# "Shriram City Union Finance Limited Q4 FY-16 Results Conference Call"

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**MODERATORS:** **MR. KARAN SINGH - JM FINANCIAL SERVICES PRIVATE LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Shriram City Union Finance Q4 FY16 Results Conference Call hosted by JM Financial. 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 '*' then '0' on your Touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Karan Singh from JM Financial. Thank you and over to you, sir.

**Karan Singh:** Good morning everybody and welcome to Shriram City Union's earnings call to discuss the Fourth Quarter FY16 Results. To discuss the results, we have on the call Mrs. Subhasri Sriram, who is the Executive Director and CFO. May I request Mrs. Subhasri Sriram to take us through the financial highlights subsequent to which we can open the floor for Q&A Session. Over to you, ma'am.

**Subhasri Sriram:** Thank you Karan. Good morning all. You must have possibly received the results, must have gone through it by now. I will take you through some of the highlights. On a standalone basis, Shriram City for the year ended FY16 as had a growth of 17.1% in our asset under management and small enterprise finance portfolio alone grew by over 18% during this period. There has been a good traction in this segment and growth has been seen from all regions which is a very satisfying fact for us. Though we are yet to see any significant improvement in the macro economic environment, there is plenty of room for growth in this segment we cater to as they continue to be under served and banks or other retail players have not been able to reach to them till now.

At best we see large LAP loans being offered and that too in big cities where data and business is easily available. This has insured we continue to be the largest debt providers in the market and locations we operate and there is no serious concern of slowing down. Customers with no typical income documents with uneven earnings are not the first choice to market lenders and more so when the loan amount is less than Rs. 10 lakhs. In the meantime, we have been able to successfully break into new markets like north and western regions and in the coming quarters this will see a gradual increase in our total portfolio. As I have said earlier, we have been systematically working on increasing our share of SME business for other regions too and this is starting to show now. It goes without saying we continue to grow our business in our traditional markets which have had the support of chit ecosystem like AP, Telangana, Tamil Nadu and Maharashtra.

While on a quarterly basis, the growth in overall AUM is up by 2.95%, it is satisfying to see that non-golds portfolio alone grew by 4.12% in this period and small enterprise finance book has increased by 3.4%.

Product wise, mix of AUM continues to be dominated by small enterprise finance book which is now at 54%, two wheeler 18%, gold 17%, auto loan 6%, and personal loans at 5%. With respect to fresh lending during this period small enterprise finance continue to lead with over 30% increase in incremental lending as compared to FY15. Overall non-gold loan disbursements have seen 26% growth as compared to FY15 and on a quarterly basis disbursements grew by 12%. In FY16 there has been a 10% growth in income from operations which is now at Rs. 3,834 crores, while on account of the benefit seen from lower cost of funds, the net interest income has grown by 14%. Also during the year there has been a change in Bonus Act which has resulted an increase in personnel expenses out of which Rs. 12.62 crores pertain to FY15 and Rs. 10.27 crores for the first three quarters of FY16 and the entire amount of Rs. 22.89 crores has been provided for in Q4 FY16.

On account of reversal of our earlier provision made for service tax, Other Income has increased by Rs. 15.53 crores during this year and this has been effected in Q4. During the last quarter of this year NPA recognition norms have moved from 180 days past due to 150 days past due as per RBI guidelines and as a result of this change during the year provisions and write off is now at Rs. 616 crores while this was Rs. 454 crores for FY15. Gross NPA is now being recognized on 150 days past due as per regulatory requirement and stands at 5.15% of the book. Non gold book in the non-gold gross NPA is at 5.44% and gold loan gross NPA is at 3.82%.

As for Product wise gross NPA levels, two-wheelers were 5.05%, small enterprise finance 5.4%, auto loans 6.44% and personal loan 5.96% , all at 150 days past due. In the revised norms, provision coverage ratio is now at 69.7% close to 70% and for non-gold loan book it is around 72% -73%, resulting in a net NPA of at 1.56%. On a comparable basis, 180 days past due gross NPA would have been at 3.57% as against 3.39% in December 2015. Write offs during the year were to the extent of Rs. 305 crores as against Rs. 326 crores during the previous year ending March 2015.

The net P&L impact on account of changes in NPA recognition norms alone, that is, changes arising out of additional provision and on account of income de-recognition and increase in standard asset provisioning moving from 25 basis points to 30 basis points has been Rs. 177 crores. Out of this, Rs. 30 crores has been way of income de-recognition, Rs. 8 crores on account of changes in standard asset provisioning moving from 25 bps to 30 bps and the balance Rs. 139 crores is on account of movement from 180 days to 150 days past due. This has been done where the coverage is still at 70%. While we have reduced the coverage from 80% to 70%, we are examining whether there is room for further reduction in coverage ratio and we are confident that over the quarters this may be calibrated based on our findings.

While we are aware that as of March 2017, we need to move to 120 days past due we will in the intervening period evaluate the adequacy in the current provision coverage ratio. Profit before tax stood at Rs. 807 crores as against Rs. 841 crores during the previous year. On a comparable basis, excluding the above impact, net interest income has seen 15% growth, pre-provision profits 12% growth as against 10% on reported basis and profit before tax would have been at Rs. 981 crores at year-on-year growth of over 17% as against the reported 4% negative.

Yield on assets as at March 2016 is at 21.13% and net interest income continues to be over 13%, now at 13.5%. Cost of borrowing as of March 2016 is at 10.32% as against 10.86% in the previous year. Rs. 14,408 crores were the total borrowings with bank borrowings constituting 59% of the total. We continue to have access to market borrowings through CPs, bonds and to exercise our option on retail deposits.

58.6% of our borrowings are at floating rate of interest and weighted average of our tenure of borrowings is at 26.06 months as at March 2016 which is extremely comfortable and a positive liquidity situation for us. During the quarter, company successfully completed both securitization transaction and the direct assignment transaction thereby ensuring all funding options are available especially when banks are expected to look toward NBFCs for their PSL compliance beginning from Q1 onwards this year. We made a smooth migration during the quarter to the new delinquency norms stipulated by Reserve Bank of India while maintaining growth momentum.

On our subsidiary, Shriram Housing, assets under management as at March 2016 were at Rs. 1,275 crores, a growth of 18% on a quarter-on-quarter basis and the same stood at Rs. 737 crores as at March 2015 - a 73% growth on a year-on-year basis. Total disbursements during the year FY16 were at Rs. 792 crores out of which Rs. 710 crores was to retail home finance segment. Of the total asset under management of Rs. 1,275 crores only Rs. 88 crores is in the non-retail book. Average lending rate continues to be over 16% and significant percentage of the book is from affordable housing mortgage business with a pan India outlook.

The company currently is operating out of 79 branches. Gross NPA is at 2.76% as compared to 3.09% as at December 2015 the company continues to maintain a coverage ratio over 27% which is well over the minimum regulatory requirement. Profit after tax for the year is at Rs. 28.9 crores as against Rs. 20.2 crores the previous year recording a growth of 43%.

The clear focus on affordable home loan segment with leaning towards Tier 2 and Tier 3 markets will ensure that Shriram Housing continues to see high growth potential and will be largely unaffected by the excess housing supply seen in big cities and increased competition seen in LAP and large ticket loans in construction finance segment. We are confident that in the coming quarters both Shriram City Union Finance and Shriram Housing should be able to maintain their growth trajectory. Thank you so much, happy to answer your questions.

