Ref: STEC NSE/BSE 688/2022 October 26, 2022

The Secretary,
BSE Ltd
P J Towers,
Dalal St,
Mumbai 400 001

The Manager
National Stock Exchange of India Ltd
Exchange Plaza, 5th Floor
Plot No.C/1, G Block
Bandra- Kurla Complex Bandra (E)
Mumbai 400 051

Sir,

Ref: ISIN – INE722A01011
Scrip Code: BSE – 532498 and NSE - SHRIRAMCIT

Further to our letter STEC NSE/BSE 673/2022 dated October 17, 2022 and STEC NSE/BSE 681/2022 dated October 25, 2022 regarding intimation of call and audio link of the Earning Conference Call respectively please find enclosed the transcripts of the call.

The above information shall be available at the website of the Company www.shriramcity.in .

This is an intimation under Regulation 30 read with Schedule III (Part A) (15) (b) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), Regulations, 2015 as amended from time to time.

We request you to kindly take the above information on record.

Thanking you,
Yours faithfully,

For Shriram City Union Finance Limited,

CHITTA RANJAN DASH

Digitally signed by CHITTA RANJAN DASH
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pseudonym=a1eb0b340efc48f2a34583e30b5927cd,
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Company Secretary

"Shriram City Union Finance Limited (SCUF)

Q2 FY 23 Earnings Conference Call"

October 22, 2022

MANAGEMENT: **MR. Y S CHAKRAVARTI – MANAGING DIRECTOR & CEO, SHRIRAM CITY UNION FINANCE LIMITED**
MR. R CHANDRASEKAR – JMD & CFO, SHRIRAM CITY UNION FINANCE LIMITED
MR. RAVI SUBRAMANIAN – MANAGING DIRECTOR & CEO, SHRIRAM HOUSING FINANCE LIMITED
MR. G.S. AGARWAL – CFO – SHRIRAM HOUSING FINANCE LIMITED

MODERATOR: **MR. KUNAL SHAH – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Shriram City Union Finance Limited Q2 FY '23 Earnings Conference Call, hosted by ICICI Securities Limited. As a reminder, all participant 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Kunal Shah, from ICICI Securities. Thank you and over to you, sir.

Kunal Shah: Thank you, Nirav. This is Kunal Shah from ICICI Securities. Today, we have with us from Shriram City Union Finance, Mr. Y.S. Chakravarti, Managing Director and CEO; Mr. R. Chandrasekar, Joint Managing Director and CFO; and from Shriram Housing Finance, we have Mr. Ravi Subramanian, Managing Director and CEO; and Mr. G.S. Agarwal, CFO for Shriram Housing Finance to discuss their Q2 FY '23 and HY FY '23 earnings. So at the onset, let me wish the entire management team of Shriram City Union Finance, Shriram Housing as well as all the participants on the call, a very Happy Diwali. Over to you, sir.

Y.S. Chakravarti: Thank you, Kunal. This is Chakravarti here. Good morning, everyone, and welcome to the earnings call of Shriram City Union Finance for the second quarter of financial year 2023. I would also like to take this opportunity to wish you all and your families a very Happy Diwali and also a prosperous and healthy New Year, in case we don't get together before the New Year.

We declared our results for the quarter yesterday evening and these, along with our investor presentation are available for viewing on our website as well as on that of exchanges, and I trust that you all have had the opportunity to go through these details. Before I get into discussing the performance for the quarter and also the half year, a quick update on our prospective merger with Shriram Transport Finance, which will lead to the creation of Shriram Finance Limited.

The company has obtained approvals, NOC to the scheme from various statutory authorities as applicable. The company petition filed with the Honorable National Company Law Tribunal, Chennai Bench for sanctioning the scheme was listed for final hearing on October 19, 2022, which was heard and the order is awaited. We presume it will take anywhere from a week to ten days for the order to reach us. As I've mentioned in our earlier calls, we are already well into the process of orienting the business teams of both Shriram City and Shriram Transport to the products and lending practices of both organizations. The process has since gathered more traction and the pilot has been extended to about 1,200 branches and going on. The integration of our respective information technology platform is also ready for completion.

Now to the business performance. First, we will take a look at the consolidated numbers, which include the metrics of Shriram Housing Finance. Our consolidated disbursements for the quarter stood at 9,069 crores, a growth of 28.5% year-on-year. Consolidated disbursements for the half year at Rs. 17,795 crores were up by 50.3%. Consolidated AUM reached 42,663 crores, a year-on-year growth of 23% and quarter-on-quarter growth of 5.6%.

