“Shriram City Union Finance Q2FY16 Results Conference Call”

October 29, 2015

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Moderator: Ladies and gentlemen good day and welcome to the Shriram City Union Finance Q2FY16 results conference call hosted by JM Financials. As a remainder all participant lines will be in the listen only mode and there will be an opportunity for you to ask question after the presentation concludes. Should you need assistance during 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 Mr. Singh.

Karan Singh: Thank you everybody. Welcome to Shriram City Union's earnings call to discuss second quarter results. To discuss the results we have on the call Mr. G.S. Sundararajan who is Director Shriram City Union and Whole Time Director Shriram Capital. Ms. Subhasri Sriram who is Executive Director and Chief Financial Officer. May I request Mr. Sundararajan and Ms. Sriram to take us through the financial highlights subsequent to which we can open the floor for Q&A session. Over to you sir.

G.S. Sundararajan: Thank you very much and good morning to all of you. I will give you a very brief overview of how the quarter has been and what the prospect look like for the rest of the year. I think we have had a steady growth last quarter when all the segments in which we were operating and SME and MSME business continues to grow and gold is holding up. Two wheelers are gaining market share despite the dip in the overall volumes in the two wheeler business. We have also been penetrating well in the geographies which are new to us, outside of Tamil Nadu and Andhra and we do believe that given though the second half is going to be much superior in terms of market itself because of the festival and the yearend kind of support, we do believe that we should have a much better second half. We know that we will be definitely be able to grow at a kind of guidance we have already given all of you and specifically on the Enterprise Finance front we do believe that non-Tamil Nadu/Andhra is gaining momentum and while we continue to penetrate in the Southern states, outside of the southern states is really giving us good confidence that we can do well in that segment as well as in the two wheeler segment. Subhasri will now take you through the financials.

Subhasri Sriram: Good morning all. On a standalone basis Shriram City for the quarter ended September recorded an 11.5% growth in income from operations and is at 945 crores as against 848 crores for the quarter ended September. Net interest income recorded a 17.8% growth and is at 601 crores as against 510 crores in September 2014. Profit after tax grew by 10.5% for the quarter ended September 2015 and stood at 152 crores as against Rs. 138 crores in Q2FY15. It is important to note that this year we have run the portfolio on complete online business with no treasury operations. This is to be noted in comparison to 2014-15 numbers, when there was for the first half at least significant quantum of treasury income. Assets under management recorded a 16.8% year-on-year growth and at 18,165 crores and 3.9% growth as compared to last quarter. Small Enterprise Finance, the main business of Shriram City now contributes 53% of AUM. Two wheeler is at 16%, we have seen a small dip. It is more in percentages rather than on AUM. AUM continues to grow. The loan against gold constitutes now close to 20%, this has seen an increase, I think after several quarters, this segment has seen a positive growth at the AUM level. Auto loans and Personal loans together were at 10%. Small Enterprise Finance recorded a year-on-year growth of 20%, two wheeler 6%, this we hope to do better in second half. Even this is very significant when compared to a market that has seen a degrowth and loan against gold has grown by 28% on a year-on-year basis. Loan disbursement for the quarter was at 4,527 crores, a growth of 8.9% as compared to quarter ended September 2014. For the quarter ended September 15, yield on asset under management is at 21.2% as compared to 22.2. This largely reflects a change in the asset mix and it is important to note that it is not very significant or relevant, it was caused by slight changes in our lending book. We continue to lend at the rate which we have been maintaining in the last one year and we also do not see any pressure to change the rates in the near future. Net, interest margin stood at 13.49% as compared to 13.34%. This is largely on account of the benefit coming from cost of funds reduction and this has helped us to improve the net interest margin. Also cost of borrowings for the quarter ended September 15 stood at at 10.67 as against 11.57 in the previous quarter. We have been able to take advantage of both the market borrowings and some amount of change in liability mix moving from high cost to lower cost borrowings. This has helped significantly in bringing the cost of funds down in this quarter. Gross NPA as of September 15 stood at 3.3% as compared to 3.17% in June 2015.