**Moderator:** Thank you very much, ma’am. Ladies and gentlemen, we will now begin the question-and-answer session.

We have first question from the line of Umang Shah from Emkay Global. Please go ahead.

**Umang Shah:** I just wanted to confirm the breakup which you gave for the Rs. 177 crore P&L hit because of migration from 180 to 150, so Rs. 30 crore is the income de-recognition and Rs. 8 crores is towards standard asset provisioning change, is it?

**Subhasri Sriram:** Yes that is right, and Rs. 139 crores towards movement from 180 to 150.

**Umang Shah:** Okay, ma'am if you could just help us that going forward, so I mean you have already mentioned in your opening comments that clearly you would be looking at how to recalibrate this provisioning coverage. But clearly just wanted to understand that given the kind of stress that we have at this point in time in the system is it that you guys are seeing a situation that let us say if you were to drop provision coverage, in that case your loss given default should go high? I mean what I am trying to understand is that net-net the credit cost may not actually come off even if you drop the provisioning coverage. Do you think, is that a situation today on the ground?

**Subhasri Sriram:** On the contrary, no. Let me put it very clearly - the coverage ratio is not indicating any management decision on or expectation on the credit cost. So we are right now working on a more scientific basis to arrive at the estimated credit loss. We are also aware that there are lot of other changes in the guidelines and we are right now working on it. So this is not an indication of any management expectation of expected increase in credit cost or higher loss estimate. This is purely on a number where we had looked at it moving down from 80 to 70. And we have not yet worked on product level what is the estimated credit loss. While our back of envelope calculation in our historical data is giving us numbers which are far healthier than what we right now see, we would rather wait to get the whole exercise done before we move the coverage ratio from the current 70% levels.

**Umang Shah:** If you could just help me with two data points so at current juncture what would be our gross NPA levels at let us say 120 DPD?

**Subhasri Sriram:** Close to about 7% - 7.1% around that at this point in time. So as I said at March 2017 this can be below 7% or a little over 7%.

**Umang Shah:** And just last question is that you mentioned that in Shriram Housing as well as in SCUF the growth trajectory is that we have seen a similar growth rate should continue in FY17 as well right, and assuming that if we maintain at 60%, 70% kind of a provision coverage assuming if that is what the numbers that we work with, what should be our sustainable ROAs then?

**Subhasri Sriram:** On our reported ROAs?

**Umang Shah:** Yeah.

**Subhasri Sriram:** Reported ROAs we will see some dip because of additional provisioning recorded on a growing balance sheet. So therefore we expect that both Shriram Housing and Shriram City will be in mid-20, 2%, 2.5%, 2.7%.

**Moderator:** Thank you. The next question is from the line of Kartik Chellappa from Buena Vista Fund Management. Please go ahead.

**Kartik Chellappa:** If I look even on a like-to-like basis on the 180 DPD, we have seen some deterioration in the gold NPA sequentially and some deterioration in the SME book as well. So how would you assess the collection efficiency and the asset quality on a like-to-like basis of your portfolio as things stand today?

**Subhasri Sriram**: Let me answer product-by-product. In Gold we have seen some optical movement in our gross NPL numbers. That is largely on account of customers having multiple accounts transactions with the company where if even one loan drops to the non-standard category, all the loans at the customer levels will get classified as substandard. So on account of moving from 180 to 150, quite a bit of loans which are otherwise well within the 150 norms have now been classified as substandard. Thereby there has been shift in the gross NPL number in the case of gold. Because the NPL recognition is at the customer level and in the case of gold there are multiple transactions for the same customer.

With reference to SME or the enterprise finance loan, as I said in detail in the past, we continue to see that the liquidity situation at the customer level has not improved. All customers who are either in the three months, six months whatever number of months overdue have not been in a position to get back to current or pay up the arrears within the time period or within the next three months or four months. So we have consistently seen that customer collections continue to come in but if there is a pile up of EMIs they stay till the maturity of the loan and thereafter collections continue post the loan maturity date. So effectively we are not worried about ultimate losses. There can be cash flow mismatches and thereby there can be for a short period of time increase in delinquency.

**Kartik Chellappa:** Okay so at an underlying level there really is not much of improvement on a like-to-like basis?

**Subhasri Sriram:** There is no improvement and I would say customer who has earlier six months overdue he continues to remain at six months overdue while he may have not moved to twelve months overdue by now. He continues to pay thereafter his monthly dues but he is not in a position to settle his past arrears. So more customers have their over dues beyond 150 days. But it does not mean they have stopped paying and it is now sequentially increasing from 150 to 180 or 200 or whatever. The customers continue to pay their future monthly dues but they are not in a position to pay past arrears. This we expect to get resolved only at the end of the contract period.

**Kartik Chellappa:** Got it. And my second question is on our Opex, the Opex growth this year whether it is employees or other expenditure has been quite strong, around 20% plus. Now earlier you had mentioned that the Payment of Bonus Act that impact is only somewhere close to around Rs. 22 crores, right?

**Subhasri Sriram:** Yeah Rs. 23 crores. Rs. 22.89 crores.

**Kartik Chellappa:** So excluding that let us say in the other expenditure categories also we have seen a strong 22% kind of growth year-on-year, where would that be coming from?

**Subhasri Sriram:** I would say largely in terms of business growth and some amount of expansion. I do not think we have added additional manpower. Our number of employees remain more or less constant as at the beginning of last year. However we have looked at certain revised incentive schemes and other initiatives which to some extent has increased the cost to us. But these are I would say very healthy trends which is increasing the performances at the business level.

**Kartik Chellappa:** So we should expect a 20% kind of a growth on an annual basis at least for the next couple of years then in this head?

**Subhasri Sriram:** Not on this. The employee cost you would probably expect around 15% now I mean removing the bonus impact and others but Opex cost would be around 12% increase.

**Kartik Chellappa:** Sorry, 10% increase?

**Subhasri Sriram:** 10% to 12% increase.

**Kartik Chellappa:** And just one data point ma'am. You had mentioned that the non-gold NPA is around 5.44%, right, gross NPA?

**Subhasri Sriram:** Non-gold, yes.

**Kartik Chellappa:** What would be the net NPA be?

**Subhasri Sriram:** 1.49%.

**Karthik Chellappa:** And the net NPA for the gold?

**Subhasri Sriram:** 1.89%.

**Kartik Chellappa:** So when you said that the provision on account of moving from 180 to 150 is Rs. 140 crore. If I just do some calculation the increase in NPA the stock of NPA on account of moving from 180 to 150 will it be somewhere around Rs. 300 crores?

**Subhasri Sriram:** In terms of gross NPL number, yeah around that.

**Kartik Chellappa:** So we have basically provided for 50% of the increase in the NPA basically?

**Subhasri Sriram:** Right.

**Moderator:** Thank you. The next question is from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead. As there are no response from the line of participant, we move on to the next question that is from the line of Rohit Kadam from Credit Suisse. Please go ahead.

**Sunil Tirumalai:** This is Sunil Tirumalai from Credit Suisse. A couple of questions. Firstly on across the three, four key focus segments could you take us through how you see growth in the coming quarters? And secondly in the housing subsidiary what exactly do you do in non-retail in terms of lending over there?

