on dot. The MSME portfolio has seen while the disbursements have been pretty healthy, the AUMs have not grown or actually it is still more or less because some of the loans which we had done in last year that is December last year to now, the tenures have either been a shorter duration loans or there have been some foreclosures. This is something which I just indicated earlier about bit of money chasing customers today. So we have seen some closures which are okay. We are quite happy about.
- Nischint Chawathe:** If there is a foreclosure or something, do you get a foreclosure fee or something of that.
- Subhasri Sriram:** Yes and no, depending on the circumstances. If somebody who will surely take a loan for 2 years, 3 years and close it within 2 months, we definitely collect foreclosure, but somebody was taken a 2-year loan and foreclosing at end of one year, we do not collect any foreclosure charge because there is a very good chance that customer could come back again and this we have seen in the past because many of the customers have the chit behavior pattern which is whenever there is a price money, they would like to close it. Somewhere surplus, they would like to be getting free for a short while. They come back and we do not think we should burn the bridges for to cross it, I do not think if customer relationship that works well for it.
- Nischint Chawathe:** On the gold loan side, what would be the sense that you would have disbursements over the next couple of months from slightly more may be 1-2 quarter kind of guidance. Are these things picking up in Jan on a monthly basis and do you see that this monthly run rate picking up now on?
- Subhasri Shriram:** We have noticed our disbursements in loan basically have gone up well. Quarter-on-quarter, it has been going up for last 2 quarters, but what we are also seeing and very happy about it is quite a good of redemption in the portfolio because this is if actually redemption did not happen, we would have been more concerned because it could be very sticky. What is satisfying and encouraging is there is a quite a bit of redemption. So obviously our LTVs which we reduced in last 2012 are benefiting us. If you notice most of the competitors, portfolio peaked in March. In ours, the peak was September 12. It is almost 6 months before the rest of the market, we started



reducing it. So that is what has now being redeemed most of it is. So I hope that this is at like in a mutual fund, redemption pressure, hope this redemption settles down and I think from a lending point of view, we have no concerns, it is actually going up, but more in terms of redemption and I think it should find its own level and the next quarter onwards there will be disposal which continue to be healthy and the redemptions will be lower.

Nischint Chawathe: So the redemption seems to be like 1,500-1,700 crores every quarter and that seemed to be stable for last 2-3 quarters. It does not seem to be any change.

Subhasri Shriram: That is portfolio which got originates, so basically once this new last two quarters portfolio which originated, it should stay because typically the average duration which used to be 3 months in the past in 2012 early, till 2012 end. Over 2013, it moved to 5-6 months. So the average duration should now be about 5-6 months because there was a slump in our disbursements in the past. That will stop. Only last two quarters have the disbursements have picked up and that is staying in our balance sheet for longer period. We are seeing the impact of a lower disbursement tractions and very high disbursements one year ago. We will just overcome that cycle and I think we are done with it.

Nischint Chawathe: The duration seems to be like because the reason is duration seems to be less than 6 months. So in all possibilities, this could be an impact of maybe the first quarter or something of that sort?

Subhasri Shriram: Exactly, 5-6 months is the average duration now vis-à-vis less than 3 months is the fast.

Nischint Chawathe: On the two-wheeler portfolio, there seems to be kind of improvement on quarter-after-quarter. Any guidance that you would want to go there, what exactly, what is it that we can see there. I know it is not that large.

Subhasri Shriram: It is more than being large; it is the most interesting portfolio, very profitable for us, may be the best portfolio from a profitability point of view. It is what I have been saying in the past that when we open branches, when we establish markets, we probably do not breathe for long period of time, but to see that exponential growth, you need to wait for a time. Fortunately what effort we have put in 2009, 2010 and all of it when we opened branches, the North and Southern India, Western India, today we have good experience team in these branches and as I said earlier also that two-wheeler is the first portion of business is starting all these branches. So 2 wheelers is now going to be a much matured business even in these branches. So the branches are also to be getting a lot and lot of market share in two-wheeler business. Especially I should say that the credit should go to Northern regions where we have actually done very well and that is the area where we were actually not present. So the earlier business, two-wheeler was largely coming from South. Now I would say 25% of the two-wheeler business is coming from West barring the two Andhra and Tamil Nadu states and going forward, I expect more growth in this market because the markets like UP or Delhi or Rajasthan are very large in terms of number of vehicles getting sold and financials are not too many either. So I think the room for growth is phenomenal there.