In terms of quantum of amount about Rs. 50 crores incrementally was added to the gross NPL and this has largely been in two products. To some extent we have increased the provisioning and need for provision at 180 days in Enterprise Finance and to a small extent we have some stress in gold loan portfolio and that is why gross NPL is higher. This has been addressed by increasing the coverage and maintaining a higher provision. In absolute terms gross NPA is increased by 50 crores as mentioned. Coverage ratio remains at 80.2, a small increase over last quarter. During the quarter write offs were at Rs. 71.23 crores as compared to 75.92 crores during the previous quarter. Gross NPA ratio including write off was at 3.69% in September 2015 as compared to 3.61% in June 2015. We continue to have a very healthy capital adequacy of over 27%. Return on average net worth for quarter ended September is at 14.14 and return on average total net assets is 3.23. Off-books asset is about 3%. We do not expect to have much securitization in coming quarter and most likely we should be able to do securitization at last quarter of this year. The borrowings as of September 15 were Rs. 13,267 crores. Bank borrowings constituted 53%, retail borrowing 30%, our public issue of NCD 6% and market borrowings 11%. You will notice that change in the borrowing mix, closer towards market borrowings and that we have not come out with a public issue during the year. 47% of borrowings are fixed rate borrowings with tenure ranging over 1-1.5 years which is in line with asset maturity and weighted average tenure of total borrowings is 21.78 months as of September. On our subsidiary Shriram Housing, we reached the milestone of 1000 crores book, and as of September the AUM of Shriram Housing is 1,154 crore, a growth of over 100% on a year-on-year basis. Profit after tax for the quarter ended September 15 stood at Rs. 8.04 crores, a growth of 78.7% on a year-on-year basis. The company is currently operating out of 77 branches spread across the country. In the case of Shriram Housing we have made a small change. We have increased the coverage and provisioning norms for Shriram Housing in line with Shriram City. The impact of the increased provisioning coverage is that from 18% it is now 24% and in terms of rupees it is 1.2 crores. Over to Karan. Happy to answer your questions. Thank you.

Moderator: Thank you very much . Ladies and gentlemen we will now begin the question answer session. The first question is from the line of Kashyap Zaveri from Capital 72 Advisors. Please go ahead.

Kashyap Zaveri: I have three questions. The first one on the employee cost, in the last conference call we have highlighted that the cost increases would probably trail the income growth. Now if I look at this quarter again the employee cost is up about 8% Q-on-Q and about 24% Y-on-Y. So when do we see this employee cost now? The second question is on our NPL recognition which is still on 180 days past due. I fairly understand that deadline is probably 31st March 2016 for 150 and gradually next year 120. But is there anything which is stopping us from doing it as of today where all our competitors have probably migrated beyond even 150 days past due and the third question is on the annual report, in this FY15 the royalty payouts have increased to roughly about 24 crores from a single digit crore number. So where is this royalty payment or why has this increased over FY14?

Subhasri Sriram: To answer you on the employee cost, while we have a Q-on-Q 88% increase in this, maybe you are right, we have not tracked it in terms of business growth or income growth. But if you look at from AUM disbursement it is about 17% growth. Probably income is not yet realized on the entire portfolio. But if we are building a larger portfolio, if you are growing at 15%-20%, I do not think you will be able to do this with the existing staff alone. There will be small amount of increase. We have moved away from increase of 500 and 1000 employees per quarter. We have now moved to about couple of 100 employees and I think we have also looked at some amount of reshuffling in our incentive program and I think it is important to keep employees interested, and if there is a growth in the business I think obviously we have to share that prosperity with our employees. So this is more or less what we expect in the near future too, unless we reach the ticket size changes from about 1 lakh average to 5 lakhs to see a fairly differential cost income ratio.

Kashyap Zaveri: So when would that happen actually because it has been a while that we have seen…

Subhasri Sriram: Right now our cost to income ratio is about 41% and I do expect in the next 2 years, 2-2-and-a-half years by the time when we reach the 90-day norm I think the cost to income ratio will come down to about 35 and we will never go below 35. I do not think if we continue to be a retail business company where we are looking at acquiring 100,000 customers every month I do not think it is possible to maintain a very low cost to income ratio. So 35-40% would be very healthy cost to income ratio in the long term because if we discuss the cost today the repercussions could be couple of years down the line when we might not have seasoned employees to manage the portfolio

Kashyap Zaveri: Sir, if I understand this correctly you said over next 2-2.5 years…

Subhasri Sriram: Cost to income ratio will come down to 35-45%. We may move below 40%. But the entire impact is not an employee cost. We will take advantage of technology and other processes. So there will be more impact in Opex rather than the employee cost.

Kashyap Zaveri: But if I look at our Opex, total Opex as a percentage of income, we are sort of about 39.8% and in FY14 we were about 37-37.5…

Subhasri Sriram: You will see the benefit of those coming forward. Like for example Opex including depreciation has only increased by 5% and on a year-on-year basis only 11%. So this is what you will see more in the next couple of quarters. You will at least see this stabilizing over a period of time but keeping employee cost down or sending employees **o**ut of the system is not the Shriram model. I think you should take more income from employees other than reducing employees.

G.S. Sundararajan: Probably the increase you are seeing in the Opex specifically with regard to people is also on account of additional people we have taken in the newer geographies where we are trying to penetrate, so obviously the income part of that will start, We have already started seeing this and I am sure it will be a greater trajectory which will happen as we go along. I think being below 40 in terms of cost to income is something which we see very clearly focused on and that is something which will happen quite soon.

Kashyap Zaveri: Sure and 180 days past due to 150 days?