**Subhasri Sriram:** With reference to different business segments as I explained, the SME business or enterprise finance is more the micro small enterprise loan where our focus is on the Tier 2, Tier 3 towns where we are looking at customers where the loan ticket size varies from about 2 lakhs to about 10 lakhs at the branch level. This is the largest segment of customers who do not have data which are reliable or which are commonly used like income tax return or bank statement which are fully authentic. We will have to prepare cash flows, we work with customers to prepare the cash flow, estimate the requirements. It is an engagement we enter with customers.

And this is largely a relationship lending, it is a community sort of activity and our branches work within that segment and most of our decisions and most of our processes are at the branch level. This is something which we have developed over the decades at Shriram in our southern region offices and this is now being successfully practiced in the rest of the country. Today we are doing this in the north and western and central India market, hopefully we should move to the eastern region one year down the line. With reference to two-wheeler business, I would say we are practically the number one in the NBFC space. We have been seeing a significant growth and this has not necessarily have had to come out of new vehicle sales. We are not so largely dependent upon the incremental sale of two-wheelers.

Today only around 30% of the vehicle sales are financed. Essentially 70% of the vehicles are being purchased out of cash and not by credit. The room for growth for us is not necessarily from incremental sales but in converting these cash transactions to credit transactions whereby encouraging customers to opt for a credit pay over a couple of years while he can take the money back home and invest it in his business or even keep this equity for his other emergencies. I would say we have been in this business for around 12, 14 years. 2002 we started off and I think the last seven eight years it has largely moved in an auto pilot mode.

Our branches are well structured. The risk management is well documented and this is probably one of our best low effort yield businesses. Gold has been I would say a relatively new product but it has been there for about seven, eight years now. But as I have said in the past it is a commodity business so it has its cycle and is largely driven by the gold price movements and that is sometimes seen within quarters and sometimes between quarters. As you would have seen in Q3 vis-à-vis Q4 gold price movements have changed the way our AUMs and disbursements move.

But nevertheless we are very much there. Our branches continue to provide these products. No, we have not added any new branches to this segment. The existing branches cater to this product. It has been I would say quite low key but we continue to maintain the AUM. The other two products personal loan and auto loan are largely right now almost 90% plus in the southern markets. It is one more additional product in markets where we have probably the single or the only lender status in those markets. Our branch network being extremely deep and penetrated, we cater to a complete set of products into smaller locations where there are no other organized lenders. So this continues to be a small risk business where the growth is significant. But in the long term this may not be a big share in our book. We will continue to be close to about 10% of the overall combined book of auto loans and personal loans.

With reference to Shriram Housing, you were talking about the segment which we do in terms of non-retail. It is largely in terms of construction finance and builder finance. And even in these cases we are looking at converting at a time frame into retail customers where we are taking positions with builders again in small towns where we will gradually move towards retail financing in that sector.

**Sunil Tirumalai:** Okay and just a follow up on the first one. What is your keeping aside the transition to 120 days what is the underlying NIM outlook that you have for the next year?

**Subhasri Sriram:** Okay, as far as the change in NPA provisioning coverage all of that if I have to just look at the lending rates, we are not looking at any compression in lending rates from the current rates which we have offered and that has remained steady for last one year. As I said in the beginning of my statement there is not too much competition in the SME space. All that talk about small finance banks and others, it is probably too early and this is not the space even they would be able to service at this point in time with all other activities which they engaged in as a bank.

We do not see any change in lending rate product levels while in the cost of funds, while we are yet to see complete transfer of reduction in bank rate, we hope to get some benefit in the next couple of quarters when banks will pass on the benefit of reduced borrowing rate and this should improve our NIM. I mean even otherwise whether it will improve or not I think maintenance is clearly visible. Maintaining the current NIM is clearly visible.

**Moderator:** Thank you. The next question is from the line of Rohit Shimpi from SBI Mutual Funds. Please go ahead.

**Rohit Shimpi:** My question was you said that the 7% NPL was on 120 DPD, right?

**Subhasri Sriram:** Yes, that is right.

**Rohit Shimpi:** Okay so what would it be roughly on 90 DPD?

**Subhasri Sriram:** Around 9% to 9.3%, 9.5%. At this point in time it is two years roughly. Very difficult to put a number but I can say if we have to do this today, on today's book it will be around 9%.

**Rohit Shimpi:** Okay and in the last call you had shared some insights on how this change is getting communicated at the field level and the readiness of the staff and customers. Could you update us on that, please?

**Subhasri Sriram:** No, as I said well we will explain the 150 norm to our teams but we are clearly not looking at bringing our customers to 90 days or making it as any form of penalty for non-compliance at 150 or 90. The market is doing a lot of favor for us - there is enough communication, enough market information which is going about the migration from 180 to 90. I do not think from Shriram City we are making extra effort to communicate this to our customers. We are quite comfortable with the segment we operate. We are aware that customers are paying what they can pay at as and when the funds are available and I do not think there is any deliberate intention to hold back the payment because we give them a 150 days or a 180 days credit lines. So our collections are from day zero onwards.

So I do not think any concessions are given if the customer is paying within 180 and beyond 180 it is a different action. Our reactions or our penalties are starting from day one onwards. With reference to whether we want to take legal action against the customers, I do not think again that we wait for the RBI as regulator to tell us whether we should take legal action only after 180 or 150. Our legal actions or recovery actions or any of other hard pressures will be taken on a case-to-case basis where we see customers' intention to pay, ability to pay in the near future.

**Rohit Shimpi:** And ma'am, from the let us say economic or an underlying cash flow perspective on our lending, do we see any impact of this 90 DPD in terms of the way we are structuring the product or the change in customer behavior or you think the change will be largely just accounting and?

**Subhasri Sriram:** Largely, if in case the market communication is very strong I do not see that Shriram City is going to make extra efforts. It will largely be an accounting number.

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

**Nishchint Chawathe:** I was just curious you mentioned that you will look at the provisioning coverage ratio I mean I was just curious what really drives this over the next couple of quarters?

**Subhasri Sriram:** See we are also aware the changes which are likely to happen with IFRS is coming in two years thereafter that is 1 April 2018 which is moving towards ultimate credit loss and credit loss estimates rather than past dues and past performance. We will work towards all of them in the next two quarters. We will assess the requirement and make our migration smooth as and when the regulatory changes happen in terms of IFRS, we should be ready for it. So we do not want to go back and forth with our provisioning and numbers. We will ask that has been now certain at this point in time and our coverage ratio we will roughly evaluate at product level and move appropriately.

**Nishchint Chawathe:** No, the point I was trying to say was that is it something that you are looking at improvement in the overall NPLs or collections?

**Subhasri Sriram:** See as I said earlier definitely as per the past track record we would probably not require this coverage which we are right now maintaining but I do not want to take this at a macro level, we would like to do it at product level and more detail before we zero in on that coverage ratio at various products.

**Nishchint Chawathe:** Okay but on a standalone basis there is no reason to believe that collections or NPLs whichever you look at it, the asset quality behavior is going to change significantly over the next six months.