Operating income for the quarter at 2,155 crores, grew by 26.2% year-on-year and 7.6% sequentially. Half yearly consolidated operating income was up 25.3%. Net interest income in Q2 at Rs. 1,327 crores was up by 29.8% Y-o-Y and 6.4% Q-on-Q.

NII for the first half of financial year '23 at 2,574 crores was higher by 29.5% over the same period last year. Pre-provision profit in the second quarter this year is 741 crores, higher by 22.9% Y-o-Y and 5.4% quarter-on-quarter. And half yearly pre-provision profits were up 21.4%. Consolidated profit after tax for the quarter at 383 crores was up by 27.2% Y-o-Y and 8.5% sequentially and at Rs. 736 crores for the first half of this year, higher by 41.5%.

Coming to the standalone details, during the quarter, Shriram City disbursed loans were 8,020 crores, a growth of almost 25% year-on-year and our best ever performance. Our disbursements for the half year ended September grew by 45.2% over the comparable period last year. Standalone assets under management grew to Rs. 36,117 crores, a growth of 18.7% year-on-year and 4.4% quarter-on-quarter.

The growth was led by loan against property, personal loans, auto loans and two wheeler loans. While growth in LAP and auto loans was somewhat off a low base effect, our growth in personal loans is a testimony to our cross-selling ability and our digital initiatives. You will recall my informing you on earlier occasions that our personal loan book increasingly comprises cross-sold facilities to our existing customers who have either recently successfully completed their loans or close to doing so. This makes way for better asset quality.

We expect that in the festival season in the current quarter, which will also spillover into Q4, our two wheeler loan book will grow significantly as well as our small enterprise finance portfolio. We continued to better our previous performance as concerns profitability. Our pre-provision profits were 691 crores, our PBT was 466 crores and our net profit was 349 crores. All these represent our best ever figures. Our PAT for the first half of FY '23 at 672 crores was 37.1% higher than the previous half year. Our loan yield at 22.22% is one of the best ever.

We clocked our highest ever top-line net interest income in the quarter. Interest income at 1,964 crores was up 24% year-on-year and 6.6% quarter-on-quarter. Our NIMs have further improved to 13.93%. Our asset quality continues to improve and our gross Stage 3 came in at 5.93% at the end of the quarter. Our provision coverage ratio at 46.11% remained largely stable. A reflection of the asset quality was also seen in the credit cost, which dropped to 2.55% and in the lower, COVID-related provisioning, which was at 289 crores.

Keeping with and in order to capitalize on the improving business environment, we added branches as well as manpower in the quarter. Our branch network now stands at 1,021, while our employee count is 30,606. On the resources front, our outstanding borrowing at the end of the quarter stood at Rs. 32,312 crores. Our liability mix remains steady, bank limits making up 51% of the mix, retail fixed deposits at 23% and market borrowing at 21%.

The door-to-door maturity of our incremental borrowings remained steady at 38 months. Our liquidity at the end of Q2 in the form of free cash and bank balances stood at 4,559 crores. Apart from this, we also had sanctioned and undrawn lines of another 2,150 crores. Our subsidiary, Shriram Housing Finance Limited put in an excellent performance in Q2 as well. They clocked their highest ever quarterly disbursements since inception, having crossed 1,000 crores for the first time and representing a growth of 31.9% quarter-on-quarter. Their AUM at Rs. 6,546 crores grew by 54% year-on-year and 13% quarter-on-quarter.

It gives us pride to report that based on its performance over the last couple of years, Shriram Housing Finance is considered the fastest growing affordable housing finance company in the country. Shriram Housing Finance's asset quality continues to improve and the company registered a 90-plus DPD at less than 1% on AUM. Their profitability metrics were once again outstanding. Pre-provision quarterly profits exceeded 50 crores for the first time and PAT for the quarter at 34 crores grew 81% year-on-year and 13% quarter-on-quarter. Shriram Housing Finance's cross-selling initiative – Griha Poorti - continues to gain traction and contributed to 14% of the total disbursement in Q2. The company had a liquidity reservoir of 1,127 crores at the end of Q2, which provides a strong financial backstop.

With this, I conclude my opening remarks. And we will now take questions.

Moderator: Thank you very much. We will now begin for the question-and-answer-session. Anyone who wishes to ask a question, may please press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets, while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Kunal Shah from ICICI Securities.