- Nischint Chawathe:** And the NPLs here are similar to the portfolio, they could be slightly higher?
- Subhasri Shriram:** No, average NPL will be slightly higher than the MSME portfolio, but it is very profitable because from a credit cost, net risk adjusted yield, I probably would say it is in class with MSME or even slightly better than MSME. The origination cost even if you factor origination cost that is where because it is a slightly shorter duration asset, not been on more than 2 years monthly of times whereas MSME is more in the line of 3 years. So considering the origination cost, it may be a little equivalent, but simply on credit cost and lending cost, net debt of credit risk, I think the two-wheelers are very profitable products.
- Moderator:** Thank you. Next question is from the line of Mr. Amit Ganatra from Religare Invesco. Please go ahead.
- Amit Ganatra:** Two questions, one is can you provide the absolute amount of disbursements for each product lines for this quarter?
- Subhasri Shriram:** For the quarter disbursements?
- Amit Ganatra:** Yes.
- Subhasri Shriram:** I will give you broadly. MSME was about 1,600 crores, two-wheeler is close to about 900 crores, auto is about 300-350 crores and personal loans, consumer loans all of them put together is another 200 crores.
- Amit Ganatra:** And gold?
- Subhasri Shriram:** Gold is about 1,100 crores.
- Amit Ganatra:** Gold was 1,100 crores disbursement.
- Subhasri Shriram:** That is it.
- Amit Ganatra:** Now about these two-wheelers, you mentioned that in market which has not grown, you managed to grow. So basically means that you have gained large market share.
- Subhasri Shriram:** Yes because two-wheeler is the segment which continues to be largely supported by cash sales and credit. So I am probably not taking much business from my competitors, but I am actually moving into the taking a bite out of it for the cash business.
- Amit Ganatra:** So you are saying that it is not that some organized player has lost market share, but it is just...
- Subhasri Shriram:** Not necessary because if you look at the sales vis-à-vis credit, the credit will be 30% of sales. So if I have a 10% market share, it effectively means I only have 3% overall. 10% with the total finance is 30%.



- Amit Ganatra:** So you are saying that total vehicles financed by credit itself has gone up over last one year?
- Subhasri Shriram:** Yes, that is right. It is going up more so in smaller markets, not the big cities. Definitely the Tier-II, Tier-III towns, it is moving up. I think to some extent, we should thank and think for the rural prosperity. I think more customers are confident about getting into that space owning vehicles.
- Moderator:** Thank you. The next question is from the line of Mr. Pankaj Agarwal from Ambit Capital. Please go ahead.
- Pankaj Agarwal:** My question was on operating expenses. If I see your AUM has been largely flat on YoY basis for last 2-3 quarters, but your operating expenses have increased 18% YoY for first 9 months of the year. So is it because of higher expenses for collections or due to inflation or any other reason?
- Subhasri Shriram:** All of it, I would say inflation; generally salary increase was 10%. So I think 18% salary is 90% and that will translate to 8%. So the minimum increase, but more I would say OPEX are again restricting the asset mix. In gold, your yield is low, OPEX is low, and the NPLs are low. When you move out of that, even in two-wheeler business, the OPEX goes up obviously which would have lent higher obviously everything retained at the company and that is reason for the rates which are being charged. So there is origination cost, there is a recovery cost back-office cost is lot more in collection intensive business.
- Pankaj Agarwal:** So it is largely because of change in the portfolio mix?
- Subhasri Shriram:** Absolutely, that is the inflation numbers.
- Pankaj Agarwal:** And my second question was on your net interest credits. So hypothetically if we imagine that if your cost of funds goes up by 50-100 basis points over the next one year. Given that demand scenario and given the stress in the economy, would it be possible for you to pass on this increased cost of funds to your borrowers?
- Subhasri Shriram:** I do not know whether you are processing. The 100 basis points increase is not something anybody's even in wildest nightmare. Even for sheer, hopefully this does not happen we will guess that it is happening. I would say that we will not from and market standpoint of view, a) we will not unlikely to pass on the rates immediately in one go, we will wait and watch. I think we will be able to absorb this. We will also be certainly more tighter than our other sales, but I do not expect us to pass on every rate which we get from the market to push to the customers. I think that does not work in an NBFC. We have to work at our own efficiency and other things and the rest of that we will be doing. So neither will I say that there is a pressure on our margins neither as I will say that we are going to pass on everything and that is why the low pressure. We will be able to manage it judiciously by some asset classes, some regions passing on the rate, some continued to lend at the whole rate where we are entering into the market and as well as at the same time we should be able to tighten our belt and we are able to reduce the cost.