Subhasri Sriram: We will continue to follow the exact RBI directives in terms of NPA provisioning. We have sought clarifications and we are very clear that 31st March has been adequate and therefore you will see that movements from 180 to 150 only in the fourth quarter this year. Similarly fourth quarter next year 120**.** We are happy to share the data otherwise. But taking it on books and providing for it we will be following the RBI guidelines.

Kashyap Zaveri: Let us say if we were to migrate to 150 days past due, this 580 crores will be what number?

Subhasri Sriram: Okay, it is about doubling the number, about 1000 crores.

Kashyap Zaveri: About 1000 crores?

G.S. Sundararajan: I think the substance of the whole thing is that while we have been debating with the RBI over last 3 years in terms of saying that this advancement of provisioning is not applicable to our segment because of the nature of the customers. I think RBI has not agreed to it. But we have actually gone ahead and told them that it will take time for us to keep educating both the collection team and the customers in terms of the fact that they are moving to 150 this year, 120 next year and 90 thereafter. So to that extent we have requested them to agree to allowing us to provide for 150 days only in the last quarter despite the fact that our auditors were telling us, we will agree to it only if RBI agrees. RBI gave us the dispensation only because they are agreeing that there is an education which is required down the line specifically with regards to customers.

Kashyap Zaveri: When you say 580-1000 crores this is 180-90 days or 180 to what number of days?

Subhasri Sriram: The big movement will be 180-150. Thereafter it will not as steep because currently the branch focus is only right now to ensure it does not cross 180. So most of it is 180-150.

Kashyap Zaveri: Sorry if you were to migrate today from 180-150 gross NPA number which is 582 will go up to what number?

Subhasri Sriram: 582 will become 1000. 120 will be only around 1300 and 90 will be about 1700.

Kashyap Zaveri: So about 3 times of what it is today?

Subhasri Sriram: As on today. What I am trying to explain is, the current field focus is to keep the arrears flow below 180. So therefore there is quite a bit of dues which are 150 and 180. What we have asked the RBI was and what we are working on is to educate the field force. To move towards 90 it will take a while. Say if we talk about 150 being the entire market and our employee cost about 180, it would not make sense, unless we make the internal changes and internal problem of education, only then the numbers will make sense. This year we are working towards it, end we will have our executives understanding that 150 is a benchmark number and therefore they will have to arrest the flow at 150, which will require a lot of educating of our customer about it and we have not taken very stern actions or any harsh recovery at 90+ or 120+. If I have to move that and educate our customers, it would mean a lot of goodwill in the system. You will have to do it gradually and that is the reason that we will do it exactly as per RBI norms and very important is that while we understand there are market dynamics which involve millions of customers and thousands of our employees, in terms of prudence and governance we are ensuring our coveryratio is very healthy. So we are taking it to that extent, providing for it, seeking a coverage ratio at over 80% and in appropriate time we will revisit.

Kashyap Zaveri: Lastly on the royalty part?

Subhasri Sriram: On the royalty part, in the middle of last year, there was renegotiation on the royalty terms. So two impacts, one is the change in the royalty terms. Again because of this change, in the last year two quarters, last to last year second half, the royalties are not fully entitled. A very partial portion of royalty was paid. This is only a comparable year-on-year number. Revisiting the entire royalty terms has been agreed to by all the group companies with Shriram Ownership

Trust. After that we have the consensus from all our partners. Post the transaction with other partners coming in, we have taken a consensus from all the partners and this has been agreed upon and this will be in force for next 5 years.

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

Nishchint Chawathe: Can you give us the breakup of gross NPLs between gold and non-gold, as in gold and business loans?

Subhasri Sriram: The non-gold is 3.51 and gold alone is 2.45.

Nishchint Chawathe: Just to clarify what you said was that your NPLs are 90 days past due basis would be 1700 crores.

Subhasri Sriram: As of today's balance sheet.

Nishchint Chawathe: I am sure, yes. The other thing was I just wanted to check on the other income side. You have fairly large other income in the second quarter of last year. I was just trying to understand what was driving it

Subhasri Sriram: Last year, in the quarter that we discussed the results I said we had this Pirmal transaction which happened in June last year. We had fresh equity coming in that is Rs. 798 crores. That was a surplus that was lying in our balance sheet for a couple of quarters till December. Immediately it was invested in treasury paper and debt liquid funds and fixed deposits. So the next two quarters we exhausted both by way of growth in business and also to some extent repaying some of the high cost funds. So this 21 crores which you see last year is largely on account of excess cash in the balance sheet.

Nishchint Chawathe: But you could not replay high cost debt right away, is it, in the first or the second quarter?

Subhasri Sriram: Yes, we could not because you have to go back to the banks and discus it, though we had no prepayment penalty, we had to deal with the banks thereafter. It was not writing a cheque and cutting off the transaction once for all. We had to deal with 50 banks we had to negotiate and ask them to take back high cost loans and promising them that we would take the next round of borrowing from them. We should not cut off the relationship with the bank and June 2015 what you will see is that other income of Rs. 4 crores is on account of an FMP investment which we made last year. We made a 4 crores gain on that but unfortunately because of the tax rate changes during this year we have not had much benefit of the full tax break, it was a net FMP where the tenure shifted.