Kunal Shah: So firstly, with respect to the transitioning towards the merger and maybe initiatives at the branch level where, we are seeing a really good response in terms of a cross-sell, if that has started, and how we are incentivizing and what's the process that is being considered to ensure that both at SCUF as well as Shriram Transport, there is enough cross-selling amongst the customers there. So that's the first question. And second, when you look at it in terms of the rate increases, so if you can highlight in terms of how the pass-ons have been in the various segments and where maybe the rates have not been passed on to the extent of the increase in the funding cost? So I think that can help because the margins are more or less improved, but just want to get the sense in terms of the pricing power?

Y.S. Chakravarti: On the merger and each of the organizations' selling other products, as I said, we are now running a pilot in about 1,200 locations and by end of the month, all the locations will be doing it. So it's basically, most of the traction is coming from the STFC branches, it's coming in SME and gold loan..

From SCUF branches, not so much as of now on the commercial vehicles. But whatever is happening, it is mostly in the HCV and LCV segment where most of the leads are being generated by the SCUF team. They're being incentivized. Basically, right now, we do have each of these organizations have an incentive scheme for their marketing team, sales team. What we are doing on the cross-sell initiative, we are giving them ten bips more than what, say, for a SCUF sales guy generating a STFC product. For example, for the same product, STFC guy gets X, the SCUF guy will get X plus point one. We just want to encourage these people into generating leads and closing those leads with the help of the STFC team.

Similarly, for SCUF products, the same thing is happening and as of today, we don't see any hiccups going forward in integrating these two organizations. On the tech side also, all these 1,200 branches you see, have access to the LOS of both the organizations. So they will be able to originate and pass on the lead or the lead can get captured on a mobile platform where access is given to the employees of both the system teams as of now.

And as far as your question #2 is concerned, Kunal, I'll ask RC to take the question on increase in cost of funds and how is it affecting our lending.

R. Chandrasekar: So with reference to the, if you've seen the rate, it's actually going up, as we said, in the market, but we are able to hold it at present. For example, last year, H1 we were able to do 8.21%, now this H1 we are at 8.29% and so on the incremental borrowing, during this quarter, it's 8.74%. And if you look at the yield also, this change in the product mix has increased to above 20%, now we are already around 22%. So incremental borrowing cost has not gone up steeply, but yield has actually gone up. So I think our NIM is quite steady. We hope that we will maintain our NIM around 13% going forward.

Kunal Shah: Sir, in terms of the product categories, how much we would have passed on with respect to say the small enterprise finance and say in terms of the personal loans? And what would be there with respect to say the two wheelers and gold loans?

Y.S. Chakravarti: We have actually held our lending rates steady as of now, Kunal. We've decided we will not pass on the rate, because the yields and the NIM, if you look at it are better than what we have seen in the last one year, it's also because of the change in the product mix. From 12.90%, our NIM has gone to 13.93%, if you have noticed. So as long as we are able to hold it around 13%, we would not like to pass on the cost to the customer. There could be a slight tweaking here and there depending on the product. For example, gold, we have increased it by 50 bps. But rest of it, we have held on to the rates.

Moderator: Thank you. Participants you may press star and one to ask a question. The next question is from the line of Vivek from DSP Mutual Fund.

Vivek Ramakrishnan: Sir, good morning and happy Deepavali to you all. Is it fair to say that given the fact that your lending rates are already in the 20% plus for most of the categories that when the economy does well and let's say the rates are high, your credit cost will come down and that will compensate and give you the ROA that you desire and the reverse will happen when the rates fall, some credit cost increase will absorb it, vis-a-vis the ROA perspective. Would that be a fair way of looking at your approach?

Y.S. Chakravarti: Yes and no, because see, even in the post-pandemic, if you look at the number post-pandemic, I don't know, if you can call it, today, the economy is doing well with all the inflation and the rate hike. But see, more or less, we were able to hold on and also bring down the cost of credit, right? So I think it's more of a segment that we are funding where our ability to collect or our ability to reach out to the customer and convince him that this needs to be paid, probably saying that, rather than I would say any textbook logic.

Vivek Ramakrishnan: The second -- my last question is this. In terms of, I know the merger is going to be ongoing and the cross-sell and so on, but if you take it away on the pure NBFC business, for incremental sales in the cost income have to be maintained or is there some scalability which comes in this business as you grow AUM?