- Pankaj Agarwal:** I understand that. Any point of time, it is difficult to pass on increase.
- Subhasri Shriram:** From a theoretical model, passing on the cost is not difficult. It is just a number, it is like if the customer pays an EMI amount of Rs. 1,800, he pays Rs. 1000 and Rs. 100 more 1000 rate gets passed on. So that is not a rocket science, it is not very difficult to pass it on, but I think it is a question of market competitors. If the rates are going to be across uniformly, everybody is going to have a different rate. I think the market will settle down the price, but I am answering your question more straight forward, this market of us, the interest rate is extremely flexible. The elasticity is there and passing on rates is not difficult. There have been time-driven commercial vehicle industries, new vehicles rates have been over 20% in the past. So it is not as of it is impossible to absorb these rates.
- Moderator:** Thank you. Next question is from the line of Rajatdeep Anand from ICICI Prudential. Please go ahead.
- Rajatdeep Anand:** If you can give us some color on asset quality and how you have managed to hold up because certain other NBFCs, their gross NPA, net NPA has spiked and they are saying that it is because of some certain crops" MSPs were delayed and things like that and your roadmap to move towards 90 days NPA recognitions. So both of these if you can explain to us.
- Subhasri Shriram:** First let me answer the first question is about our asset quality. As I have been saying in the past, I think just being diligent and being much focused on the customer segment which we operate and continue to manage lending. I think we are on track. We are not pushing business for sake of business. So customers are not sheer encouraged to borrow or expand in a tight market. So I do not see so much and as long as our ticket size was small, granular business structure, I think we are on a very safe wicket, not really comparative to other NBFCs where we are probably much more closely aligned with any particular industry. Now answering the second part of the question about 90-day NPL, I only like to recall what our MD was just spoke earlier that now that we are talking about, clearly seeing not happening of the Usha Thorat Committee and there I do not think we should be worried about that committee policy being implemented or recommendations being implemented and while at the same time if we have to have our hope on the recommendations implemented, obviously the recommendations which has come subsequently tangibly different from it is. So obviously this is more relevant and what Usha Thorat Committee is and if it is question of only now question of time and way it is going to be implemented, whatever it is, it is definitely not the 90-120 which is suggested by Usha Thorat. So going to answering your question, we are not seeing 90, we are not seeing 120. On the contrary, we are hoping to see 180 days.
- Moderator:** Thank you. Next question is from the line of Vibha Batra from ICRA Limited. Please go ahead.
- Vibha Batra:** I have a couple of questions. One is on this housing subsidiary, how much is this synergy with either chit fund customers or your existing asset class customers and how do you see the AUM growing in next years?



- Subhasri Shriram:** I would say that we are not actually sitting on or working along with chit fund branches, but definitely our executives, our sales team are working in the chit market and they work along with chit sales executives to sort of do references for housing loan. Housing loan is fairly longer ticket, high value loans. We are definitely working closely with our chit branches and other Shriram branches including Shriram City branches and there is a lot of synergy there. That is the reason probably we do not have to expand branches, more branches should do more business. The reach is already available across Pan India. We thought about growth, see the numbers are so small, Rs. 300 crores number, Rs. 350 crores what we can probably see in March. So growing about may be 60%-70% is not very difficult now. Till we reach a couple of 1,000 crores portfolio, you will probably like to see a very steep jump quarter-on-quarter.
- Vibha Batra:** So what kind of AUM can one expect in next 3 years from the housing company?
- Subhasri Shriram:** If you have an X company which is fifth year of its business. If that done 100, I can tell you Shriram Housing would have done 130 because I am just looking at the traction of year-on-year from the date of origination, the date of commencing business and definitely I am very confident that we will do 30% more than the market, what market has delivered so far.
- Vibha Batra:** Fair enough and what percentage of your customers also the portfolio is small are overlapping customers, how much.....
- Subhasri Shriram:** Hardly may be, not even I just can count it in one hand the number of customers you both of has it. There is no overlapping of customers.
- Vibha Batra:** My second question is on LTV. Although RBI has relaxed the LTVs now to 75%, what is your internal thinking? Till what LTV are you going up to?
- Subhasri Shriram:** If you ask me, personally we did not want RBI to tell us what the LTV is. I think LTV should be the market driven. They do not give us risk protection or anything. So I do not see any reason why there should be a control over that number which is not the case of bank. So neither I am happy....
- Vibha Batra:** Now it is the case of banks to they have the same LTVs for gold loans if the regulation has been changed. So banks and NBFCs are at par on LTVs for gold loan.
- Subhasri Shriram:** The only sad news is it is back for bank's group. So having said that, we are not wanting the Reserve Bank of India to tell us what we should do and manage our risk. Long and short of it, 60 is not going to go 75 tomorrow. We continue to watch. It might go to 64, 65. We will continue to review the portfolio, review the gold rate movement over a period of time and also the 75% will be very selective for customers, selective products and selective locations. Across the board, we are not taking RBI's statement as safe and overnight changing the rates. No, we are not doing that.



