



“Shriram City Union Finance Q1 FY 2016
Results Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Shriram City Union Finance Q1 FY 2016 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 now hand the conference over to Mr. Karan Uberoi from JM Financial, thank you and over to you sir.

Karan Uberoi: Thank you. Good morning everybody and welcome to Shriram City Union’s Earnings Call to discuss the first quarter FY 2016 Results. To discuss the results we have on the call Mr. G.S. Sundararajan, who is the Director and Ms. Subhasri Sriram, who is the Executive Director & CFO. May I request the management to take us through the financial highlights subsequent to which we can open the floor for Q&A session, over to you.

G.S. Sundararajan: Thank you Karan and good morning to all of you. To start with I think the good news is that we have had a decent quarter the first quarter despite April being as damp as it normally is every year. We have seen a reasonable surge in the AUM especially in two-wheelers and in enterprise finance and we will continue to focus on that and grow those businesses. Gold, we are still calibrating in terms of what is the right kind of approach to ensure that we keep a steady portfolio mix of about 18%, 20%. I do not think we have still got our act completely there but I am sure we will get it over the next couple of quarters and we can see that also growing over a period of time.

The not so good news is that Andhra and Tamil Nadu continue to not show as much activities on the ground which I think is important for us to have a much better uptake on the growth in some of these segments and it is not necessarily these states, in general there is not much growth and activity levels which we are seeing on the ground for us to actually capitalize on a macroeconomic surge and that is something which we are looking forward to during this year and while there was lot of optimism we still have to see some action on the ground. With these introductory remarks I would like to hand it over to Subhasri to take you through the financials.

Subhasri Sriram: Good morning all. On a standalone basis Shriram City for the quarter ended June recorded a 7.8% growth in income from operation and is at 913 Crores as against Rs.846 Crores for quarter ended June 2014. Net interest income recorded a 14.6% growth and is at 573 Crores as against 500 Crores for June 2014. Profit after tax grew by 15.61% for the quarter ended June 2015 and stood at 148 Crores as against Rs.128 Crores in Q1 FY14. Assets under management recorded a 16.3% year-on-year growth and are at 17483 Crores and a 4.6% growth as compared to last quarter. Small enterprise finance continuous to contribute a

significant portfolio growth for us now is at 54% of the AUM, two-wheeler is at 17%, loan against gold continues to be around 18%, this quarter we had though not seen significant growth in our disbursement in gold book the portfolio has seen a growth and an increase in tenure. Auto loans were at 7% and PL contributed 4% of total AUM. Small enterprise finance recorded a year-on-year growth of 19% two-wheeler 7% and loan against gold at 38% on a year-on-year basis. Loan disbursement for the quarter was at 4234 Crores a growth of 10.2% as compared to quarter ended June 2014. For the quarter ended June 2015 yield on total assets under management is at 21.4% as compared to 22.8% for the same period last year. Net interest income stood at 13.4% as compared to 13.5% during same period previous year. Cost of borrowing for the quarter ended June 2015 is at 10.89% as against 11.12% in previous quarter. Gross NPA as in June 2015 is at 3.17% as compared to 3.12% in March 2015, in absolute terms gross NPAs increased by 40.19 Crores over the last quarter. Coverage ratio remains healthy and is now at 79.6%. During the quarter write-off are at 75.92 Crores as compared to 84.55 Crores during previous quarter. Gross NPA including write-off were at 3.61% where we consider the gross write-off assets as 100% provided assets in June 2015 and as compared to 3.64% in March 2015. Capital adequacy is at 28.16% with tier one alone constituting 24.28%, Return on average net worth for the quarter ended June 2015 is at 14.2%. Return on average total net assets is at 3.24%, off book assets is now at 4.06%. This quarter we did not have any securitization as total assets under management and during the quarter there has only been a rundown in the securitized portfolio and no fresh securitization. Borrowings as of June 2015 were at 12556 Crores and bank borrowings constitute 47%, retail borrowing 31%, public issue NCDs 9% and market borrowings has increased from 6% to 13%.

Once again almost 50% of our borrowings is fixed rate borrowings and weighted average tenor of our borrowing is around 21 months as the June 2015 which more or less synchronizes with our asset book which is around 18 months. With reference to our subsidiary Shriram Housing the asset under management as on June 2015 is at Rs.885 Crores, a growth of 131% on a year-on-year basis, profit after tax for quarter ended June 2015 stood at 5.69 Crores, a growth of 25.8% on year-on-year basis. The company is currently operating out of 73 branches. This quarter the company has opened one additional branch. Over to Karan.

Moderator:

Thank you. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

Kunal Shah:

On personal loans actually maybe that is now say more than 5% of the disbursement and even in terms of overall AUM its going towards like 3 to 4% and we had seen some kind of a traction so what are the plans out there in terms of personal loans so whether we will

keep on leveraging our relationships to grow this portfolio and how would the yields pan out with the increasing proportion of this book.

Subhasri Sriram: Personal loan we continue to target only our existing clientele - either a Shriram City Union Finance customer or a Shriram Chits customer. This is currently not largely opened out to the market and we do not source it through outside DSA or market and with reference to yield it is one of the higher yielding products which is around 27%, the tenure is about less than two years and the loan amount is in the range of about 75000 to 100000 rupees. With reference to traction, seeing growth in this portfolio considering this being a small ticket loan in comparison to enterprise finance you will not see a big growth in terms of percentage increase in the AUM, but there will be movements of 5%, 6% movement here and there but I do not see it will be a significant percentage of our book. In the long-term it will continue to be 5% to 7% of the book and it will continue to be more a cross-selling product rather than an independent standalone product.