Y.S. Chakravarti: So the cost to income will have to come down, there are no two-ways about it. We would ideally like it to be below, around 38% or so. That is what we will keep working, for this segment of products. Now on a combined balance sheet basis, obviously, it will look lower. But since we would be tracking product-wise, we would like this, the current basket of products that SCUF is doing should be around 38%.

Vivek Ramakrishnan: But given it's a credit-intensive, collection-intensive business, is digitization the way to reduce costs or how does it happen, sir?

Y.S. Chakravarti: See, I'll put it this way. Digitization will probably give me efficiencies and say when my sales guy needs to do a 15 steps, we can do it in five steps. There is improvement of process through digitization, which it's an online process which we are doing there. And probably free him up, so that his productivity can go up. The other side of the digital process is to get into the digital market and build the portfolio through the digital platform where we are also working on it parallelly.

So for the digital side of the business, to make a significant impact on the cost, it will take time, probably, I would say, two to three years horizon. But then again, the products that are amenable for digital lending are not our core products, which are basically our truck finance and secured SME lending, probably unsecured SME, unsecured business loan, yes, it can be done. But secured business loans and truck finance would more or less be a, physically high-touch model. What we are trying to do there is to make the life of our customer and our employee easier by digitizing certain processes.

Moderator: Thank you. Participants you may press star and one to ask a question. Ladies and gentlemen you may press star and one to ask a question. Next follow-up is from the line of Kunal Shah from ICICI Securities.

Kunal Shah: So to Ravi on the housing finance business. So again, on that yield question. If we really look over here in terms of the increase in the interest expense, that's been in the range of almost 90-odd basis points quarter-on-quarter. And there has been a similar increase in yields as well and margins have been stable. So here in terms of housing, how has been the pass on in the interest rates, if you can just highlight that? And how many rounds we have done in terms of raising the rates?

Ravi Subramanian: Kunal, Ravi here. Our borrowing cost has not gone up by 90 basis points, it's probably the expense has gone up by 90 basis points, largely because, last quarter we had NHB borrowing, in this quarter we didn't. And NHB borrowing, as all of you know, comes at a much cheaper rate. Our borrowing cost has gone up by about 30 to 40 basis points.

G.S. Agarwal: 17 basis points.

Ravi Subramanian: 17 basis points overall. We passed on the rates to our customers. In the first week of August, we increased our rates by 75 basis points on our book. And in the first week of October, we've increased it by another 25 basis points. So overall, we've passed 100 basis points to our customers. And not only that, our origination yield has also gone up by about 60 basis points compared to March. So overall, yes, I think we are reasonably confident of not only maintaining our NIMs, but probably increasing it by another 20 basis points.

Kunal Shah: And in terms of, maybe the pressure on the competition side or maybe with respect to the balance transfer, because I think across the board, there has been quite variance in terms of the various players are increasing the rates on the affordable housing side. Are we seeing any more BT-outs or inquiries with respect to rate aspect?

Ravi Subramanian: On the contrary, Kunal, this quarter has been our lowest ever in terms of BT-outs. Our attrition rate on the retail segment has been the lowest this quarter than the last four quarters. And our retail attrition is in the region of about 13% to 14% this quarter, which includes the BT-out. So overall, I think BT is normally, is not a big concern in a rising rate scenario. BT typically becomes a concern when the rates start going down because that's when everybody starts jumping for lower rates. But at this point in time, no, BT-out is not a concern at all.

Kunal Shah: And maybe in terms of the overall construction finance portfolio. So further that component seems to be going up almost like 1.2%-odd on a quarter-on-quarter. So last time also you alluded that you would take that proportion up. But maybe if you can just highlight in terms of the profile, the ticket size? And is it chunky in nature or this is well spread here?

Ravi Subramanian: For us, construction finance is largely a tool to increase our retail in the sense that we would like to fund only those builders from where we get a certain amount of retail out. But if you ask me whether that's been coming through, not to the level that I would want it to. So that is the reason why we would want to keep construction finance and/or corporate loans at under 8% to 9%. We will not go beyond that in terms of our contribution to AUM.

These are typically single towers, builders who have availed construction finance in the past, builders who construct smaller properties and we are a bit paranoid about our capitalization. So we try to get in the money as quickly as possible and that is the reason why our builder finance actually attrites at a pretty fast rate compared to our retail portfolio.

In fact, our builder finance attrites at roughly about 60% plus on a regular basis. So we are very, very conservative as far as builder finance is concerned. It is not a AUM building tool for us, and that's the way it will be.

