



“Shriram City Union Finance's Q4 FY'22 Earnings  
Conference Call hosted by PhillipCapital (India) Private  
Limited”

**April 30, 2022**



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**MODERATOR:** **MR. PRADEEP AGRAWAL – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Shriram City Union Finance Q4 FY'22 Earnings Conference Call hosted by PhillipCapital (India) Private Limited. As a reminder, all participant lines will be in 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 '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pradeep Agrawal from PhillipCapital (India) Private Limited. Thank you. And over to you sir.

**Pradeep Agrawal:** Good morning, everyone, and welcome to the Q4 FY'22 Earnings Call of Shriram City Union Finance.

To discuss the results, we have with us Mr. Y S Chakravarti – M.D. and CEO; Mr. R. Chandrasekar – ED and CFO; Mr. Ravi Subramanian – M.D. and CEO, Shriram Housing Finance; Mr. J.A. Agarwal – CFO, Shriram Housing Finance and Mr. Jai Ponde -- Vice President, Investor Relations.

I would now like to hand over the call to Mr. Chakravarti for his opening remarks. Over to you, sir.

**Y S Chakravarti:** Thank you. Good morning, friends and welcome to earning call of Shriram City Union Finance for the Fourth Quarter of the financial Year 2022 and the full year results, which we have declared yesterday evening.

I hope you have had the opportunity to see the key financial numbers and the investor presentation which are available on the website and the stock exchange.

Q4 was among our better performing quarters in some time. On a consolidated basis, we disbursed loans worth Rs.28,879 crores in FY'22, a growth of over 49%. Our consolidated disbursements of Q4 FY'22 were Rs.8,645 crores and grew by 14.12% year-on-year.

Our standalone disbursements were Rs.7,527 crores in the quarter, a growth of 14.6% year-on-year. In fact, going forward, we expect the Rs.7,000 crores plus mark to be the new normal for our quarterly non-festival season disbursement for the products that Shriram City currently offers. This figure earlier was in the region of Rs.6,000, 6,500 crores. For the full year, we disbursed Rs.26,140 crores of loans, a growth of 52.4%. It gives me pleasure to report that our disbursements in both standalone and consolidated have been our highest ever.

AUM as on 31<sup>st</sup> March 2022 was at Rs.33,186 crores, a year-on-year growth of 12%. Our loan yields in FY'22 improved to 20.81% as against 19.57% last year. Loan yields for the March '22 quarter were 21.41%. Our loan yields in FY'22 are our highest in six years.

Our interest income for FY'22 was Rs.6,531 crores, and for Q4 was Rs.1,751 crores. These again are our best interest figures ever. Our net interest income grew 13.7% in Q4 to Rs.1,057 crores

and the year-on-year growth was at 10.9% to reach Rs.3,998 crores. Net interest margins for the March quarter and for FY'22 were 12.93% and 12.74% respectively versus 12.80% and 12.29% for the earlier comparable period.

Our pre-provision profits for the March quarter were Rs.463 crores, a growth of 22.4% and figure for FY'22 was Rs.2,349 crores, a growth of 4.8%. Net profit for Q4 was up 7.6% at Rs.303 crores and for FY'22 PAT was Rs.1,086 crores, a growth of 7.4%. This also have been our best ever profit metrics.

Collection efficiencies showed progressive improvement in Q4; the numbers being in January and February both at 103% and March at 111%. Overall Q4 collection efficiency was at 106%. As a consequence of strong collection efforts, we have reported better asset quality. Our gross stage-3 declined from 7.3% in Q3 to 6.31% in Q4. Net stage-3 improved to 3.3% versus 3.98% in Q3.

I would like to point out here that while RBI has allowed forbearance up to 30<sup>th</sup> September for adopting the changed rule pertaining to classification for GNPA's, we have chosen to not accept the forbearance. Our delinquency numbers therefore follow the same logic as in Q3 and we have implemented the RBI rule of 12<sup>th</sup> November 2021.

Our ECL provisioning was at 49.28% in Q4 as against 47.35% in the previous quarter. Credit cost too declined from 2.79% in Q3 to 2.15% in Q4, and from 2.9% in FY'21 to 2.83% in FY'22. The improvement in credit quality mean that we could write back some of our COVID provisions and the same stood at Rs.426 crores in Q4 as against Rs.511 crores in Q3.