Nishchint Chawathe: So on an incremental basis just for modeling perspective how do we model this, I mean do we have a moderate number that was there in FY14 and go on or how do you do this?

Subhasri Sriram: Shriram City will not operate the treasury book on a regular basis and there will be no surplus cash. Our objective is to work on somebody else's money and not keep idle money, to keep our bank utilized to the bare minimum and have no surplus money floating and no negative returns. This is what used to be a year before. Last year it was a bit of an aberration because of the capital coming in the month of June and till March we have not factored it. So March we have done quite a bit of securitization. So post that in June coming in it was sizeable amount of cash plying around for 2 quarters.

Moderator: Thank you. The next question is from the line of Anita Rangan from HSBC Asset Management. Please go ahead.

Anita Rangan: I have two questions. First thing on the gold loan side, just wanted to know - proportion of gold loan has increased say this quarter and given the volatility in gold prices and all, some of the gold loan lenders have say capped their overall portfolio, have made more stringent processes. Just want to understand what your underlying process is and what the LTV of the gold loan is at this point and my second question is on Shriram Housing, so what are the assets that you intend to finance in Shriram Housing in terms of like retail gold loans, LAP, developer financing and so on.

Subhasri Sriram: Shriram is not a gold only company. We have other products which is the mainstream, In gold loans, in fact we have been very conservative and very cautious in our LTV which has always been lower than the market and even today LTV is around 65-70. Probably we have also lagged alone in terms of pricing. So we have always kept the pricing or interest rates lower than the gold companies. Seeing that our expectations on yields are not high and LTV is rather low, I think our coverage on the gold in the current market rate continues to be very comfortable. There are no specific stresses but we continue to watch. It is commodity lending, we continue to watch it, and we are not relaxing. We continue to watch and take appropriate action whenever required to auction the gold or to call on the customer to pay the interest. All efforts are being taken and probably that is why we are seeing a more steady state gold portfolio in the last two quarters. In terms of SHFL or Shriram Housing Finance, around 75% or more than 75% I would say will be largely be affordable housing with the focus on the self-employed category in the Tier-2, Tier-3 towns exactly what Shriram City is known for and therefore, for about 20% we will look at large builder financing and other products. Even this will be very small size ticket loans, not large exposures considering that the balance sheet is small. The exposures per customer there will be limited.

Anita Rangan: What would be the write offs here, in this quarter in the Shriram City Union?

Subhasri Sriram: Write off is about 75 crores.

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

Karthik Chellapa: Few questions. Firstly, we are starting to see some traction in the business loan disbursements in terms of run rate. We are now almost close to 2000 crores compared to about 1800 crores two quarters back. Is this momentum sustainable you think or what is actually driving this improved traction that is my first question. My second question is on the gold loan. Although the disbursements have kind of moderated relative to last year, the AUM is fairly growing. This would indicate slower repayment cycle. So you alluded to some stress, but can you give some specific color what is the nature of the stress that you are seeing, or is there delay in payments, delay in taking back their gold, etc., some color with respect to the gold. This would be helpful and my third question is on are we accessing any funding from Mudra Bank at this point of time and how should we view it because it seems that if you want to access funding from Mudra the spreads are more or less capped at 6% which kind of makes it un-remunerative for an NBFC like us and given that Mudra is also dispersing their own small ticket loans will that cannibalize our business loan portfolio in one way or the other and last can I have the net NPA for the non-gold loan portfolio?

Subhasri Sriram: Answering the first one that will we be able to sustain a growth on our enterprise finance loans from 1800, I think we still believe it is scratching the surface. The market is so large, no significant player has come into this segment at this point in time. People are more than happy lending on the LAP, large loans, bigger corporate lending and others. This is the most difficult and is a long term effort. So having started the race 5 years back I think we have now come to a level at which we are trending at a very healthy pace that I do not see that we are getting tired or there is fatigue here and this will continue for a long time. As I said earlier that if Shriram Transport is known as the commercial vehicle finance initiator, Shriram City will be known for SME financing in the next decade and we will be the largest players in that segment. With reference to your gold loan, yes you are right that while we have not had very significant growth , this is very typical of gold loans because there is no EMI, there is no monthly run down, the portfolio once originated continues to be there till redemption. It is a straight zero or full or empty. There is no monthly traction. Now having said that in terms of strength I would not say strength in terms of other quality, what we see over a last couple of years is when the gold rate moves up, people are interested to redeem and come back again and what I now see in this segment is the clear reflection of the gold rate and the price movement. If the gold rate is flat or very small movement between previous then it is reasonable that people who pledge gold continue to stay and do not see any reason to keep moving from one lender or to redeem, pay interest and get a higher value. This is something we should keep a watch for and ensure there are no significant dip when we are left exposed. So currently the concern is that it will be good if gold rate starts moving up and then I think that will largely depend upon what the Fed does on the dollar. And if we see gold at this level, continue to stay at this level, then we will probably see this in the next few quarters also. That will not be any big change in the segment. If the goal stabilizes at this rate, I think this will be the new gold rate market.