Kunal Shah: And lastly, to Mr. Chakravarti sir. Now overall, when we look at the OpEx, would there be any element of higher cost getting into the merger or transitioning into the merger? And overall OpEx to assets you highlighted with respect to cost to income, but when we look at OpEx to assets, that also seems to be upwards of 6%-odd. So where do we see the steady state with respect to that number?

Y.S. Chakravarti: See ideally, it should come down because you now have access to pre-established branch network for expansion. So that actually should bring down the OpEx overall. One. Two is, so in fact, when we are trying to expand to more areas for say, our gold loan or our SME now, now we have the advantage of STFC's established branches in those locations, plus also some offset in manpower cost there. So these two things should help us.

Moderator: The next question is from the line of Vivek from DSP Mutual Fund.

Vivek Ramakrishnan: Sir, it's me again. I think Mr. Kunal's questions prompt me ask a few more questions. In terms of, this is on the housing. Are the rate hikes which are being passed on to customers resulting in increased tenors or increased EMIs? And how do you see your customer health given this economic environment, as Mr. Chakravarti rightly pointed out, inflation is very high. So that's question #1. And once we answer this question, I'll come to question two, sir.

Ravi Subramanian: So most of these rate hikes have resulted in increasing tenors and keeping the EMI constant. We do not want to burden the customers by increasing the EMI and keeping the tenor constant. So one, it's not led to a fair bit of angst at the customer end, because I think customers are prepared for the rate hikes. And now whether it generically, if our customers' repayment capability has deteriorated, well, there are no indications for that. Our bounce rates have held, which means that the customers are paying EMIs on time.

Our collections have held, which means customers have been able to pay back on time. But what you need to bear in mind is the fact that housing is a very emotional connect product. And nobody wants to default on a housing loan unless they have to. So I think in terms of performance, in terms of deterioration of credit quality, et cetera, housing will be the product where you see it happening the last of all. And that's the reason why -- as of now, it's holding, and we have no warning signals to even give us an indication that things may turn for the worse because of the macro-economic environment.

G.S. Agarwal: And also, Vivek, like around less than 2% of the customers we have to increase the EMIs. Rest, almost 98% customers, we have increased the tenor only.

Vivek Ramakrishnan: The second question is on balance transfers. And you rightly said, in a low interest rate environment, the balance transfers seem to be higher. Is it because at those, the banks have other things to do at this point of time and they're easing their foot on mortgages and they're going to more self-origination, giving you space rather than when the economy is slack where they're trying to push products for their own growth and they are taking away your customers. Is that a way to look at it from a macro perspective?

Ravi Subramanian: No. I think, by and large, the focus that banks have on mortgages is pretty much there. I don't think they've taken the pedal off. You look at SBI's numbers, you look like HDFC's numbers, doesn’t give you an indication that they've actually taken the foot off the pedal. I probably think that when consumers have larger issues to deal with, balance transfer is not on the mind. One.

Two, I think intrinsically, we have a moat around our business. We are largely a self-employed loan provider. And 80% of our business comes through self-employed, which is the highest in this entire space. And because we are largely self-employed, the balance transfers are largely the remit of the salaried customers. If you go back and look, do an analysis, typically, the salaried customers are the first to jump ship and jump for 25 basis points and 30 basis points differential in pricing. So because of the intrinsic moat around our business, I think our balance transfers are low in our retail business in general. And that trend continues.

I think there's been a little bit of a benefit that we have had because of the rising debt environment, but that's it. I don't think it's because of the banks taking foot off the pedal.

Moderator: The next question is from the line of Nischint Chawathe from Kotak Securities.

Nischint Chawathe: Just one question from my side and this is with respect to the bounce rate in the housing business. It looks like bounce rates have been inching up for the last two quarters. And probably we are, what is the trend out there? I know 1 plus DPD exercise is very much under control, but, and I'm looking at cases post-Jan 2019?

Ravi Subramanian: Nischint, if you go back to the bounce rate in April, May, June, they were about 10.6%. And if you look at July and August, they were about 10.3%, 10.6%. So they've been kind of range bound. September was an aberration, but that's largely because the bounce dates fell on a holiday in September. But beyond that, there isn't much of a reason to be concerned about. Though I must also submit to you that these bounce rates of 10% and 11% are about 4% to 5% lower than the next best and about 8% to 9% lower than the leader of the industry.