We continued with the same number of branches as in the earlier quarter at 986 full-fledged branches plus approximately another 500 feeder locations. Our manpower count as of Q4 stood at 27,997 employees.

On the products side, between the end of Q4 FY'22 and the start of the current quarter, we have introduced gold loans to 70 branches in the North, that is in Punjab, Haryana, Rajasthan, Himachal, Uttarakhand, Delhi and J&K.

Meanwhile, our digital Express Two Wheeler loans have continued to perform well. In fact, Shriram City won the Award for "NBFC Innovative Product of the Year" for our Express Two Wheeler Loan products at the BFSI Technology Excellence Awards for 2022.

As far as resources are concerned, our Finance team helped us borrow Rs.3,790 crores in Q4, at an average cost of approximately 8.4%. Our borrowing from banks and institutions grew to 50% of our liabilities in Q4 versus 48% in the previous quarter. Our retail fixed deposit base grew at a robust 23.5% year-on-year and makes up 22% of our liabilities.

We continued to carry a liquidity buffer and this was to the extent of Rs.5,225 crores at the end of March, comprising free cash and bank balances. The reasons for carrying a relatively large backup are apart from the fact that we need to keep aside some committed borrowing for the related time period, we also would prefer to observe the COVID situation and be reasonably assured that we are equipped to handle any spikes in the near future.

Further, against the backdrop of the prospective merger which should happen by the end of Calendar '22, we would like to ensure that we are comfortable on the liquidity front in the months leading up to the merger.

The merger process itself is performing well. We have obtained approvals from BSE, NSE and have lodged the requisite application with NCLT, Chennai as well. While we await the regulatory clearances, we are keeping the deck ready for doing business after the merger.

On a pilot basis and in about 40 locations, we have had the senior branch personnel of Shriram City and Shriram Transport exchange places, so that they familiarize themselves with the products of the other company. Integration of HRA systems and processes has also commenced.

Our subsidiary company, Shriram Housing Finance, has registered their best ever performance in Q4 and FY'22. They have crossed Rs.5,000 crores AUM which is a landmark, for a growth of 36% year-on-year. They also reached the highest ever quarterly disbursement of Rs.1,118 crores, a growth of 46% QoQ. This in addition to having clocked their highest annual disbursements of Rs.2,739 crores, a 25% year-on-year growth. Their asset quality was also sterling, with 90-plus DPD of less than 1%, in fact, it's 0.97%, their best since inception.

Shriram Housing Finance has expanded their network in the quarter and it now exceeds 100 branches. Their cross-sell program, Griha Poorti, whereby the Shriram Group network is leveraged for growth is doing exceedingly well. And after having been successfully launched in Andhra Pradesh and Telangana, it has now been introduced in Gujarat. Among other process, SHFL has been successful in raising significant refinance lines from NHB.

Shriram Housing are seamlessly building into their businesses technology, updates, customer onboarding, digital underwriting practices such as video PD, eNACH and Scorecards, collection app, voice BOTs, payment gateway-enabled website and a mobile app that sees ever-increasing usage and acceptability.

With this, I would like to conclude my opening remarks. We are now open to take questions.

**Moderator:**

Ladies and gentlemen, we will now begin the question-and-answer session. We have first question from the line of Pradeep Agrawal. Please go ahead.