G S Sundararajan: Mudra a couple of things, one is genesis of Mudra is actually to try and see if there can be another relating regulator outside of RBI to actually develop the non-corporate sector as they call it, people who have been deprived of credit across the country. I think the way it is evolving and the way it has been and even after when the act comes through I do believe that it will come under RBI. So therefore any sort of arbitrage within quotations of the Mudra players benefiting is not going to happen, be it provisioning, be it capital adequacy. In fact on the other hand, if it is going to be a segment like MFI or it is going to be a segment like the deprived community as they have branded it. It is definitely going to come with price caps. Today we have not really gone with Mudra aggressively because Mudra themselves are lending and whatever they have been lending is largely Rs. 50,000 and less in terms of ticket size and they have also been lending at a very low rates One thing we have understood over the last so many years of doing this kind of business is, if you do not have the absorption capacity of 8%-12% kind of spread, you will never be able to sustain this business. So we do believe that while there has been an initial spurt in the news about Mudra lending a) it is not in the kind of segment which we are lending to, it is much lower than that and b) it is not sustainable because they are lending at rates which is not going to help them absorb losses as they come along**.** So therefore I do not give too much of credence to Mudra at this point in time in terms of the impact they can cause to us or any player like us.

Karthik Chellapa: And sir lastly on the net NPA for the non-gold portfolio?

Subhasri Sriram: 2.45, the net NPL is 1.15.

Karthik Chellapa: Sorry, the gross NPA was 3.51. The net NPA is?

Subhasri Sriram: You are talking about non-gold?

Karthik Chellapa: Yes.

Subhasri Sriram: 3.45 and 0.53. The non-gold is 0.53.

Karthik Chellapa: And one follow up madam on the business loan the long term opportunities, where are those coming from is we are now at a run rate of about 2000 crores and one of your key markets namely Tamil Nadu is going into an election cycle in the next 6 months which might mean lot more cash circulation in the economy. So I wanted to know in the near-to medium-term for the next 2- 3 quarters will the 2000 crores accelerate to say another 10-15% higher level simply because you are getting into an election cycle and cash circulation improves.

Subhasri Sriram: Incidentally let me clarify that Tamil Nadu is not the big market for us. Actually the stress we have gone in the last two years was in Andhra. Andhra is a bigger market for us in enterprise finance segment. Tamil Nadu has been actually a little bit slow last couple of years itself. Not necessarily because of power issue. But I think the industrial growth has been slightly muted in the last 2 years but we are not so concerned. Actually for lenders like us that have as customers the largely unorganized sector and the sectors which are cash driven I think election is good news for us.

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

Digant Hariya: In your opening remarks you said that the second half could be much better than the first half. So if I am looking at your AUM performance, the SME business is already growing at 20% YoY at least for this quarter, the run rate was 20% YoY on the SME AUMs, so you know when you say second half is better, should we look at higher run rate than the 20% growth or this is what we should be able to maintain?

G S Sundararajan: Not really, the two wheelers will grow because of the festival season and all that. SME I think the first quarter upside we had as well as whatever you see in the first half is also related to comparable one-time where it did not do as much business in last year same quarter. To that extent it is a little bit of a blip. We should be able to maintain 20%-22% despite the fact that we will not have those one-timers in the second half, two wheelers will grow significantly. The 6% will definitely become double digits and Enterprise Finance will sustain the kind of growth it already has.

Digant Hariya: And on your housing bit, I just saw that it was for the first quarter where the disbursements were lower than the previous quarter. So are you consolidating there or we just see the same growth that we have seen in the past, that is one and number to how many new locations, how many branches are we doing its finance business from?

Subhasri Sriram: Retails branches<

Digant Hariya: Yes.

Subhasri Sriram: Shriram Housing has 77 branches, which are the branches where the credit approvals takes place. I think with reference to your first question on disbursements slowing down, actually it is again a bit of detailing. Last quarter we had some of the builder financing or loans of larger ticket size which this quarter we have not taken much, incidentally like last quarter it was 41 crores, but this quarter it is only 9 crores. So if I have to remove those, actually there is a significant increase in the retail business. So from 143 crores it is 160 crores and the builder financing has gone down from 43 crores to 9 crores.

Digant Hariya: And on this long term outlook on housing we maintain that the opportunity is very high and you know you could probably grow at much higher rates for the next 2-3 years?

Subhasri Sriram: Whenever I see people, foreign entities, Indian entities looking at acquiring license and looking at affordable housing, we are only reiterating that there is scope for this business. As long as there are more people coming in, more large industry houses getting into affordable housing and home loans, I think it reiterates and confirms the other business point of view.