So to that extent, one, as the portfolio seasons, you would see this in the normal course going up from about 10%, 10.5% to about 11.5%, 12%, 12.5% kind of ranges as the portfolio vintage increases. Other than that, when I track my MOV, my bounces by vintage, nothing which really suggests anything to the contrary.

Nischint Chawathe: And even on the 1 plus DPD, you would say that probably a more normalized range is closer to 5%?

Ravi Subramanian: The 1 plus DPD, the normalized range would be closer to 5%. Also, because if you go back and look at it, my salaried self-employed contribution is completely different to what most of the other competition is. So if you look at the other three, four players, and the listed players, they are about 80% of salaried and one of them has 85% salaried, the other has about 60% salaried. So there, 1 DPD eventually will end up being… no. my 1 DPD on salaried is about 2.5% on the total book.

So now, which essentially means that my self-employed is performing significantly better than the market. I would expect this to stabilize around 5% and not go significantly beyond those 5%, because 5%, 1 DPD would be about 3%, 30 DPD would be about roughly 1%, 1.2% GNPA. That's the way the entire equation would work.

Nischint Chawathe: So net-net, I think it may be fair to summarize that from an asset quality point of view, somewhere where it comes to these early warning kind of indicators, so that it's a bounce rate on 1 DPD, we are probably at the best or maybe, in fact, 10% or whatever, a little bit better than what your long-term targets will be. And in that sense, I think when things get difficult, it may be fair to expect a little bit of a reversion?

Ravi Subramanian: I would expect that, I'm not too sure whether we are at the best or we can improve from here. I would tend to believe that we will improve from here because of two reasons. One, as we grow, our own competencies will improve. Two, as our salaried contribution also increases, that will also start tempering off the numbers that the already good numbers that we have. Three, I think somewhere we are significantly better off than competition in these numbers. And competition also has grown at the same pace as ours.

So I would tend to believe that -- or I would rather want to keep these numbers intact and work towards those, but mentally, I'm prepared for the 50, 75 basis point deterioration in 1 DPD over the next 12 months or so, 12 to 18 months, which is bound to happen with vintage.

Nischint Chawathe: Just one data-keeping question. What was the outstanding borrowing for you in this quarter and last quarter?

G.S. Agarwal: Outstanding borrowing is 5,800 crores, that includes my DA. And without DA, outstanding borrowing is close to 5,000 crores.

Nischint Chawathe: And last quarter, the number would be?

G.S. Agarwal: Last quarter, it was around 4,700.

Nischint Chawathe: Including DA?

G.S. Agarwal: Sorry, 5,200 crores, including DA.

Nischint Chawathe: And if I can ask, what is the overall borrowing program for the next six months?

G.S. Agarwal: So next six months, we plan to borrow another around 2,000 crores. And there will be a run-off also and net increase will be close to 1,200 to 1,300 crores.

Nischint Chawathe: And this includes NHB facilities or is it something that you'll not...

G.S. Agarwal: Yes, it includes NHB facility.

Ravi Subramanian: We are expecting something between 1,000 to 1,500 crores of NHB financing to come our way in November or December.

G.S. Agarwal: November or December.

Nischint Chawathe: So NHB would be majority of this INR 2,000 crores is what we are trying to say?

G.S. Agarwal: Yes. So presently also NHB is our largest lender and it will continue to be.

Nischint Chawathe: And your current rates are closer to 8%, 8.5%?

Ravi Subramanian: Yes, on an incremental basis.

G.S. Agarwal: Incremental cost of borrowing would be somewhere around 8.25% and without NHB borrowings. With NHB, it will be around 7.5%.

Moderator: The next question is from the line of Nilanjan Karfa from Nomura. Please go ahead.

Nilanjan Karfa: I hope I'm audible. My question broadly, I think you have answered across previous questions, but it's still a more pointed one. I think more than the rate hikes, I think the general outflow because of daily expenses have actually gone up quite massively, which I think is not entirely captured in the CPI number itself.

What are you seeing in terms of your overall EMI-to-income assessments that you might have done, which is, as things stand today and vis-a-vis what kind of pressure you might expect or what you need to do in terms of changing loan composition in maybe different categories, different kind of customers, if things were to sustain like this for the next six, nine months?

Y.S. Chakravarti: So income-to-EMI, there's no change in that because we wouldn't want to compromise on that. So the other point is, one way to keep that constant where incomes are also coming down would be increasing the tenors, which I am personally not in favor of, particularly lending in two wheeler or personal loan or working capital loans, I wouldn't want to do that. So there is no compromise there. So probably, we may be losing some deals because of that, but so be it. I wouldn't want to compromise there. So on that side, no change.