- Pradeep Agrawal:** I would like to understand in terms of AUM growth, going forward as a merged entity, how do you see our product portfolio composition down the line and which are the key product lines where the focus will be more as a merged entity?
- Y S Chakravarti:** The focus will continue to be on SME, but this also gives us a good opportunity to expand gold loan network, which we are keen to explore now. Probably, one year from post the merger, we should be present in most of the locations where STFC is, so that means from the present 700, 800-odd branches that we have for gold loan, could move to 2,500 in the next 18-months. So that's one focus area. We will continue to focus on SME, which is our bread-and-butter business. Once the merger happens, advantage is that we will have a much stronger network and some of the experienced people in STFC to hand-hold this business in the north and western part of the country.
- Pradeep Agrawal:** As you mentioned we have started interchanging employees at 40-odd locations. So, can you give some details around that, how that came, this swap is working out and how long it has been there, is it a couple of months and how has been the experience in working period?
- Y S Chakravarti:** In fact, it's been about 45-50-days old now. So far it's going smoothly. On both the sides, we are onboarding customers within the ecosystem now, basically cross-selling to STFC customers, cross-selling to SCUF customers is happening. So, idea here is to make sure that there are no hiccups in the operating systems and they can actually work smoothly across products. And the learning from this, probably in the next two weeks we will, we have been on continuously review actually. The idea is that from this 40, in another 15-days, we will move to another 100 branches. So, the idea is that by the time the legal merger is completed, the majority of our teams in both the companies are familiar with the products and should be in a position to seamlessly sell these products.
- Moderator:** The next question is from the line of Varun Nayyar from Nippon India Mutual Fund. Please go ahead.
- Varun Nayyar:** The personal loan NPA numbers have improved quite significantly over December to March. Just wanted to understand about it.
- Y S Chakravarti:** There are two things. One is the new book is doing well and the old book is running down; the old book means where we have actually earlier done personal loan in the market. So, you will see this improvement going forward continuously, every quarter you will see the difference.
- Varun Nayyar:** So there has been no write-off or something like that, this is all organic improvement that -
- Y S Chakravarti:** There is some write-off, but this is not because of the write-off at all. This is new books quality, is holding steady and the old book is running down.

**Varun Nayyar:** So this strategy that we are employing here of continuing or the successful customers within the Shriram City network, that is what they are continuing to do right now as well and that is an improvement that we are essentially seeing?

**Y S Chakravarti:** We are clear that we will not get into the market at this level, I mean, the ticket size is about 60,000, 65,000. So we will continue to be there only and we may in future get into the prime segment, not the middle segment. So, we anticipate a continuous improvement in the NPA numbers in the next four to six quarters.

**Varun Nayyar:** How will the book evolve once the merger happens, so will we also look at tapping successful customers within the Shriram Transport network to disbursing this book?

**Y S Chakravarti:** Yes, obviously, we will do that.

**Moderator:** The next question is from the line of Krishnendu Saha from Quantum AMC. Please go ahead.

**Krishnendu Saha:** So, looking at the cost-to-income ratio, it has been inching up. I know that there is a lot of expenditure happening because of training staff and so on and so forth. So, how do we look at that as a whole Shriram City and Transport put together, how do we see that things coming along for us?

**Y S Chakravarti:** See, Shriram City probably by end of next year, we could see that our old base of around 39-40%. The spike you see now is, for the couple of years, business was low and this time the festival business was high and the upfront payout, the variable pay were a little higher. So that's the reason why it is. Nothing to worry about. We can come back to 39%, 40% now.

**Krishnendu Saha:** And one thing about this training, it will be more important to train the staff of Shriram Transport or Shriram City to make them, I suppose Shriram Transport staff would be more trained, hands on to cross sell, is that the way to understand?

**Y S Chakravarti:** Your question was not clear, but I'll explain it, if my explanation is okay, then... today, what we're trying to do is basically make people understand both these products. SCUF team is also looking at STFC products. Similarly, STFC teams are looking at SCUF products and we are training both these teams. Not just physical training, we also have an online training module called MyCoach, where on a theoretical level, all the product knowledge can be gained but where we are making sure that all the employees log on to the MyCoach, go through this and then you have a kind of an online exam, which they will be attempting. Apart from that, we also wanted teams to have a practical experience. That's the reason why we have placed some employees of STFC in SCUF branches and SCUF employees in STFC branches where they will be cross-selling each other's products to their customers. In that process, the entire branch team gets trained.

**Krishnendu Saha:** I get the whole. Just was trying to understand that in the sense you will be probably requiring more training for Shriram Transport because they have less number of products compared to Shriram City. So I just trying to gauge that. played against that.

**Y S Chakravarti:** Shriram Transport also has ancillary products like funding for..., in their ecosystem, they also fund for, say a customer needs a tyre, customer need a battery or they parts for their vehicle. We do all that. So not all that different.

**Krishnendu Saha:** Could you talk a little bit on the housing, has the things improved, how is the increase, anything how we see that business?