Moderator: Thank you. The next question is from the line of Prerna Lotlekar from Allard Partners. Please go ahead.

Prerna Lotlekar: My question is on gold loan, on the gold loan portfolio only, so like in some of the banks the regional banks that have reported numbers we see that most of them have reported a decline in the portfolio. So but your portfolio has been growing substantially. So just wanted to know whether the market is growing or is that that you are gaining marketing share at the expense of some of these banks and another question was earlier you had mentioned in one of the calls that you had a strategy where gold loan financing would be carried out on the bank books and you would be getting a fee income on that, so is that strategy still being contemplated?

Subhasri Sriram: Answering the first question, I do not think we are taking away the share of any banks. I think the bank loans, the customers who come to banks for gold loan are not the same customers who come to an NBFC. So it is a very small section which can overlap between the two. There are specific segment of customers who would prefer a bank to an NBFC and NBFC has got its own steady state of customers and in the most of these Shriram which is not known as a gold loan company, we have our own customers and our markets we are operate in. So this is the work which we have been putting into this segment as it is sort of staying right now and showing up some benefits for us. So it is not cannibalizing or taking away our bank market, or bank share or pawnbroking market of the other NBFC market, it is the market which we operate in our area our catchment area. With reference to others the second one was on Housing?

Prerna Lotlekar: No, some of the earlier calls you mention that gold loan financing could be carried away by…

Subhasri Sriram: During this quarter there was some amount of technology changes we had to implement because some branches had undergone some changes in the software. It took us a while for us to integrate that software and work makes it seamless. We are more or less done that, I think we are at the stage of one more round of user testing and we will be able to commence that soon and we will continue to focus to keep a portion of our business segment and our market in gold through a bank.

Prerna Lotlekar: Okay, so it will be carried out on your books as well as this strategy would be….

Subhasri Sriram: The customers we will continue to be serviced through our book and there will be set of customers they will service through the bank book. It is customer’s choice and a bit of customer’s profile which will determine whether they are in our books or bank book.

Prerna Lotlekar: And what will be the average yields on the portfolio?

Subhasri Sriram: Which segment, gold?

Prerna Lotlekar: Yes, the gold loan portfolio?

Subhasri Sriram: Depending on the LTV market, ticket size will determine the risk profile between 15%-18%.

Prerna Lotlekar: Okay and some of the competitors have also introduced the short tenure products to delink with this gold price volatility, so are you looking at anything like that?

Subhasri Sriram: We do not need a short tenure, anyway the customer has option to foreclose any point of time without any penalty. You do not have to specifically go around giving a specific tenure point, in fact customers are not very concerned about tenure right now. Some of them probably are looking at some interest waivers or interest changes between tenures but largely today markets have understood that it is a sales gimmick and not a very beneficial, very significant importance to the customers. So we do not have any specific products or tenures right now.

Moderator: Thank you. The next question is from the line of Gaurav Mahin from Unilazer Ventures. Please go ahead.

Gaurav Mahin: Couple of questions. First is on the two wheeler part of the book, so last quarter also we did not see much of the growth happening in that book, any specific reason that you have not been growing the two wheeler book? We do understand the two wheeler market is not doing well, but for Shriram City we are expecting the growth to come in from penetration to the Northern and other geographies, so if you can just comment on that.

Subhasri Sriram: First I think we are very satisfied what we are seeing right now. When the market is degrowing and if we are able to grow at 10%, or 7%-8%, I think it’s a very important number. When the market is growing at 2%-3% and we are growing at 12%-15%, it really means that we are growing at the same pace that we were growing earlier. This two wheeler business is directly proportionate to the sale of vehicle. It is not like the second hand vehicle market and it really means that we are taking away market or business of some competitors.

Gaurav Mahin: So Ma’am, for Shriram City the geographic expansion is what we are expecting that the growth might come in from, because if you see your total AUM in that space, from Q1 to Q2 it has actually gone down, so just needed your views because of that, the absolute number of the two wheeler AUM?

Subhasri Sriram: I think in terms of AUM, there is two wheeler sales and some amount of slowdown in terms of product sales. In fact I also have told you in the beginning itself that we have just done a tie up with Honda now. During this quarter we have tied up with Honda as preferred financier and that is why we get access to their entire retail network and Honda is the fastest growing segment and especially on the Scooters. We definitely see a lot of fireworks in this quarter in the two wheeler segment.

G S Sundararajan: Also, we are expanding our footprint and client to start businesses in those new geographies, two wheelers and gold, it does take a little bit more time than in established geographies like Andhra and Tamil Nadu. We are gaining market share in all the geographies but we are constraints to grow a lot more in the non-Tamil Nadu Andhra because we have very high market share in these two states. To that extent I think, despite if you had growth which is much superior to what the market itself is seeing, we are I think in the right direction and we continue to grow and gain market share in those places and Honda tie up is also good for us because Hero is starting its own finance company. It is pushing us to actually get business. So for us I think it will be a good set off in terms of the volumes that we need to get. We do see that there will be sustainable growth in two wheelers in the coming quarters also.