Probably it makes sense for me to do that increase in tenor of, say, 10 months, 12 months tenor increase in a very long-term product. But since most of our products are short-term, I wouldn't want to get there. And it is also my experience that in products like this, like your two wheeler and all where you extend the tenor unreasonably, the delinquencies shoot up. If you look at two wheeler, anything above 30 months, the performance is, there is a significant deterioration in performance of portfolio. So we've seen this over the last 15 years also. So we don't do that. So as far as income to EMI ratios are concerned, we are sticking to what we've been doing.

Moderator: Thank you. Participants you may press star and one to ask a question. The next question is from the line of Ankur Jain, Individual Investor. Please go ahead.

Ankur Jain: So my first question is about the small enterprise finance and pre-owned two wheelers. So in the small enterprise finance, we see that the growth has been subdued over the last few quarters. So do you see challenges in cash flows in that particular customer segment? And hence, your reluctance to scale up that business or increase disbursement in that? And second, on pre-owned two wheelers also, the AUM has been decreasing quarter-on-quarter. So my question is, do you continue to see the opportunity in that segment? And what are your thoughts on scaling that up?

Y.S. Chakravarti: Sorry, I missed your second part. Which one? Which product you're talking about?

Ankur Jain: Pre-owned two wheelers.

Y.S. Chakravarti: So if you look at the small enterprise finance, I would like you to look at small enterprise finance and the loan against property as one segment. What we have done here is that we have just segmented a longer duration loan into loan against property and our normal 60 month loans into small enterprise finance just so that internally our monitoring mechanism is on target.

So if you look at it, so we did it about -- the AUM as of September '22, both put together, is about close to INR 16,450 crores roughly, which was about close to INR 15,900 crores last quarter. There is a slight growth there. Quarter-on-quarter, both of them together have grown. So hopefully, this six months would see more traction there. On the pre-owned two wheeler, what happened was there is no de-focus. It's just that during the last six months, we just went a little slow on pre-owned two wheelers because the market also has slowed down there. So because of your -- see, it's a consequence of your new two wheeler sales coming down.

If you look at the number of units that are sold in the last, six months, if you look at '19, '20 number to what is happening today, it's still lower. We are still not back at those numbers. So that will also affect the supply that's coming into the pre-owned market. The lower new vehicles sales, lower supply into used market.

Ankur Jain: But you continue to see the opportunity? I know once new two wheelers come in...

Y.S. Chakravarti: We'll continue to focus on. We'll continue to do that.

Ankur Jain: And similarly, in small enterprise finance, you won't see challenges in cash flows of that customer segment right now to -- it's not voluntarily that you have gone slow on that?

Y.S. Chakravarti: See, for me, two indicators is, one is the demand, the other one is my collection. As long as the collection percentages are holding up, I continue to lend.

Ankur Jain: I have one other question which is on your debt-to-equity ratio. So right now, it's around 3.41%. My question is that over a medium to long term, three to five years perspective, what is the debt to equity level that you are comfortable with?

R. Chandrasekar: So I think we should be somewhere around 4% to 4.5%, because rating agencies don't like it above 5%. So 4% to 4.5% should be ideal, around 4%.

Moderator: Participants you may press star and one to ask a question. The next question is from the line of Shubhranshu Mishra from Phillip Capital.

Shubhranshu Mishra: My first question is on housing finance. I just wanted to understand the profile of the salaried and self-employed customers. What's the average onboarding age, the gender proportion, male versus female, because we being affordable, so mostly likely we would have more female first-time owners. Also, what would be the onboarding FOIRs for each category, salaried and self-employed?

My second question is on the balance transfer out, which we alluded in the fact that there is balance transfer out for the salaried customer. But my only argument is that at a lower ticket size, when loan has went down, is the bank also getting that too much of fee income to be generated out of it or the yield is already pretty much similar to 1 bps, 2 bps -- 120 or 200 bps over there. So why would a salaried guys really move and pay as much? So if you could explain that part? These are the two questions.

Ravi Subramanian: Okay. So answering your first question in terms of what's the customer, a typical self-employed customer would be somebody who is a shopkeeper, somebody who has got undocumented source of income, somebody who's got a small trading outlet, somebody who's got a small manufacturing unit, somebody is buying a property in the region of about 15 to 30 lakhs and wants a loan for that.