**Ravi Subramanian:** So on the housing front, last year was a good year for us, our business grew and so did AUM, AUM grew by about 36%, our profits grew by about roughly 33%. So, overall, it's a good story. The way we look at the business is that, one, we've established ourselves firmly in the space, we have leveraged the group cross-sell across the Shriram City branches in AP, Telangana and across the Shriram Transport branches in Gujarat. So once these models are conclusively proven, we have a roadmap of 3,000 staff in STFC branches in front of us to cross-sell. As far as this year is concerned, we intend to focus on the three South India states and the three Western states of Rajasthan, Gujarat and Maharashtra. About 85% to 90% of our businesses will happen in these six geographies. Our guidance would be roughly in the range of about 35% to 40% growth in disbursals and thereby a slightly higher growth in the AUM. And going forward, our yields will remain static at about 12.2, 12.3 and including processing fee, etc., go up to about 12.5 and thereby we will continue to deliver ROA in the region of about 2.6% to 2.8% to 2.9% which means that this year will actually be a definitive turn in fortunes for Shriram Housing. And we are an ambitious business, we would like to grow and I see us reaching a milestone of Rs.10,000 crores somewhere in the middle of FY'24.

**Krishnendu Saha:** So the whole 3,000 branches of SCUF will be added? So that is what gives you the confidence, is it?

**Ravi Subramanian:** So we have 103 branches live as of March 31. And we also were operating through 200 branches of SCUF and STFC. 178 branches of SCUF in AP, Telangana and 22 branches of Shriram Transport in Gujarat, and the Andhra Pradesh, Telangana experiment is proven to be very successful, it's been growing month-on-month, and it's now contributing about 8% to our home loan disbursals. We expect that to continue to grow. And our experience here gives us the confidence that if we slowly grow and ease into the 3,000 branches of SCUF over the next say three to four years, then that should be a good business model for us to pursue. Not only that, apart from that, we will also be setting up our own branches and we expect to get to about 150 branches by end of this year and thereby grow next year and a year after. Apart from this, we also are fine tuning our digital initiatives. We have launched an app where consumers can digitally seek approvals for their loans, and it's an end-to-end digital process where only for signing of loan agreements and for the land records, documentation, it's a manual process, apart

from that, every single element of this process is digitized. So we will leverage on that as well. And once we have fine-tuned that, then the entire country is our canvas.

**Krishnendu Saha:** So just on this expansion, we will be using branches of SCUF and so on and so forth, obviously, our cost-income will be not that high and with the digital initiatives, cost of acquisition will be high?

**Ravi Subramanian:** In fact, our cost-income this year is slightly over 50. And the reason for that is the investments that we made in our group with the initiatives and expansion initiatives in the last six months of FY'22, all that will start delivering results. And one is leveraging on the investments of the past and two, cross-selling from the group, will make sure that our cost-income comes down significantly. And FY'23, it will come down to mid-40s and maybe it will come down to the 39, 40 range by FY'24, maybe mid FY'25.

**Moderator:** Our next question is from the line of Riken Shah from Credit Suisse. Please go ahead.

**Riken Shah:** I notice that there was some reversals in Shriram Housing into change in accounting of direct assignment income. Could you please just elaborate what those changes were?

**G S Agarwal:** Yes, hi, this is G S Agarwal, CFO Shriram Housing. See, the reversal in the income was mainly due to the change in the methodology, which earlier we were doing on a contractual basis. So whatever assignment we were doing, we were booking upfront income on the contractual tenor of the contract. Now, we have changes to behavioral because normally, the home loans run, contractually, they are for 20 years or 15 years, but eventually, they run off eight to 10 years and the LAP loans run off within six to eight years. So we have amended that accounting policy and due to that we have taken the reversal of the previous prior period last two years also, which is amounting to around Rs.16-odd crores.

**Ravi Subramanian** It's a good thing to do.

**Moderator:** The next question is from the line of Chandrasekhar Sridhar from Fidelity International. Please go ahead.

**Chandrasekhar Sridhar:** I had a few questions on fee and commission income, which has grown pretty significantly. Maybe just a color on what is driving that and how should we think of that over the next few years? And then maybe if you just remind me again on home loan, where are we just in terms of the number of branches? And did you say that you will go to all the STFC branches eventually? Third was what's the incremental cost of funds during the quarter and at what point do we start seeing benefits from deliberating differential between the two companies in this point in time, are we already beginning to see some of the benefits in the cost of funds? And the last question was for Ravi. How many of the SHFL customers at this point in time are either current STFC or SCUF customers?