Gaurav Mahin: Ma'am can you give the breakup of the disbursement between the gold disbursement and non-gold disbursement for this quarter?

Subhasri Sriram: Gold disbursement was, gold alone was 1,291 and rest is at 3,236. A break up of 4,527.

Gaurav Mahin: Ma'am, the third question pertains to the Shriram Housing Finance, can you give the breakup in terms of the 1000 crores book that we have as to how much would be the build up financing and are you seeing any stress into that build up financing book?

Subhasri Sriram: As of now touchwood there is not a single month overdue in this segment. It is a complete current book and in terms of composition about 90% of the book will be retail and about 10% of the book, about 100 crores is on the builder finance, builder I would say other than non-retail, non-retail is 10%.

Gaurav Mahin: So the non-retail would comprise of the LAP and builder both?

Subhasri Sriram: So LAP depending on whether it is for converting into retail business or not. We also have investment in EPC and builders are not converting in to retail business, project financing, so that is about 100 crores.

Moderator: Thank you. The next question is from the line of Amit Ganatra from Religare Investments. Please go ahead.

Amit Ganatra: Just two data points what is the off balance sheet AUM?

Subhasri Sriram: 2.3%, less than 3% which I mentioned, it is about 500 crores.

Amit Ganatra: And also in terms of disbursement can you give the absolute amount of disbursement for small business loans and…

Subhasri Sriram: Close to 2000 crores, it is 1995, is the disbursement for this quarter**.** Two wheeler is about 800 crores, Auto loan is on 200 crores, personal loans is about 250 crores, and gold is 1300 crores.

Amit Ganatra: And Auto was, sorry?

Subhasri Sriram: Auto was close to 200 crores and 250 crores is personal loans.

Moderator: Thank you. The next question is from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.

Pavan Ahluwalia: One question is, you are taking a step back, the point that you were just making about the size of the market being huge, our size being small relative to it and there is not being a lot of competition, now put all these three things together and it would seem that we should have the ability to grow at a much faster pace than we have been growing at least in the SME vertical and we look at other players. SKS has a smaller base in a different segment but those characteristics apply there as well. They managed to grow at a much more rapid cliff. In our case it looks like we are doing almost the same growth rate that banks are doing which are more kind of GDP linked, they are either nationalized banks whether they go up and down on national GDP regional banks that go up and down with regional GDP. So should we not be able to do something much higher based on our structural penetration or the opportunity set? What are the barriers in doing that and do you think we are likely to be able to hit say 25% growth and what would it take for us to hit that, is it a GDP recovery or could it happen independently of that?

Subhasri Sriram: Let me answer the second part. I thought GDP is at 7% growth and banks are going at around 10%. Our enterprise finance segment is growing at 20%. So definitely we are way ahead of the nationalized banks or the private or cooperative banks. Answering of first question about when the market is so large why are we not accelerating, why are we not doing more? I think this is a lending business. It is not like wealth management or something where we just take advantage of the market and make money. We are in the lending business I think and especially when you are lending to large number of customers it is very important to service them over a long period of time and each of these transactions which I lend today it is a 3 year commitment to the customer. So I do not think we should grow any faster or before we understand what is the result of our earlier action. Therefore we are extremely cautious and continue to monitor our past performance segment wise and through branches, make sure our employees are up to speed and manage the portfolio well. That is very critical. Even today though we are keeping our NPLs low and we kept our quality good, I think there is still something which internally we still look to improve, we are working at it. Until we achieve that I do not think we will push the accelerator. And answering your last question whether we will grow at 25% when will that happen, to that answer I think we definitely look for some support from the macroeconomic conditions. That is when the customers are a lot more enthusiastic and lot more interested to take finance and grow businesses. Business cannot be a push business all the time. The customer has genuine need for money when he feels that paying interest makes sense to him because he is getting more money than what he is paying us. To this to happen we definitely need macroeconomic benefits without which a 25% growth would not be very prudent in a business line which is directly linked to our economy.

Pavan Ahluwalia: Got it. Although until a couple of years ago you were growing at something like 40%, right and even then …

Subhasri Sriram: It is not a very small that you can to do all that. I mean just doing 100 crores more it will get 40%. When I am doing 2000 crores, I do not think that is the way to look at. We are having 2000 crores and we have got 1.5 lakhs customers. I do not think we can continue to keep that pace, it will not be very judicious on it. Two years later we might, we do not want to regret our decision on lending today. So have to be steady state, maintain what we have done and therefore I do not think we will jump at it in one go.