- Vibha Batra:** So RBI in any case has prescribed the maximum LTV....
- Subhasri Shriram:** That is fine. So there are lots of other challenges, but we would like to wait and watch.
- Vibha Batra:** And my last question is on restructuring, the new guidelines that RBI has introduced for NBFCs. How much would be the impact?
- Subhasri Shriram:** Not at all relevant. They do not have long tenure infrastructure funding.
- Vibha Batra:** No, but on for other loans also.
- Subhasri Shriram:** Not required. No, we do not have any such thing. We are not getting into that restructuring at all.
- Moderator:** Thank you. Next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.
- Saurabh Kumar:** Ma'am my question was essentially on your borrowing mix. It seems to me that you have at least some leeway to improve the mix to basically control your borrowing cost. One obviously the ways obviously securitizing better from what we understand now you can essentially do it low base rates. So probably get something like 9 %odd and second is also just alter the mix a bit. So what are your thoughts about how your borrowing cost should trend assuming will probably see another 25-50 basis points hike from here?
- Subhasri Shriram:** Thank you for observing. We do have a lot of efforts to improve on our cost, but nevertheless this current structure which you have come in is more on account of flattish AUM and the retail window which is very healthy because retail flow is very healthy. I would say this liability mix will get addressed by itself. So minute the balance sheet starts growing in number, not the product size. Across all products, when the growth starts coming in, there is definitely you will see the liability mix also changing dramatically and moving towards bank borrowings as a percentage growth and that will immediately be seen within the next same quarter, you will see a change in the cost of fund. So it is a next story. I think we just have to wait for the growth in the business including gold for us to see a more margin improvements on account of cost of funds.
- Saurabh Kumar:** Just one follow thing. What will be the cost of these retail NCDs and deposits including brokerage and commissions? What will be like the net cost to you?
- Subhasri Shriram:** A 3-year money could go up to 12% including brokerage and everything.
- Moderator:** Thank you. Our next question is from the line of Surjit Choudhary from Edelweiss Capital. Please go ahead.
- Surjit Choudhary:** Ma'am I would want your thoughts on, are we evaluating moving to any of the bank's structure advised by Dr. Nachiket Mor from the current NBFC structure, though we understand that we have applied for a bank license, but there are quite a few conditionality's there whereas we do see some relaxation as per Dr. Mor's recommendation.

Subhasri Shriram: I think we still in the steady stating the policy, the recommendations and evaluating the pros and cons. So I do not have an answer and are we decided on one and is there a plan of action for it? No. So there are very interesting options available, but I think it has to be seen in full entirety, holistically. So we still do not have micro details about how it works. It is a very **well** thought process which has been documented. When it gets execution, we will have to get more details from RBI and understand how it is going to be done and post that we can actually have any clear decision of that. It is only a thought and idea of a very forward looking, but I do not think the complete report is very detailed in terms of execution and that will commence post RBI accepts the recommendation.

Surjit Choudhary: Sure ma'am. Ma'am next your thoughts on you have mentioned that the AP scenario is still under watch and though your payments and your credit quality continues to be healthy. As far as the lending business is concerned, have we changed our processes, have we changed our credit screens and just got more cautious there in terms of lending also now?