- Y S Chakravarti:** SCUF has obtained corporate broking license from IRDA. And we've started cross selling some of the insurance products to our customers. So, the income is basically derived from commissions from insurance companies. We have been selling products from Tata AIG, Care Healthcare, GoDigit, Shriram Life Insurance, Shriram General Insurance. So the income is from these activities, selling of their insurance. Honestly, if you ask me, what am I targeting at? My target to my cross-selling Head is 10% of PAT from fee income.
- Ravi Subramanian:** One, as far as the branches are concerned, we are in 103 branches and we are currently active in 200 Griha Poorti branches which are 178 SCUF branches and 22 of STFC branches. What I had indicated earlier in my answer to one of the questions was that, once these two are completely proven models without a flaw, then we have the entire 3,000 branches of SCUF and STFC open to us to go to, and we will go to them over the next four to five years. It's not going to be in a hurry because these are 10 to 15 to 20 lakhs rupee loans, and we will just want to make sure that we do it carefully and in a measured manner –
- Chandrasekhar Sridhar:** The question was from the distribution perspective, trying to understand just the customer overlap in terms of what percentage of customers have either been STFC or SCUF or our current customers?
- Ravi Subramanian:** Okay, so historically, but since we started this initiative only last year. In the incremental disbursements, not more than 2%, 2.5% of customers would be SCUF customers. And even these 2%, 2.5% would typically be customers who have had a good credit history with SCUF and a good CIBIL score.
- Y S Chakravarti:** You asked me about SCUF's cost of borrowings, right?
- Chandrasekhar Sridhar:** Yes, incremental cost of funds in the quarter and then given the rating differential and impending merger, what's the thought process on the cost of funds go?
- Y S Chakravarti:** March '22, our cost of borrowing was 8.40, whereas, if we look at March '21, it is 8.67 weighted average. So, you actually see a steady decline from June to March, every quarter, there is a steady decline on the cost of borrowing. The differential is obviously, once we merge the portion of borrowings outstanding in SCUF books could get replaced by a lower cost of funds.
- Chandrasekhar Sridhar:** Is there a number on the incremental cost in this quarter, what is the incremental cost of fund?
- Y S Chakravarti:** Incremental cost of fund is 8.40.
- Chandrasekhar Sridhar:** Just a last question on gold loans. How many branches did you say we are in currently?
- Management:** See, about close to 600 plus branches in South and 100 branches in the north, so about 700 plus branches.

- Moderator:** Our next question is from the line of Sanket Chheda from B&K Securities. Please go ahead.
- Sanket Chheda:** I apologize if this is repeated. I joined late, but the disbursement in this quarter has been almost closer to what we did in last quarter on a standalone also, but last quarter, our AUM growth was about 6% sequential, this quarter, it's pretty low. So, are there any accelerated repayments in some accounts?
- Y S Chakravarti:** It's a routine thing only. Probably one thing is that gold loan runs out faster. That could be one reason. Second is the business that we've done in the quarter, probably we'll see the AUM growth over next probably...see, majorly, it is gold loan running down.
- Sanket Chheda:** I had a couple of questions on housing front. We have been very aggressive on growth and numbers are coming in, but do we have as far as profitability is concerned because over the last couple of years, the OPEX has been coming down, but it's not resulting in the ROA. For 14%, 15% yield business to a 2% ROA, new, right? So do we have any thought process in mind where the OPEX would settle? And maybe what will be the yields we will be comfortable with because yields are also quite volatile for us over the last two, three years?
- Ravi Subramanian:** If you look at our investor deck which has been put up on our website, you will see, actually is made up of two parts, one is the regular business income, other is the securitization income. And if you look at the regular business income, that's fairly stable, and what is volatile is actually the securitization income which actually in the last year, we did about Rs.225 crores in the previous quarter, about Rs.115 crores in the current quarter. And if you look at our cost-to-loan book, that's been dropping, in fact, it was 4.3 last year in FY'21 and it came down to 3.5% of AUM in FY'22. The difference was the 0.4%, which is about Rs.15 crores of investment that went into launching the 200 branches of Griha Poorti across AP, Telangana and Gujarat. If we ignore that, and if we take out the one-time change in accounting policy for recognition of the income, then our RoAs, which today reflect as 2.1, would actually have been closer to 2.6, which would actually have been the highest in the last four years. And two, to your question on where our cost-to-loan book would settle, our NIMs would settle at about 7.5% to 7.6%. Our cost-to-AUM will settle at about 3.3% to 3.5% for this year, and maybe next year, it will come down under 3%. And credit cost would settle at about 0.4%, 0.5% and thereby the return on assets for FY'23 could be in the range of about 2.7 to 2.9, and FY'24 would be over 3%. In the housing loan business, always a scale business. Other reason why our overall ROAs are in the 2.1%, 2.2% range is because our cost of funds were higher till about last two quarters of this year, actually in December and January this year, we got Rs.500 crores approval from NHB which came in at 4.5% and we got another Rs.150 crores of approvals from NHB in March which we have not yet availed of. So that has brought our cost of funds significantly down. That benefit of that is expected to continue in FY'23. Till last year and for the first three quarters of this year, we were relying on bank loans and capital markets and our equity for funding. But with NHB coming in, our cost of funds has shown a tremendous improvement. We've dropped by about 100 basis points in cost of funds. And that is expected to give us a big boost in FY'23.