**Subhasri Sriram:** We are not moving there because we are not unduly concerned. Even at 120 days after the settlement our collections have been very healthy. It is not as if after 150 days or 180 days our collection stops and the entire amount needs to be written off. Our recoveries post the duration or post delinquency are significantly improving. There continues to be a high level of attention and management interest to ensure that collections continue to happen irrespective of the date at which it they been past due. And therefore we are very confident that collections will continue to come in irrespective of the numbers at which we recognize NPA.

**Nishchint Chawathe:** And on the ROA guidance did you mention that you are looking at an ROA of 2% to 2.5% as compared to?

**Subhasri Sriram:** After the norms which we need to provide in terms of NPL. But if I have to do at 180 days and do a go back to March 15 or comparable March 16 numbers we will continue to be healthy 3% over.

**Nishchint Chawathe:** Okay and so basically what you are saying is that possibly if you move to 90 days it becomes 2 to 2.5 is what you are guiding?

**Subhasri Sriram:** Yeah around that and I would like to make it at 180 which I think 80% or 70% which we had we would probably require. Our ROAs will be around 3% so on a sustained basis post couple of years from now we should move towards the 2.5% to 3% where we do not have to do this one time movement.

**Moderator:** Thank you. The next question is from the line of Prerna Lotlikar from Allard Partner. Please go ahead.

**Prerna Lotlikar:** My question was on gold loans. So we have seen in this quarter that disbursements are up sequentially by around 38% to 40% whereas AUMs are down by like 5%. So what explains the discrepancy - is it because of higher auctioning or how do we read this?

**Subhasri Sriram:** I would not use the word discrepancy. It is I think the nature of the product. As I had explained in my covering remarks the gold price has seen in the last quarter increase from close to being around Rs. 2,300 per gram to Rs. 2,700 per gram and December was an all time low, in the last twelve months. So we have always seen when the gold price moves upwards there is a larger interest in fresh loans and people are interested in redemption where they have been looking at higher LTVs. So this is a normal behavior in the segment so very much expected.

**Moderator:** Thank you. Next question is from the line of Kashyap Jhaveri from Capital 72 Advisors. Please go ahead.

**Kashyap Jhaveri:** Just wanted to understand on this again on 90 days past due migration. Let us say in the earlier calls you had highlighted that the number could rise by about 2% on each migration and this could reach up to let us say about 9% when we migrate completely to 90 days past due. Now let us say if I look at as of today I mean we have a portfolio of about Rs. 19,000 odd crores and sort of 9% of that would imply a number of about Rs. 1,700 crores of gross NPA number. Today we have a number which is roughly about Rs. 630 crores so there could be an increase of about let us say hypothetically about Rs. 1,200 crores. You provide about 50% on that, so that would imply a provision cost over a period of two years of roughly about Rs. 560 odd crores or so. And today our net worth is roughly about Rs. 4,500 crores. So does it imply that just because of migration of these norms our Tier 1 capital could see a hit of roughly about 200 basis points or so because we will have to provide it through P&L?

**Subhasri Sriram:** Yeah, your number are right, 50% coverage on the incremental book on Rs. 4,500 crores net worth I think your number is right.

**Kashyap Jhaveri:** And let us say if you provide eventually what you are saying is that you will try to sort of calculate LGD for each product separately and then arrive at a scientific way to do the coverage ratio. Let us say if that number comes at 40 then to that extent Tier 1 could be higher and let us say if that comes at 60 to that extent the Tier 1 could be lower?

**Subhasri Sriram:** Correct, yes.

**Kashyap Jhaveri:** And the second question is on the growth side. In some of your interviews earlier also you have highlighted that you could be expanding the tenure for SME loans and gradually in some of the areas or some of the regions where you probably were not doing so you could increase the ticket size also. The loan growth over there is still about 19% so what is your outlook on that part of the business?

**Subhasri Sriram:** We are talking about outside these markets?

**Kashyap Jhaveri:** SME loans?

**Subhasri Sriram:** SME loans outside of southern markets or SME loans?

**Kashyap Jhaveri:** In one of your interviews you had highlighted that in some of the markets we were still not looking at raising ticket sizes which we now probably would be looking at and extending the tenure which earlier we had curtailed now this will be back to the original three to five year kind of tenure?

**Subhasri Sriram:** So we have already looked at it, started it. So there are I would say three points of growth we are seeing right now. One is to continue to grow confidently in the newer markets and we have made various steps in the last couple of quarters getting into northern markets, central India. Today we have enough data, we are confident the team is well settled. We will be growing in the non-southern markets as actually as we would love to.

The second the opportunity which is before us and we have already started at it is to look at increasing the ticket size in segments where we are already in, largely in the south market. With increase in ticket size the channel will also likely to increase so this will have a sequential impact in AUM growth. The third growth strategy will be, having been in this segment for ten years now we have now started getting customers' loans which we have done in 2012-13 coming for maturity now and it is a good time for the future economy as we see an uptick there. We will also see a lot of our ability to sell loans to our existing or part Shriram City customers. So this is going to also increase our productivity of our employees and thereby increase our growth potential.

**Kashyap Jhaveri:** But let us say if I look at last three, four quarters I mean sequential growth in SME loans is anywhere between 2% to 5% so the full effect of this will come in let us say by when could the full effect be seen in the numbers?

**Subhasri Sriram:** Yeah, it will happen I would say it is very gradual I do not think that looking at it in a very dramatic way. What I see is systematic and consistent money so it is not a one off and then two steps backwards, it will be consistent and it will be systematic and it will be done sequentially. We will see quarter-on-quarter benefits coming out of this. And much of the work has been done in the last two years. We built the teams, built the processes, pilot tested the products, we have developed the technology backbone and working at it, even improving it further in the next two quarters.

**Kashyap Jhaveri:** And can you give a number of four wheelers AUMs during the quarter, closing AUMs?

**Subhasri Sriram**: It is about 1,140.

**Kashyap Jhaveri:** Just one last question. On the Shriram Housing you mentioned I think gross NPA number during your comment but I missed it out so if you could give that number?

**Subhasri Sriram:** It is 2.76% as at March 2016 and December 2015 it was 3.09%.

**Kashyap Jhaveri:** Okay and net NPL number?

**Subhasri Sriram:** Net NPL number is 1.99% at March 2016 and 2.30% at December 2015.

**Moderator:** Thank you. We have the next question from the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.

**Rahul Ranade**: What would be the number for the off balance sheet AUM at the end of the year?

**Subhasri Sriram:** Off balance sheet AUM is close to about Rs. 550 crores. Rs. 320 crores has been done in FY15 is the off balance sheet.

**Rahul Ranade:** And I just missed out on the non-retail housing book, what would be that proportion of the housing?

**Subhasri Sriram:** It is about Rs. 88 crores.

**Moderator:** Thank you. Next question is from the line of Digant Haria from Antique Stock broking. Please go ahead.

**Digant Haria:** Just wanted to clarify that the ROA guidance of 2.5% does it take into account the fact that may be going ahead next two years there could be some kind of lending rate reduction that we have to do because I understand that in the year gone by we have got the benefit of our borrowing cost coming down but obviously we have not passed on any benefit to them. And then especially when we view this in the light of even microfinance starting to lend unsecured at 20%, 21% so guys like SKS would have probably have gone down as low as 19.5%. So would there be some pressure on our yield also going ahead?