Subhasri Shriram: I think let me clarify. The lending was not in terms of credit risk. It was about just the process of you doing a credit delivery itself. We could not do the registration of property, we could not do vehicle registration or we could not check the ownership of vehicles. For example the last 10 days in Andhra, the writers have been on strike in all the register offices on the courts. They are not in strike whatever, they are in penned down or whatever they call it. So there are small disturbances in the government missionary there. That is also disturbing on creating a little of hindrance for us to complete the loan delivery process. So what should government take a 15 days, 10 days, it might take a month now. So there are purely due to external reasons and that is what we have talked about delay or slowdown in lending, but clearly per se, I do not think that the credit at this point anything except other than small changes of whether it is going to be a straight capital or not, whether there is this thing that is probably a more local micro decision making, but at the state level, nothing very specific. It is just of the time taken to do a job is lot more than what it used to be earlier.

Surjit Choudhary: And ma'am in terms of the branches outside of South. You mentioned that you are using two-wheelers as the first product, but overall how are these branches shaping up in terms of the profitability vis-à-vis the South branches.

Subhasri Shriram: Profitability as we have said earlier too that almost all branches get into the profit mode within a month or two. There is a simple where we start off is we probably do not even have a physical branch, brick and mortar branch till a particular level of volume is reached. To this effect, we have the support of other Shriram Group company where our executives initially spent couple of months because in two-wheeler business, much of the work in either at the dealer showroom or at the customer place, not at the branch or at our office. Only when we have seen good growth numbers, good numbers, good set of employees stabilized there, then we go to physical being a brick and mortar branches. So branch profitability has never been a concern to us, but the growth projection that doing 100 vehicles, doing 500 vehicles is that is concern only when leadership is good and stable. We would like, yes, Northern branches, Central and Western

India, the leadership has now, there is a proven team leader and a team to support the leader. I think we are hoping to see good times in the next 1-2 years in this segment in these range of locations.

Surjit Choudhary: Sure ma'am. Ma'am next if you can give us some sense of what is the overall PSL component in our book and also how does it shape up segment wise?

Subhasri Shriram: The PSL point of view, the MSME is a Tier-II PSL which is 49% of the book, but the only challenge is that 8% margin which our MD was talking in the initial discussion. So to have only 8% over the cost of funds, we do not have too many available. Our margins typically are about 10% which you would have seen already. So portfolio which is coming into 8% is limited, so that sort of restricts our ability to securitize more than what we could achieve.

Moderator: Thank you. Next question is from the line of Mr. Jyoti Kumar from Spark Capital Advisors. Please go ahead.

Jyoti Kumar: Just a couple of questions. What explains this QoQ jump in the employee expenses? Is there any lumpy number that is there?

Subhasri Shriram: Two points. One is refer my earlier last analysts call. Last analysts call, I think we had explained you must have noticed my QoQ employee expenses came down. That I had explained at that point of time that it is because when you have a lower business, we do have incentive for lending and selection. So there is a variable component in the employee cost. So first of all the base Q2 is a number one should be seen in light with the business which happened in Q2 and Q3 we have seen both, that is one aspect of higher volumes, higher business which was reflected in higher employee cost and also being the quarter ending, the quarter where Diwali bonuses extra payments are there. So it is on account of both these that the employee costs have gone up.

Jyoti Kumar: Other question that I had been what is the proportion of the current loan book which is from non-chit customers and in terms of incremental disbursements as well, how would that breakup be between chit and non-chit?

Subhasri Shriram: I am not sure whether I have understood. Are you talking about non-chit customers or you talking about non-chit locations? So your question is non-chit customers?

Jyoti Kumar: Chit customers, non-chit referred customers.

Subhasri Shriram: If it is chit referred and chit customers, only products where we can have a chit reference customers or chit customers in MSME. That probably about 80% is that way. The rest of them are all nothing to do with the chit customer or chit reference, it is just a market sourcing, but more from a quality point of view, it is employees who manage this or the cost of managing of business is from Shriram pedigree.

Moderator: Thank you. Next question is from the line of Elizabeth John from CRISIL. Please go ahead.