- Sanket Chheda:** My last question was on gold loans. We have reported kind of flattish growth, but any pressure on yields particularly in Q4, was there any drop in the gold loans for us?
- Y S Chakravarti:** No, actually, gold loan disbursal actually has improved from Rs.1676 to Rs.1,920 in March and the AUM also .....
- Sanket Chheda:** I am talking about the yield on the gold loans. Was there any impact in this quarter?
- Y S Chakravarti:** Yields are steady, there is no drop in yields at all. We as a policy, we have been operating, our yields have always been around 16%, 17% range, because we don't use any of these step-up schemes and schemes to attract the customer, walk in at a very low interest and then lock him out. We don't we don't have any of these schemes. We operate the plain vanilla schemes. I am personally against operating such schemes, so we operate plain vanilla schemes. And majority of my business is through word of mouth and basically referrals from my customers. So, we are able to hold our yields at 16%, 17%.
- Sanket Chheda:** Last question on the credit cost as standalone business. Maybe heading into FY'23, we have one of the highest overall retail provisions on the book, So our stage-3 is 6.3 and we have retail provision also singular quantum. So do we expect credit cost to be benign in FY'23 or maybe the usual run rate of say 2.5% would continue?
- R Chandrasekhar:** Credit cost, we expect to be between 2.5 to 2.6, coming Financial Year.
- Moderator:** The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.
- Nischint Chawathe:** One common question for both SCUF and Shriram Housing is what proportion of your borrowings are linked to repo rate?
- Y S Chakravarti:** As far as SCUF is concerned, nothing.
- Nischint Chawathe:** And none of the bank loans are linked to repo is what you're saying?
- G S Agarwal:** Hardly around two or three loans are linked with repo rate, most of these are linked with MCLR of the bank.
- Nischint Chawathe:** And that MCLR get price like quarterly, monthly or --?
- G S Agarwal:** It's all annual re-set.
- Nischint Chawathe:** So even if there is a rate hike, it probably kind of comes and hits maybe 12 months down the line?
- G S Agarwal:** That's right.