**Subhasri Sriram:** Our field feedback is there is no such requirement right now, there is no demand from the market. As I said in my covering note that in the SME space there is not too much competition. On the two-wheeler front we definitely have our own market in terms of Tier 2 non salary class working in the smaller towns creating market. As we see this is not in direct correlation to the wholesale borrowing rate. So therefore this passing on the benefit of bank rates is not yet a number which is seen in retail business and the space at which we operate. I think in the case of microfinance and others it is probably little bit of a work in terms of competition and our need to grow and being in a single segment and many of them probably have their own restrictions in terms of locations. So this is probably a challenge. I think in the market we operate we are not seeing too much pressure to reduce lending rates at this point in time.

**Digant Haria:** And one data point what would be the disbursement in the housing finance business for the quarter?

**Subhasri Sriram:** For the quarter it was about Rs. 273 crores out of which Rs. 245 crores is retail. And March actually we saw an all-time high of Rs. 100 crores.

**Digant Haria:** And the ROA this business is also should be stabilized around 2%, 2.5% kind of levels, right?

**Subhasri Sriram:** Yes.

**Moderator:** Thank you. The next question is from the line of Bharat Bhagnani from Tasha. Please go ahead.

**Bharat Bhagnani:** Can you tell me the demand outlook for the two-wheeler loans that you are going to see in this year?

**Subhasri Sriram**: I have explained that in two-wheelers, largely the growth in business comes from one is converting the current cash sales to credit and the other one is to in smaller towns we are actually working with the manufacturers, OEMs to increase the demand in terms of introducing products. And we have also seen a significant improvement in the scooterette segment and that is actually changing the way the customer behavior is. And much of our growth is seen in scooterette vis-à-vis motorcycles. We still are very confident that notwithstanding the fact that we are the market leader today in the two-wheeler space, we will still be able to grow comfortably around 15% to 20% in that product alone.

**Bharat Bhagnani:** Okay and which are the major manufacturers for which for whom we do the financing?

**Subhasri Sriram**: All major ones. I think our book is more or less almost mimics the share of the manufacturers in the wholesale market. We have our share of Honda, Hero, Bajaj, TVS, Yamaha all of it. Maybe some amount of shift in vis-à-vis Bajaj and TVS because they have their own in-house financial arm but we have a large proportion of Hero and Honda.

**Bharat Bhagnani**: Has there been any increase in the dealer network?

**Subhasri Sriram:** To some extent yes in smaller towns and in the northern markets we have been able to increase our dealer networks but both in the case of Andhra and Tamil Nadu we are quite well entrenched. I do not think there is much room for expansion there unless the OEMs come up with new dealers.

**Bharat Bhagnani:** And what has been the average interest rate at which you have lent in this segment?

**Subhasri Sriram:** Ranging from 24 to 25 at best.

**Bharat Bhagnani:** One more question in the small enterprises business. See you mentioned that the ticket sizes in this business were about from the range of Rs. 2 lakhs to Rs. 10 lakhs so primarily which are these kind of companies that you are lending to?

**Subhasri Sriram:** They are not companies, it is a very nice word but unfortunately we do not have registered entities. Not in the entrepreneurs, shopkeepers, traders, small time manufacturers, small time value-added products, hoteliers all of them.

**Bharat Bhagnani:** So what is the due diligence process that you are following?

**Subhasri Sriram:** The due diligence will start with several rounds of personal interactions with the borrowers collecting certain datas, corroborating by backing them with the industry data available in the local market talking to their vendors, suppliers, their peers in the industry and preparing our own cash flows. We encourage our employees to spend time with our customers and their family to understand their expenses and thereby help them prepare the cash flow. Because in the small businesses the personal income and business income are fungible, expenses are fungible so we help prepare the entire cash flow and thereby assess the loan and credit limits and their business requirement and then we discuss about tenure, repaying capacity, work and the cash flow capability and then finally look at collaterals based on the loan book.

**Bharat Bhagnani:** And what is the interest rate that you are lending at in this business?

**Subhasri Sriram:** There is as low as about 15% to as high about 24%.

**Bharat Bhagnani:** Ma'am, just one last question. You spoke about legal actions in one of the earlier questions. So when it comes to taking legal actions and when it comes to recovery, is it done by you; you have an in-house team or do you outsource it to a third party?

**Subhasri Sriram:** 100%, A to Z is all managed in-house. So including recovery our recovery legal all of is managed in-house. And it is largely also managed from our local offices.

**Bharat Bhagnani:** And how many you mentioned in one of the questions that you have a branch network of about 75 to 80?

**Subhasri Sriram:** No, 72 it is in the case of Shriram Housing. So Shriram City is over 1,000. 79 in the case Shriram Housing and close to about 1000+ locations in the case of Shriram City.

**Moderator:** Thank you. The next question is from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

**Kunal Shah:** Ma'am, coming back to this question on ROA of 2%, 2.5%. So maybe when we are confident in terms of margins at 13% broadly when we look at it say overall opex in the range of say 5%, 5.5%. Even if I take 6% then that would leave it to say almost like 7% free operating profit. And 2.5% to 3% of provisioning. So are we seeing some kind of a pressure on margins or may be the provisioning coverage could be higher that is the reason like we are guiding for?

**Subhasri Sriram:** I would rather not put a number right now because as I said we are not yet while we are very clear in terms of when we want to move our NPA recognition. Because average I would say we would require some more time. And therefore I would rather be conservative and look at it rather than trying to be more optimistic and not be able to reach the standard. So I would rather look at it from today's number of 2.72% on a reported basis and that should probably give us the benefit of around 2.5% to 2.7%.

**Kunal Shah:** And secondly, in terms of say the customer segment across the various products if you can cut across as to how much say would be say somewhat related to say the chit funds which was our base so across the various segments?

**Subhasri Sriram:** You are talking about customer exposure through chit fund related?

**Kunal Shah:** Yeah.

**Subhasri Sriram:** That has become very historic today. As I said very clearly we look at ecosystem and operating in those locations where we have the references and customers but today we have gone beyond being dependent on chit fund customers to be our customers. It is incidental that our chit fund customer might be our customer but our collaterals or lean marking is not anymore depended on the chit fund savings. We look beyond that but definitely the chit ecosystem helps us in terms of marketing information.

**Kunal Shah:** So this entire business loan would be outside of it may be hardly may be personal loan say something which would be say 5% of the portfolio?

**Subhasri Sriram:** Even the personal loan comes out of Shriram City customers only. They are not looking at chit fund to do any personal loan at all. In fact, the entire personal loan is currently marketed out of the chit fund customer database. Like in the case of two-wheeler loans getting into personal loans or SME loans moving into say personal loans or after their earlier loan closure. So that is why the personal loan ticket size is largely less than a Rs. 100,000. So it is Rs. 50,000, Rs.

75,000, Rs. 100,000 is the loan ticket size in the case of personal loans. The migration of a customer in the two-wheeler or in the case of SME happens after the earlier loan closure.

**Kunal Shah:** So then may be in terms of the niche so nothing may be related to too much of say the chit fund based customers which is there in today?

**Subhasri Sriram:** See I think whatever the benefits of chit fund have been absorbed over the period in terms of employees, branch network, the database all of it has been. Now we are fully-entrenched. So it is more than 14 years since we have got in to this segment with the chit fund. I think today Shriram City is far, far 4x to 5x bigger than Shriram Chits. I think our dependence is significantly lower.