- Elizabeth John:** So I was highlighting that you mentioned that on a sequential basis, the SME disbursements were up and the AUM was flat and you highlighted that was two reasons, short-term loans, tenure loans and the foreclosure. So any particular reason why we are seeing the short tenure SME loan or do we see that as a one-off thing, do we see that as a trend going forward or something like that, can you throw some light on that?
- Subhasri Shriram:** For a trend to happen, at least you would have more than one quarter to see and to tell you are a trend. So it is too early right now and the other part of the question is, are we consciously looking at it or the market is looking at it, no, it is not the case. We are not soliciting business in short duration or any of such thing and whether the trend, we will have to wait and watch.
- Elizabeth John:** And also if you can share, you highlighted in terms of gold loans and the other products, but overall AUM, what kind of number trend would we see in quarter 4 and next year?
- Subhasri Shriram:** I, Elizabeth ma'am, unfortunately do not have that number on the goal because I really have never understood that segment growth. There are probably reasons why what it happens.
- Elizabeth John:** So AUM excluding gold if you can just highlight?
- Subhasri Shriram:** Excluding gold, I would say 20%, year-on-year 20% excluding gold.
- Elizabeth John:** And one more thing that you highlighted is that in the Andhra Pradesh, we had this difficulty in completing the loan delivery process and all. I think at that time the Q2 disbursements also got impacted, but Q3 we had still managed to have a good disbursement growth. So any particular reason is it that the intensity of that has gone down or something like that if you can just highlight.
- Subhasri Shriram:** Yes definitely. What we saw in Q2 was a different scenario and the entire state missionary closed. That was when where some telephone to power to transportation, everything was shut. What we are seeing now is more selective, more of localized, not across the state and not across all departments.
- Moderator:** Thank you. Next question is from the line of Anil Tulsiram from Contrarian Edge. Please go ahead.
- Anil Tulsiram:** Ma'am I have three questions and all the three questions pertain to your SME product. First question is during the loan approval stage, how much weightage has given to the credit history of customers and available collaterals vis-à-vis business model of the customers and industry they are operating in?
- Subhasri Shriram:** It is largely I would say a straight history, his reference, his number of years in business, his other borrowings if any, the capital infusion, the margins which he operate in the business. They are more relevant. The second point is his collateral security. I think from an industry point of view, we are not very focused. Segment industry, we are not very segmental. We do have more



traditional negative list which I do not think if it is across all lenders and we keep away from that, not following. Post after first level of filter we do not get into further bifurcations.

Anil Tulsiram: Ma'am the second question is on the increased foreclosure question which was raised earlier. Is it because your SME loans are against collateral of immovable property where the interest yield is around 17%-18% and lot of competitors are entering the loan against property products which are being offered against 13%-14%. So that is why customer is going for foreclosures?

Subhasri Shriram: As I said earlier, I do not think I can give you a pattern and then one quarter even, but to guess, not that I have data right now, but that is your assumption or your guess is probably is unlikely to happen for what one or two reasons. One is the customers we lend to are not coming in as property as their principle reason for borrowing from us because there is a business, there is a monthly payment and typically the LAP, loans and others are longer duration 5 years, 7 years LTVs and stuff like that and in our case it is largely a 3-year, 4-year loan and monthly amortized tax flow has become very critical. Customer is in hurry to close it. He does not want to be debt trap and LTV is incidental. So I do not see a very complete match between a LAP customer and Shriram City customer, but occasionally that would be and we will have to see whether there is a more reason, more than what we saw right now.

Anil Tulsiram: And ma'am the last question is I understood Shriram City Union is not covered by this SARFAESI Act 2002 which enables the fast recovery of the asset. So how easy or difficult is it for you to get repossession of the immovable property in case of default by customers?

Subhasri Shriram: First to answer is SARFAESI Act is even applicable to housing finance companies now. Though on paper, they write to have it, but it is to be separately applied for and got and I do not think the last SARFAESI given to as I think it is way back in 2010 or 2009. Post that, companies which have got NHB license have not got SARFAESI as automatic licensing. Now coming back to the NBFCs obviously are not part of SARFAESI as per the current guidelines, but just to draw reference with the Nachiket Mor Committee report it has been strongly recommended that it should be available to NBFCs also. Now answering the other part of the question, how difficult or easy for us to do using an alternative of SARFAESI, I think NBFCs typically never use such measures to recover because our relationship of contacts with customers or communication with customers typically we do not break it. Even if there is a legal action going on, the conversation with the customer will continue. So we have never not too often, a very limited time have we ever had to go for auctioning or attaching the property. So it is largely we will engage with customers to encourage him to part his property as there is a loan rather than taking it our own over control of the property and dispose it off. So the NBFCs typically work in a local community and the communication or conversation borrower is even when there is a search is continues.

Anil Tulsiram: I understand that ma'am. I am thinking from the worst case scenario, suppose unfortunately...