- Nischint Chawathe:** The other questions are on Shriram Housing. The NHB 4.5% funding line, is it kind of linked to a specific sort of an asset class or is it a refinance or what line is it?
- Ravi Subramanian:** NHB has given us under two distinct programs; one is an affordable home loan scheme where it comes at 2.94 and the other is at a regular refinance, which comes in the range of about 6.1% to 6.3%. There is no cap on the regular refinance, but there is a cap on the affordable home loan scheme where the loans have to be priced somewhere on 9.7%, which is roughly a 7% NIM only on the yields. So the blended of this is about 4.5% and we still have what Rs.150 crores to draw from them, which we will be drawing in this particular quarter.
- Nischint Chawathe:** Just on the yield guidance of around 12.2%, what happens when the cost of funding starts to go up? Because two things; one is that, you have obviously got access to good NHB funding this year. And, honestly, we don't know how NHB policies probably shape up a few quarters down the line, where NHB rates go. I believe these are floating rate loans? And I think generally you will also see interest rates in the system going up. So would you kind of keep the rate similar at around 12.2%? At what point of time, will you really want to pass it on? The reason I'm asking this question is that, many of your peers have kind of taken a call that the spread that they are earning over the last two, three quarters is sort of higher than their long term averages, and probably the first few or maybe one or two rate hikes is something that they may be okay to absorb on their balance sheet. So what would be your strategy towards rate hike?
- Ravi Subramanian:** One is I see a steady state NIMs of about 7.5% So even if there is a rate hike in the immediate future, we will be able to manage it at least for about two quarters or maybe even more, because the real impact of those rate hikes will start impacting our cost of funds only, maybe closer towards Q4 of FY'23 or beyond. Two, our discussions with NHB, have given us the confidence that there will be a significantly large, at least double of what they gave us last year, coming in this year. So, we have a fair bit of expectations from the NHB refinance as well. Three, if it comes to a situation where we have to pass on the rate hikes to the consumers, we will be able to, because the rates are floating rates.
- Nischint Chawathe:** I'm looking at slide 28 of the Shriram Housing presentation and kind of looking at the bounce rates of I think 10.4% from Jan'19 onwards. How does that kind of add up with one plus DPD of 5.3%?
- Ravi Subramanian:** You're looking at slide 28. Yes, the bounce rate is 10.4% and 13.6% is the overall bounce rate for the current book --.
- Nischint Chawathe:** And your one plus DPD is 5.3%. So I'm just sort of trying to understand the reconciliation between 10.4 and 5.3.
- Ravi Subramanian:** So, the 10.4 is only the current bucket bounce, right. And the delinquent customers don't get into this MIS at all. Two, the 5.1 is customers who remain delinquent after collection from this particular bounce and after collections from the already delinquent customers who are in stage

two and stage three. And stage three anyway is almost 1%. So you already have about 3% of customers between 30-plus and above. So those customers are not here at all.

**Nischint Chawathe:** One last question is on the housing side again. If I calculate your repayment rate on home loans, that works up to approximately 30%, it started gone up a little bit over the last few quarters. And if I look at this ratio for peers, it's somewhere in low-20s. So, I was wondering whether is it something to do with the tenor of the loan or anything to do with the customer behavior or what could be the reason?

**Ravi Subramanian:** Let me just give you a bit of a flavor on the repayments. Our repayment on account of balance transfers is about 6%. Our repayment on account of contractual payments is roughly again about 5% or thereabouts or slightly lower than that. We do a lot of foreclosures when a customer becomes delinquent, we have to collect money from the customer, we actually kind of nudge him to move away from us in case he becomes delinquent and becomes a bit of a painful customer to collect from. So there are some forced attrition in terms of getting delinquent customers or potential customers of our books. Plus, we also have a fair bit of accelerated payments on our wholesale book, if you can call it, the construction finance book, wherein our repayments are significantly higher, because we keep a high degree of capitalization on these loans right from the beginning. So, if you take all these into account, there is not much of a difference between us and the rest. The big comparison point here is the voluntary attrition of customers, which in our books is about 6%.

**Moderator:** The next question is from the line of Krishnendu Saha from Quantum AMC. Please go ahead.

**Krishnendu Saha:** Going ahead, do we see construction finance picking up faster on the LAP book, how do we see because you also have to spend 0.3% on Griha Poorti. So what is the composition going to be, do we get into more risk profile assets like construction finance and LAP, how do you see this?

**Ravi Subramanian:** We are a housing finance company and our core purpose of existence is housing. So housing will always remain over 60% of our total book. And housing plus top-ups will be about close to about 65% to 67% of our book. As far as construction finance is concerned, we don't see it going beyond 7% to 8% of our book at any point in time. And construction finance plus LAP will be about 30% to 32% of our total book at any given point in time, not more than that. As far as risk profile is concerned, we don't expect it to change much from where it is right now.

**Krishnendu Saha:** Just could you talk about a little bit of Griha Poorti? I'm little unaware about the whole market.

**Ravi Subramanian:** Griha Poorti is actually an initiative where we are leveraging on the group's distribution to originate home loans and fulfill the home loan needs of customers in the catchment area of the branch. So for example, if I take the AP, Telangana, we have 178 branches of SCUF --.