We typically fund customers who either buy completed properties or are doing a self-construction and expanding their own house, et cetera. We tend to avoid builder properties, under-construction builder properties unless we have done a complete diligence on the builder. In fact, if you look at our entire under-construction builder properties, our under-construction collateral would largely be about, what, 8% of our total book on a 6,500 crores book, about less than 500 crores would be under-construction properties as collateral.

So -- and on the salaried side, there would typically be customers who have smaller salaries, customers whose salary is just a part of the income and they have other sources of income, which are not documented, somebody who works in a government employment, but also takes tuitions, who also had other means of income and has family sources of income as well. Our typical FOIR by customer profile would typically be, for salaried guys, it could be in the region of about 51%, 52%. For self-employed, it's in the region of about 40%, 41%.

And what was the next question? On the balance transfer. Well, when you refer to what is the motivation of a bank in balance transferring out, a 10 lakh, 11 lakh, 12 lakh loan, it's all relative, right?. So when I talk about salaried being more sensitive to balance transfer than the self-employed customers, I mean in reference to this particular category of customers and this particular ticket size.

And I'm just saying, for all things given equal, the propensity of a salaried guy who has borrowed 12 lakhs is more -- to do a BT is more than a self-employed guy who has got a 12 lakh loan. So whether it's the same as a guy who has got a 50 lakh and a 60 lakh loan, so your point is valid. But when you look at the reference universe as customers of this ticket size, then in those ticket sizes salaried guys have a higher propensity to move out. That was the point I was making.

Shubhranshu Mishra: If I can squeeze in one last question on two wheeler financing. What kind of volumes are we expecting in the third quarter, fourth quarter given the fact that you alluded that you would see that book grow?

Y.S. Chakravarti: I'm sorry. Your voice didn't come through clearly, Shubhranshu. Can you please repeat that question?

Shubhranshu Mishra: Sure. So you alluded to the fact that we see the two wheeler book grow significantly during the festive season. What kind of volumes are we expecting in the third quarter, fourth quarter?

Y.S. Chakravarti: See, let me put it this way, the number of vehicles sold has come down, but the ticket sizes have gone up by virtue of cost of vehicles going up. So the disbursement amount side, we still expect a growth. But on the number -- see, typically, if I'm looking at probably around 12% to 15% growth in the two wheeler disbursement, earlier, that will be in terms of amount funded. But on the vehicle side, when you see I think the numbers are year-on-year, yes, there will be a growth.

But will it be the best year? No, best year is still '19-'20. And to reach that number, we will have to do about 30% more than what we have done 30%, 35% more than what we have done in the first half.

So that looks a little tight, but we are keeping our fingers crossed, because as of today, for the month of October, we already disbursed close to about 70,000 two wheelers. And for Dhanteras, the bookings are about another 75,000 two wheelers. So whether we will be able to sanction the bookings and enter it into the system, your question, some of it could spill into the Q3 also. So Q3, Q4 together we are aiming at about 6 lakhs two wheelers, 1 lakh two wheelers per month.

Moderator: Reminder to all the participants you may press star and one to ask a question. Next question is from the line of Kunal Shah from ICICI Securities.

Kunal Shah: So before we close, just maybe keen to know in terms of the overall asset quality performance, say, last eight quarters through the COVID. It's being managed very well. We are almost like less than 6% GNPA and credit cost is also somewhere around 2.5%. So when we look at it, are we more confident in terms of managing it may be below these levels as well or maybe this is the kind of a steady-state range that we could see? And how much could be, say, on account of maybe the underwriting process changes? And how much would be more of an intensified collection effort, which would have led to this?

Y.S. Chakravarti: Under writing, fundamentally, nothing much has changed, Kunal. So it's more of intensified effort and the follow-up and plugging in gaps in the manpower, which has resulted in this. As our credit cost is concerned, yes, we are aiming for a better number than what we have seen so far. That would largely also happen in personal loans and to some extent in our SME loans going forward. So on a steady-state, we would like it to be somewhere between 2% to 2.5%. So that's what we would like to achieve. Optimistic 2%. Pessimistic 2.5%.

Kunal Shah: So thanks the entire top management for patiently answering all the questions. And thanks all the participants for being there on the call. Wish you all a very Happy Diwali, Happy Dhanteras and happy weekend.

Y.S. Chakravarti: Thanks, everyone. Thank you so much.

Ravi Subramanian: Thank you very much.

Moderator: Thank you very much. On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.