G S Sundararajan: Also I think from the level of difficulty standpoint, penetrating the Chit Fund customer base is not easy just because we have a customer base - it does not mean that we can keep graduating them into Shriram City Enterprise Finance customers, because they are not the guys who are willing borrowers. They take their own time, they take their time to convince themselves that this financial input is going to allow them to grow their business and all of that and having done the initial penetration obviously as we get into that penetration more and more, the level of difficult is much higher. Secondly the non-Chit areas where we are growing, we are growing largely on the retail side, which is the two wheeler and gold and we are not really focused on the MSME except in the western region. That part we will expand but that is going to be more in line with what market is doing, to that extent I think there also the growth will be there but it is against a much smaller book.

Moderator: Thank you. The next question is from the line of Janvi Goradia from Motilal Oswal Asset Management. Please go ahead.

Janvi Goradia: I have two questions. One is long term from the point of view that RBI has given license to small finance banks and they will be targeting the same segment that is 5 lakhs to 10 lakhs or 1 lakh ticket size that we are in and they could potentially you know even disrupt the market, so how do you view competition going ahead in the next 3-5 years and second is from the point of view of technology how are we placed in terms of using it in terms of internal business processes currently and what plans do you have in terms of improving the same going ahead.

G S Sundararajan: On small finance bank I think definitely there is theoretical threat of these guys disrupting our space as well, but in my view it remains theoretical for at least the next 4-5 years, if we look at the kind of profile of small finance banks except perhaps AU Financiers in Rajasthan, most of the others are all MFI companies. Given that I think it is not easy to graduate from a group lending kind of a scenario to an individual lending at higher ticket size and collect and that is something which they are going to learn and I am sure they can learn either themselves or they can actually pick up people in the market place and try doing it and most of them if you look at are very conservative. It is not the SKS's of the world who has got those licenses. It is Janlakshmi, even Equitas are reasonably sober players. I do not expect them to demonstrate any irrational exuberance in trying to grow their book just because they got a bank license. So then it is more important to get this structure right and strategy right. My view is 4-5 years we do not see that kind of an activity of disruption happening in our space and secondly I think the market is extremely large and if you really look at it the penetration despite all the business we are doing they are so small in terms of if you look at the potential market share that can be available in this segment we are operating. So I think our growth over next 4-5 years is reasonably certain and despite the new entrants. What is the second question?

Janvi Goradia: Sir on the technology front?

G S Sundararajan: Yes, on the technology I think it would be very clear that there is enough scope for us in the middle and back office, so actually whatever we are doing today we are doing extremely well but in the front office we hardly use technology because of the nature of our customers and the community lending space in which we are. But that is something we are seriously evaluating in terms of what part of that can get translated into a technology enabled kind of a business and that is something which we are working on over the next 3-4 quarters we should have some kind of strategy where we definitely will not want to be left out over the next 3-5 years as this kind of a boom is happening. But we are on the lookout for thoughts and strategies to ensure that we are able to include technology enabled frontline solutions also.

Janvi Goradia: If I could ask one more question, it is on credit cost currently which are at 2-2.5% and so in a good cycle we are at about 1.5% to 1.7%. So going ahead if the economy were to improve, but we would also have the regulatory headwind of recognition of NPAs on a 120 to 90 day basis, where do you see the credit cost going ahead?

Subhasri Sriram: From provisioning point of view I think what we are at 3.3 gross NPLs, we do expect it to be a 90 days norm probably close to about 9%. But not to comment on it right now because it is in a point of time where the field or the company is not looking at 90 as to be a threshold level. Today the entire Shriram market is at 180. We do have 3 years' time. We hope to get back, we are able to communicate, educate our customers and probably we should be able to change the numbers right now what we are in, so if this microeconomic benefits, probably RBI will ensure that though they are not completely visible in NBFCs are on account of regulatory changes. So we will probably remain at where we are today in spite of macroeconomic benefits because of provisioning changing from 180-90.

Janvi Goradia: But say from the point of view of your loan losses that is the percentage of loans that has to be written off and the money does not come back at all. So just because we are going to change from 180-90, in terms of recognition, that shouldn't change, right?

Subhasri Sriram: See, the point is that the numbers becomes relevant only when you are in slowing down business or degrowing. When you are in a growth mode, this number will always be affecting the gross NPL numbers than the recovery numbers, every time you are providing for a larger balance sheet. So while this has become a new norm or after three years' time. While we will be recovering out of those provisions which you make, at the same time we will be required to make provision on the new portfolio. So this number which we are not looking at will undergo a change in 3 years forward, there will be a new number which would be the benchmark number and we will provide for may be 7%-8% and recover 3%-4%, but every time there is a provision requirement of larger balance sheet or a new fresh balance sheet.

Moderator: Thank you. As there are no more questions from the participants I would l now like to hand over the floor back to Mr. Karan Singh for his closing comments. Over to you sir.

Karan Singh: Yes, on behalf of JM Financial I would like to thank Mr. Sundararajan and Ms. Shriram of Shriram City Union Finance and all the participants for joining us on the call today. Thank you and good bye.

Subhasri Sriram: Thank you all.

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