**Krishnendu Saha:** Yes, that will be Griha Poorti. Thank you.

- Moderator:** Next question is from the line of Sanket Chheda from B&K Securities. Please go ahead.
- Sanket Chheda:** My question was on this housing once we merge the business of Shriram Transport and SCUF, how the reporting of Housing would happen, it is continuing to be reported as a sub or it would be then one product line of the merged business?.
- Ravi Subramanian:** It will continue to be a sub of the merged entity.
- Sanket Chheda:** And do we plan to be take it out at some point in time, do a separate listing on it?
- Ravi Subramanian:** So, I think look listing is always an option taking it public is always an option, but the reasons for listing have to be right. Just because everybody is running about listing their companies and realizing value and kind of diluting stake does not mean that we should also do it. We will list when the time is right and when the reasons are compelling.
- Moderator:** Our next question is from the line of Rajiv Venkatesh as an Individual Investor. Please go ahead.
- Rajiv Venkatesh:** So, I have a couple of questions especially on the two-wheeler loans and auto loans they have come down significantly any view on the business dynamics?
- Y S Chakravarti:** How do you say it has come down significantly? Two-wheeler actually the AUM has grown from 6,885 to 7,764 crores and Auto from 546 to ...
- Rajiv Venkatesh:** I am looking at quarter by quarter so in the December quarter it was 2,238?
- Y S Chakravarti:** Two-wheeler we can never compare from the current quarter to this quarter because third quarter Diwali and Dussehra are very, very big seasons for two wheeler business. That one month, it is a huge business. So, basically if you look at it two-wheeler from 2,200 to 1,600 crores, drop is because of the Diwali and Dussehra season. It is an annual phenomena, nothing significant about it.
- Rajiv Venkatesh:** And when you see the disbursements major contribution are from gold and MSME, so how do you see the MSME sector shaping up I think you have given a clear clarification on the gold?
- YS Chakravarti:** See MSME as I said it is our bread and butter product we will continue to focus on this. In fact as I mentioned earlier that we intend to take it to all our new territories that we have not moved into, particularly deeper into Rajasthan, UP, parts of Bihar and MP and Chhattisgarh is there we want to focus in the next 12 to 18 months on this MSME. So, it will continue to grow. As far as loan against gold is concerned it is a product we can call it as treadmill because whatever you disburse at the beginning of the year, by the end of the year you will see only a 5 month or a 6-month disbursement as your AUM. So you need to keep running. So, the disbursement will look high, but the growth in AUM will not be commensurate with the disbursement number. The tenure of the gold loans are between 150 to 180 days. .

- Moderator:** Thank you. Our next question is from the line of Chandrasekhar Sridhar from Fidelity International. Please go ahead.
- Chandrasekhar Sridhar:** Could you just confirm again that at this point in time at least the personal loans continuing to be cross sell products for the good two-wheeler customer?
- YS Chakravarti:** 100% they are existing customers of SCUF, it is two wheeler. Basically, see, see one thing here is that none of the SME customers can take a personal loans, the IDs are barred so even if the branch want to disburse they cannot disburse a personal loan to an SME customer.
- Chandrasekhar Sridhar:** And the idea is that for a reasonable future you do this type of market not want to come in that stream?
- YS Chakravarti:** Correct.
- Chandrasekhar Sridhar:** Has there been any change in the ticket sizes or the tenure which you all are doing personal loans for now?
- YS Chakravarti:** No not really. There have been steady - gold around between 50,000 to 60,000, SME within 10 to 12 lakhs. It is all pretty controlled, ticket size are pretty controlled.
- Chandrasekhar Sridhar:** Can you just tell us number for next addition of the growth I mean yesterday we are saying that 15% consolidated which means that sort of SCUF consol needs to grow at may be about 20% which if I work backward it means 16%, 17% on the standalone business, is that fair assumption to work with?
- YS Chakravarti:** You are right. So, on the ticket size one product actually has gone up that is two wheeler, basically because the costs of the vehicles have gone up.
- Moderator:** Thank you. Ladies and gentlemen that would be our last question for today. I now hand the conference over to Mr. Pradeep Agarwal for closing comments. Thank you and over to you, Sir.
- Pradeep Agarwal:** On behalf of PhillipCapital I would like to thank the entire the senior management team of Shriram City Union Finance and Shriram Housing Finance and thank all the participants for joining us on the call today. Thank you and have a good day.
- Moderator:** Thank you. Ladies and gentlemen on behalf of PhillipCapital (India) Private Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.