**Kunal Shah:** So then may be in terms of a competition intensity when we look at it obviously may be small finance banks are yet to transition fully. But still when we look at it say from the other NBFCs, regional NBFCs even like banks okay rather than now focusing too much on the corporate are looking at say the nearby locations on the retail and on the SME side or say the business loan side where the entrepreneurs are so is not the competition intensity actually moving up but still making up?

**Subhasri Sriram:** I am waiting for it. As we have been waiting for it for ages now. Every time people talked about it whether it is pressure on the banks to grow then they talked about small finance banks. I think the differentiator which I clearly mentioned is the borrower profile and the loan amount and transaction cost. In our SME business the reach is through our employees reaching out to customers, making calls, meeting customers and soliciting business, unlike the current model of the bank instead of the customer to walk into the bank and ask for loans. This is a segment of customers who are not habituated to seek loan in the organized space. Well they walk out of their office and go around with banks making applications. So that has been the behavior of this. It is like a two-wheeler business - you cannot do a two-wheeler business sitting in a branch; you need to set up your office at the dealer showroom. Similarly, in SME if you expect a bank to do two-wheeler business I mean as impossible it is, it is for a bank to do a Rs. 5 lakhs loan to a customer while he has to assess his cash flow and customer does not walk into your branch and expect the bank to do this business. I think that is as improbable as these banks doing two-wheeler business sitting in their branches. Unless we would have the private sector banks having a retail vertical having to setup a marketing team, going and reaching out and if the cost structure which say operates at a Rs. 5 lakhs loan, two-wheeler loans are not as attractive. If at all it will be attractive if we had a rate higher than our rate at which we charge. So probably they will do lot of service to us by making us look better than what we are right now.

**Kunal Shah:** And overall in the ground level may be environment is more or less stabilizing. So the way I am coming is obviously the potential is huge, we are not seeing that much of a competition. So what is holding us in terms of growth? So I think on these ways definitely?

**Subhasri Sriram:** We are growing at a very healthy pace. 18%-20% growth in this market is…..

**Kunal Shah:** 18% to 20% is still may be considering the potential wherein we are there and may be wherein we are not seeing too much of a competition. So why is this?

**Subhasri Sriram:** It is an intensive business. It is like running a marathon. I know the distance and if we do short sprint I can probably cover this much faster. But when you have decided to do a run a marathon I do not think we can burn up our energy and run a very short period and then not being able to continue the race. We strongly believe that we are running a marathon. It is a long term initiative and therefore this has to be done sequentially. I think 18%-20% and it keeps growing at every level. We push this number 15% to 18% and 18% and 20%. We keep pushing the growth number but I do not think we are looking at 18% to 30% or 18% to 40% in one go. That is a sprint race. I do not think we are in that.

**Moderator:** Thank you. The next question is from the line of Adesh Mehta from Ambit Capital. Please go ahead.

**Adesh Mehta:** So ma'am, you mentioned that your loss given default experience in different product categories has been much better than what you have provided on the new NPAs. So you have basically provided around 45% on the new NPAs. So ma'am, can we know what has been your credit loss experience in each of these product classes?

**Subhasri Sriram:** As I said earlier that we would rather do this study before we have a data which is more validated by third parties before we put out our own experience because while we have our experience in our past settled contracts we are right now working on estimating on a running contract and evaluating the expected loss potential. You need to bear with us a couple of quarters.

**Adesh Mehta:** So ma'am, what could be the numbers be on the settled…?

**Subhasri Sriram:** But I would let me put it this way. Right now when we are looking at about 3% in terms of moving from gross NPLs and NPLs with provisioning amount close to about 4% which is right now is what we have converted from 5.15% to 1.56%. This is we would probably be able to shave off about 50 to 60 basis points out of this.

**Adesh Mehta:** So ma'am, basically a coverage ratio of around 70% may well be justified given the business we are doing?

**Subhasri Sriram:** 70% might be little generous; 50% might be conservative. 50% we might be very aggressive, not conservative. I would probably would say aggressive and maybe there is room for additional provisioning at a later date. But if we are doing a 70% I would probably say we have an excess coverage but in between we need to examine.

**Adesh Mehta:** So may be a reasonable number could be around 60%?

**Subhasri Sriram:** Probably, yes. We need to work that out.

**Adesh Mehta:** And ma'am, another question is that so we are sitting on a lot of capital and given that Housing Finance business is very scalable we are anyways growing at a pretty robust pace in this business then why not grow faster and sweat this capital much more faster?

**Subhasri Sriram:** Let me put it this way. We are not holding back growth in any sector - either Shriram Housing or Shriram City. We were not holding back and saying we should not grow. That phase is behind us now. We are not concerned and the market economic conditions are not keeping us worrying. We are quite aware and we have now faced this two, three years in this market we are quite confident that we will be able to manage. So there is no holding back our growth today. However I do not think we will work extra effort to sweat out the equity. With growth in due course the capital requirement will come in.

**Adesh Mehta:** And ma'am, on a more absolute basis what kind of AUM should are we looking to build in from this Housing Finance book over the next three, four years?

**Subhasri Sriram:** See we have been growing about 70%-75%. Obviously I cannot say the next three years will be 70% year-on-year growth. But definitely a +50% year-on-year growth we is doable over the next three years. It is a small base and the market which is still growing fast.

**Adesh Mehta:** So basically 50% growth should be doable for next three years?

**Subhasri Sriram:** Yeah, we do expect that.

**Adesh Mehta:** And ma'am, in terms of profitability between the South and non-South markets how is it looking in terms of ROAs?

**Subhasri Sriram:** You are right that you asked the question about ROA because while we might have yields probably same but the expenses ratios slightly vary because of the multiple products. In the well-defined markets in south our expenses are per transaction or per loan are significantly lower than in the north and western markets where we are still investing for future. But considering that our credit underwriting processes are still I would say in a testing mode and our credit cost is lower in the north while the expenses are higher.

We have largely seen the ROAs between regions more or less aligned. But I think the going quarters you will see the per transaction, per loan cost coming down in the western and southern markets and we should hopefully be able to also keep the credit cost under control and we should see an increase and see a better improvement in the non-South markets.

**Adesh Mehta:** So basically ROA improvement if any will come from the non-South markets?

**Subhasri Sriram:** Because there is room for because the scales are not yet been achieved there. The scale of business has not yet been reached.

**Adesh Mehta:** And when do we expect this to scale up fully?

**Subhasri Sriram:** It is a continuous process. By the time I would have reached the particular scale I would have invested for future growth. I do not think we will ever come and say we have grown and there is no further scale possible. While we are at about 80% achievement of targets we would have started the next investment for growth. And this is as I said a marathon. We are not preparing for any exit in any period of time. So it is a long term effort.

**Moderator:** Thank you. The next question is from the line of Rishindra Goswami from Locus. Please go ahead.

**Rishindra Goswami:** Yeah, I just wanted to know the quantum of recoveries and write-backs during the year for FY16?

**Subhasri Sriram:** It is close to about Rs. 60 crores to Rs. 70 crores.

**Rishindra Goswami:** And what were the same number have been last year?

**Subhasri Sriram:** I do not have it off the cuff. Probably may be a half of this.

**Rishindra Goswami:** And ma'am, secondly just on the personal loans. I think we saw the disclosure for last quarter. The personal loan book is roughly around Rs. 1,000 crores, is that correct?