- Subhasri Shriram:** I do not know how many of these SARFAESI users think it is praise, but I do not have that experience like I tell you that it may take couple of years, but it is possible. You can get a property attached and you can get it ordered for dispose. It will take a while. It all depends upon the borrowers' interest to settle the loan. If the borrower is not interested and there is a serious motive even SARFAESI 10 years cannot help. So you have loopholes with SARFAESI why you cannot auction the property, why you cannot take it for public auction and those can always be used by a willful default.
- Moderator:** Thank you. Next question is from the line of Ankit Sancheti from Kotak Mahindra. Please go ahead.
- Ankit Sancheti:** Can you share with us what is the yield on two-wheeler portfolio of yours?
- Subhasri Shriram:** Anywhere from 24%-27%.
- Ankit Sancheti:** Second thing you mentioned was you follow 150-day NPA recognition norm. Is it standard across all the portfolios, be it gold loan.
- Subhasri Shriram:** Yes, across all products like some of them.
- Ankit Sancheti:** In the initial remarks, you mentioned that as per the committee recommendations, the committee is giving a view that the NPA recognition norms can be different for different portfolio. It depends on the customer profile rather than bifurcating into banks and NBFCs. If that is being followed in a hypothetical situation, do you think that more specifically for your two-wheeler portfolio where you also mentioned earlier that the risks are slightly higher compared to MSME. Do you intent to follow from 150-day norms to 120 or 90 day norms and does not it more prudent that even if these norms are not recommended or not followed on your own as prudence because now two-wheelers are 17% of your portfolio if I heard it right. That does not much more prudent to follow a more stringent norm rather than following a 150-day norm for two-wheelers specifically. I am not talking about MSMEs where you have large security whatever stuff like of that. In gold, you have hard gold, but in two-wheelers, I am slightly more worried. So can you explain more on that sir?
- Subhasri Shriram:** I heard you, but what you have to understand is some of the times it is chicken and egg because you have a higher credit cost. They are ready to spend money when recovery is going to be you choose between writing-off and spending money to recover. Just because you have option of write-off and there are margins available, I do not think there is the first choice. So the recovering efforts are continue to go on and if you are able to hand down the seizing, selling and close watch of the portfolio, I think 150 days is more appropriate. 90 is too tough because by the time the cheque bounce happens, we start effort. You do not even give time to the customers to make a backline or come online and I would say 120 probably is very closer number where 150, but we will wait. Now that somebody is fully recommendation is adopted, we will take our enough data's available in the static area of last 10 years for us to make a view



which is the time when the losses crystallize and there is no further recovery. We have seen in the past and we have enough evidential data right now I can tell you which is 150 and 180, there is a lot of recovery happening. Now I do not have a number off the cuff between 120 to 150, it will be evaluated and if that number is not large enough, not significant enough, then we can see at 120 also.

Ankit Sancheti: So specifically for two-wheelers, as of now you do not intend to follow that 120-day norm?

Subhasri Shriram: Yes, we are very clear changing the numbers for any product at this point of time, but we are waiting for Nachiket Mor committee report to take into more legal form and then we will evaluate it and look probably automatically even whether we like it or not that decision towards lower deadline where we probably for two-wheeler and higher for SME loan, but we will wait and watch.

Ankit Sancheti: And two-wheeler which is right now 17%, do you want to cap it at 20%-22% or there is no.

Subhasri Shriram: There is no need for capping it because it is so widely spread. There is no share of anything there. It is not an industry driven. Customers could be salaried, could be self-employed, could be in trading business or could be anything anywhere in the country and those customers were Rs. 35,000-Rs. 40,000, 50,000-70,000 customers a month. I do not think there is any fear of anything capping on that. We should go ahead, do more of it as long as our asset quality continues to be and our effort recover is not loss.

Ankit Sancheti: Typically in two-wheeler, what kind of security is there in a two-wheeler?

Subhasri Shriram: For two wheeler recoveries I do not think you can ask his property, but we do have post-dated cheque and obviously seizing the vehicle is always there if it is require. It is again not very challenging. This is unlike commercial vehicles; it is much localized, not too much of an issue.

Moderator: Thank you. As that was the last question from the participant, I would now like to hand the conference over to Mr. Amey Sathe for closing remarks. Thank you and over to you sir.

Amey Sathe: Thanks. On behalf of JM Financial, I would like to thank Mr. Sundararajan and Mrs. Subhasri Sriram of Shriram City Union and all the participants for joining us for the call today. Thanks a lot.

Subhasri Shriram: Thank you so much.

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