**Subhasri Sriram:** Rs. 1,053 crores.

**Rishindra Goswami:** And there could you just comment on one the behavior that you are seeing and two historically what has the recovery been like or the LGD been like on the personal loan side?

**Subhasri Sriram:** LTV in terms of what?

**Rishindra Goswami:** No, the loss giving default either recoveries or actual losses?

**Subhasri Sriram:** In terms of yields we have around 27% to 30% yields and tickets on largely a 1 year to 2 years, average is about 18 months. Fees we have seen I would say the end earned IRR or earned yield on this portfolio is somewhere around 20% to 22% over a period of time. So I would say still a very healthy yields net of credit loss.

**Rishindra Goswami:** And historically and if we look at the last cycle in personal loans what is your total stress that you could expect?

**Subhasri Sriram:** Our personal loan book there is no history behind it because we have had a very, very small book. Actually it has been in Rs. 1,000 crores or even less than Rs. 1,000 crores for the last three, four years. We have never gone on a ramp up in growth in that product. That is what it continues to be a more add on product to some of our customers who come in for the second or third loan after the earlier loan settled. It is more relationship-based. There is no active marketing, there are no DSAs to market these products.

**Rishindra Goswami:** So you would expect reasonably good recoveries here?

**Subhasri Sriram:** Very, very steady. In fact, though this is not a very large book and probably never become a very large book but one of the better yields or net returns are very well comparable to other products for us. But the way we sell the product we do not expect that to grow very, very large. Right now it is not a market product. We have not given to third parties at this point in time. While we are examining to build certain credit engines on the personal products so right now it is largely to the existing Shriram ecosystem.

**Moderator:** Thank you. The next question is from the line of Sandeep Baid from Quest Investments. Please go ahead.

**Sandeep Baid:** Sorry, I just missed out on a data point. What is our average yield for Q4 and for the full year?

**Subhasri Sriram:** 21%.

**Sandeep Baid:** For Q4?

**Subhasri Sriram:** Yeah 21.13% for Q4.

**Sandeep Baid:** And for the full year?

**Subhasri Sriram:** It is the full year a whole, sorry.

**Sandeep Baid:** And for Q4?

**Subhasri Sriram:** Q4 it is 21.13% for March 2016.

**Sandeep Baid:** This is for the full financial year, right?

**Subhasri Sriram:** Full financial year.

**Sandeep Baid:** And for Q4 alone?

**Subhasri Sriram:** And this is I think was 22.19% March 2015. I would probably want to just to clarify here that this is not an account of any reduction in the lending rate or yield. It is largely on account of composition of books and some of the growth which has happened in the last quarter has happened in the last month. So we have not seen the income coming from the entire book during this year.

**Moderator:** Thank you. The next question is from the line of Kartik Chellappa from Buena Vista Fund Management. Please go ahead.

**Kartik Chellappa:** Ma'am, just one follow up. When you mentioned that 2.5% ROA, is that including the housing finance subsidiary?

**Subhasri Sriram:** No, I said both of them should be able to do independently around 2.5%.

**Kartik Chellappa:** And this 120 day DPD which is at 7% and the 90 day which is at about 9%. In a steady state or let us say if macro conditions that has improved how much improvement do you think you should be able to bring in this ratio?

**Subhasri Sriram:** I mean if I understand your question; you are saying if the economy improves will my collections also improve, will it be 6% you are asking?

**Kartik Chellappa:** Yeah, something like that.

**Subhasri Sriram:** I do not expect so much. Because I would say these numbers are not because customers are not holding back payments because of macro-economic conditions. I think this is a pattern which has been seen in our customer segment. The customers are not unduly worried about not having paid on the due date and they do not worry about punitive actions taken been taken from Shriram and this is probably their own form of taking a top up loan or an add-on loan. And therefore the loan tenures which are typically three-year might end up to 3.5 years. So I do not expect unless we go around educating customers, putting punitive actions with this number there is not going to be a change overnight. And I am sure customers are not paying today not because not all of them have completely inability to pay. Some of them are probably delaying payment because they will pay as the situation improves and the money is put to use in the business. And they are willing to pay our overdue charges which are just another compensatory charges.

**Kartik Chellappa:** And when you mentioned that let us say somewhere around 60% coverage ratio is more or less reflective of the ultimate credit losses based on your past experience. So even if you take the 180 DPD which is let us say around say 3.6%; 60% on that will be somewhere around let us say 2.1% to 2.2% which should be the ultimate credit loss. Now this should not change even when we move to 120 or a 90 day DPD, right?

**Subhasri Sriram:** Okay let me first, all the numbers are right. But on the 60% which we started off as your assumption is for any time to get back.

**Kartik Chellappa:** What I am trying to get is let us say if it.

**Subhasri Sriram:** What it is yes, this is the mathematical….

**Kartik Chellappa:** Yes, so even if our analysis even if we get down to say somewhere around let us say 60% or maybe even closer to 70% I would think that somewhere between 2.2% to 2.5% will be like the ultimate credit loss and that being the case on a 90 day DPD even when we move to let us say 8% or 9% NPL then even a 30% to 40% coverage ratio should be reflective of our actual credit loss?

**Subhasri Sriram:** Correct.

**Moderator:** Thank you. The next question is from the line of Shantanu Chakravarthy from ICICI Securities. Please go ahead.

**Shantanu Chakravarthy:** Hello Subhasri, I do not know if this question fits in in a quarterly format well but a little bit about the outlook of the core SME business, I just wanted to know that say over the three to four-year kind of period what kind of growth do you expect in the SME business and I would appreciate some color in terms of how do you think in terms of future customer acquisition in the SME business? It would split between customers who earlier have a chit track record with you versus people who are just fresh recruitment within the Shriram City Eco System so to say? And also how much of this you are assuming to be inflation of the ticket size and pure volumes?

**Subhasri Sriram:** First on the long term view on the SME business. Considering that we are not domestically large the market is not as fully served and we have our potential in terms of capital, people, technology and processes. We will probably realistically expect somewhere around 15% to 20% on a sustained basis but in the next immediate couple of years there can be a larger growth while there are has been some amount of wait and watch in the last two years. But to continue the same 20% growth for the next 5 years, probably I do not have that view right now. I mean I am not in a position to give you a data beyond 2 to 3 years' time.

As regards whether how much of it is going to come from ticket size expansion, how much of it has been in account from non-chit. I can definitely say that the customers purely with a chit track record will be very, very insignificant in the coming period. Whereas when our balance sheet of SME book grows from Rs. 10,000 to Rs. 20,000 I would probably not expect even less than 5% of our customers will have a current chit exposure.

**Shantanu Chakravarthy:** 5 of the 10 increase or 5 of the 20?

**Subhasri Sriram:** Some of them could have a track record. People coming from southern market, loans from southern market could have chit agents, chit employee who are originating it. The branches will be warehoused in chit offices. So all the benefits of chit eco system will be available. But to say directly a chit fund customer will be insignificant in the long term. The third question whether it is going to come from higher ticket size the growth I think to some extent inflation will definitely play a role.

But it is not as if we are going out of the way and digressing from our main stream while we will be looking at 25 lakhs loans and over 25 lakhs loans over the next couple of years and we will definitely see customers migrating from currently not eligible for Rs. 2 lakhs loan or Rs. 5 lakhs loan moving to the Rs. 5 lakhs requirement and we will definitely cater to them too. It is not as if we will leave the Rs. 2 lakhs and Rs. 5 lakhs out and move to Rs. 20 lakhs and Rs. 25 lakhs while our customers move upwards inflation moves in we will look at these loans and we continue to track the Rs. 5 lakhs loans.

**Moderator:** Thank you. The next question is from the line of Kashyap Jhaveri from Capital 72 Advisers. Please go ahead.

**Kashyap Jhaveri:** Just a very basic question. When on let us say 150 days passed due you sort of classify a particular customer as an NPA. Does it do anything to his CIBIL score or any credit agency score?

**Subhasri Sriram:** Not at this point in time.

**Kashyap Jhaveri:** And as the migration continues to happen, does it do anything to his credit score over a period of time?

**Subhasri Sriram:** As we speak now, no. I do not know how it was going to work in one year, two years from now. But right now it is our customers behave in our books is not going to largely affect his CIBIL score right now.

**Kashyap Jhaveri:** And second question is on broader policy view. We have seen many of this earlier NBFC guideline norms being implemented including one on the NPL side. Couple of days back one of the RBI Deputy Governor was also made a statement that they wish to harmonize the rules between banks and NBFCs to sort of reduce the arbitrage available. So over a period of time are you sort of getting a feeling that the kind of ROAs that we did historically probably given the fact that RBI wants to change the landscape of the rules and regulations probably will be difficult to come by as you see in future?

**Subhasri Sriram:** I did read that article. On the flip side I think RBI should work improving the ROAs of the banks instead of bringing in the ROAs of our business as down. I think that will be more logical and good for the economy as a whole.

**Kashyap Jhaveri:** Even I would be happy if that happens.

**Subhasri Sriram:** So I think that is what the regulatory should be working at it. I am not sure what these harmony and arbitrages means. But yes, it is not a new for us. We have always been the target of the Reserve Bank historically but I do not think there has ever been a very comfortable scenario between NBFCs and the regulators in the history of our business. So we do business in spite and what the macroeconomics and regulatory challenges.

**Kashyap Jhaveri:** And any let us say in your conversations with RBI any idea whether anything to do with the liquidity norms could also come in in terms of regulations, anything more?

**Subhasri Sriram:** More constrains for the banks or NBFCs, more restrictions on NBFCs?

**Kashyap Jhaveri:** Yeah, on the liquidity management front side?

**Subhasri Sriram:** I think already it is there. We already have an SLR we already have Debenture Redemption Reserve. NBFCs cannot demand money unless you are deposit accepting and that too term deposits. So I do not think there is any specific and we definitely have our own ALCO and RBI’s restrictions on ALCO management. So that largely addresses our liquidity position both in terms of short term and in terms of interest risk. All of it is there in the ALM review of Reserve Bank for NBFCs.

**Moderator:** Thank you. The next question is from the line of Umang Shah from Emkay Global. Please go ahead.

**Umang Shah:** I just want two data points. As on March 2016 could you help me with the break up your AUMs between on and off balance sheet asset?

**Subhasri Sriram:** In terms of balance sheet side?

**Umang Shah:** No.

**Subhasri Sriram:** In terms of on book it is Rs. 19,024 crores and off book is Rs. 552 crores. 2% to 3% of the total book.

**Umang Shah:** And ma’am, between our overall credit cost of Rs. 616 crores for the full year how much would be the write offs?

**Subhasri Sriram:** Rs. 300 odd crores is been the write off.

**Moderator:** Thank you. We have the last question from the line of Nidhesh Jain from Investec. Please go ahead.

**Nidhesh Jain:** My question is on your sustainable ROAs. As you completely transitioned to 90 days recognition. So once you transition and you have taken the entire pain of transitioning to 90 days DPD what should be the susintable ROAs that SCUF should be making?

**Subhasri Sriram:** I am going from my current moment from 180 to 150 there has been a drop in ROA of about 20 to 30 basis points. So we will have to see how our coverage ratio pans out and what type of gross NPLs. So while with the product mix we are looking at somewhere close to 2.7% to on a comparable basis about 3.14%. I think we should be able to achieve somewhere around 2.25% to 2.5%.

**Nidhesh Jain:** So on a sustainable basis when we have transitioned to 90-day recognition in your credit cost you will again likely to get significant impact?

**Subhasri Sriram:** Yeah that as a distant product are we looking at a 50% provisioning or a 30% provisioning coverage will determine where the ROA stands.

**Nidhesh Jain:** But even if on sustainable basis you remain your PCR at 50% let us say even so?

**Subhasri Sriram:** Then it will be around 2%.

**Nitdhsh Jain:** So even if 50% because?

**Subhasri Sriram:** Then we are at 2%.

**Nidhesh Jain:** As you transition there will be a hit on the P&L but?

**Subhasri Sriram:** Correct.

**Nidhesh Jain:** But once you have built up the stock of provision at 50%?

**Subhasri Sriram:** I mean unless the balance shrinks it is going to stay at that level.

**Nidhesh Jain:** But once you have built a provision of 50% next year you are supposed to get significant recoveries?

**Subhasri Sriram:** But then the balance sheet growing to that extent. That is what I said all the recovery and benefits of that it will only be when your balance sheet is not growing. If it has incremental growth of balance sheet beyond the growth in numbers, we will only have an incremental provisioning requirement.

**Nidhesh Jain:** And secondly, on disbursement. So last three years we have seen that disbursement growth is lower than the AUM growth. So is it because of product mix change or we have increased tenure of products?

**Subhasri Sriram:** As a theory as the SME book increases going from a two-wheeler loan which is a 24 months' loan or 20 months personal loan 1.5 year loan, gold three months loan, we are moving to a 50:50 from 48% to 50% to 54%. It is a significant improvement in the tenure.

**Nidhesh Jain:** So going forward also the AUM growth is likely to be higher?

**Subhasri Sriram:** Yes, with continued focus on SME finance but it is not that we are not growing. All business will grow while there will be the tenure changes in SME business will push the AUM over a period of time.

**Nidhesh Jain:** And is it fair to assume that if as a share of SME increases the ROA on blended basis should also improve because I think gold loan may be an over ROA product?

**Subhasri Sriram:** Yes, but that is all a question of which quarter and whatever yields were able to. So I would certainly expect that to happen. But I think let us wait over a period of time.

**Nidhesh Jain:** And lastly, what is the share of non-traditional markets for us in SMA business?

**Subhasri Sriram:** It will be around 10%.

**Moderator:** Thank you. That was the last question. I would now like to handover the floor to Mr. Karan Singh for his closing comments. Over to you, sir.

**Karan Singh:** On behalf of JM Financial, I would like to thank Mrs Subhasri Sriram and all the participants for joining us on the call today.

**Moderator:** Thank you very much, ma'am. Thank you very much, sir. Ladies and gentlemen, on behalf of JM Financial that concludes this conference call. Thank you for joining us and you may now disconnect your lines.