Kunal Shah: And in terms of the gold loans there has been some decline in the traction so whether it is more on account of LTV or how is it - maybe obviously we had seen in terms of AUM it is still holding on because of a lower repayment rate but in terms of disbursements it has actually come off so any plan to reduce the lending rate per gram and be competitive in this segment or will continue the way it is?

Subhasri Sriram: I think considering what happened in July I think we are extremely lucky that we did not do large disbursements in the previous quarter with the gold price dropping so significantly this month. I think we are better off not having done fresh disbursements in the last quarter but answering your question whether we see traction we have always taken a stand that gold is not a push, I cannot make customers come and pledge gold from their lockers so it will largely be dependent upon the market requirements, monsoons, festivals, other requirements. I think last quarter has been quite a dull period, I suppose this will be true across including banks which I have seen, some of the banks also have shown a lower traction, but what is showing up significantly different from us is from the rest is that our tenures are getting longer from a three to six months we are moving towards a nine months tenure. We will have to wait and watch to see how the behavior pattern is.

Kunal Shah: Is that because the prices are falling up and the refinancing is not happening? Normally what used to happen if the gold prices keep on going up people would come and keep on re-pricing it ...

Subhasri Sriram: This refinancing was a behavior pattern in 2012-2013 or maybe first half of 2013-2014. The last one-and-a-half years refinancing has been because if you look gold rate has been more or less flat for last one, one-and-a-half years, except for short periods of time where

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there is volatility otherwise this has been the price for last one-and-a-half years. So this customer behavior of redeeming to get higher value money on the same grammage of gold could not be the reason or it cannot be taken as a reason for extended tenure. I think we will see post September with festival seasons coming in I think you will see a change in behavior in the customer gold loan product.

Kunal Shah: And one more question with respect to this entire Primal Group, their holdings in terms of involvement in the business, how things have changed over last six months say post their picking up this kind of a stake, so at the business level if we can know in terms of the involvement of this entire Piramal Group?

G.S. Sundararajan: I think Piramal and Sanlam are strategic partners at the Shriram Capital Level - yes they also have stakes in transport as far as Sanlam is concerned in transport and SCUF for Piramal the whole idea is to more have a strategic influence and a strategic help for the group, the group is still managed by Shriram with the management team which are there. As far as the operating companies like SCUF are concerned, SCUF continues to operate the way it is always operating. If there are going to be any acquisition opportunities or any diversification which we need to do it is discussed at the group level and then the consent of partners is taken and their value additions are taken otherwise on a day today basis or on an operating level there is no involvement.

Kunal Shah: So maybe for inorganic thing or say anything outside of the normal business course they are in?

G.S. Sundararajan: Yes.

Kunal Shah: And just one last thing since you touched upon on this inorganic so we have mentioned like we are evaluating some of the opportunities in housing and SME, so any change in status post the last quarter?

G.S. Sundararajan: Not really because housing you know that all the promoters think that they are actually financing gold so therefore there is a lot of valuation which they expect and we would definitely not like to go in for something which we cannot value add on that beyond a point on returns and all that, but we will keep our eyes and ears open. As and when we get opportunity we will definitely look at but definitely because we have excess capital we are going to rush into some acquisition.

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

Digant Haria: Just wanted to check, the two wheeler growth has come off a bit it actually de-grown in the last quarter and if the year-on-year growth is 7% so that is slightly slower than 13%, 14% trajectory we saw so going ahead should we expect this two wheeler growth to be in line with the industry growth or should we do better in the industry?

Subhasri Sriram: I think you can expect growth coming up again starting from second quarter but picking up in the third and fourth quarter, we should be back again on the two wheeler portfolio and we definitely will beat the market in terms of two wheeler book. I think there is lot of opportunity there for us.

G.S. Sundararajan: Actually this also related to the fact that Andhra and Tamil Nadu we have reasonably high market share so our real penetration now is coming from the other geographies and we are consistently growing more than the two wheeler market itself which means that they are gaining market share on a regular basis which we will continue to do, because that is the model which we know is robust and that is something which we can dominate as a segment.

Digant Haria: And in your housing finance subsidiary just checking that the provisions have gone up this quarter and NPAs have gone up so is that more of a seasonality or are these levels that we should expect given the customer profile that you lend to.

Subhasri Sriram: It is too early to make a benchmark number for Shriram Housing, it is a three year old and maybe this is the first full year of business. I would probably I think the company is definitely looking at bringing the provision requirement down and 2% is not what we are looking at. We should definitely look at sub 2 but whether that will happen in the next quarter or next two quarters I think there is little time we require on that and I do not think it is necessarily a reflection of the customer profile, to an extent compared to larger ticket loans that is but I think we still can do it below 2%.

Digant Haria: And last on this operating cost so if let us say the next six, twelve months also there is no significant pickup in the economy we have seen in the past run rate of around 230-240 Crores of operating expenses per quarter. Do we expect that run rate to continue for operating expenses or it should pick up only after the growth picks up meaningfully?

G.S. Sundararajan: Yes, I think as last quarter it was indicated the company is definitely conscious about its expenses and we will continue to monitor expenses with reference to growth in business and you will probably see a jump in the expenses only when you will see a jump in significant growth in business.

Moderator: Thank you. The next question is from the line of Abhishek Kothari from Anand Rathi. Please go ahead.

Abhishek Kothari: I just wanted to know despite our bank borrowings decreasing quarter-on-quarter and more of market borrowing why did our cost of funds increase for the quarter on a sequential basis?

Subhasri Sriram: If you look in rupee terms it has not increased, it is largely in terms of percentages, typically what happens in March quarter is that there are borrowings which are necessarily not completely put to use, it is bank borrowings where the demand from banks to borrow it as on March 31, 2015 instead of on the 2nd or 3rd of April, so that sort of reduces the percentages wise but if in terms of borrowed money and incremental borrowing we have definitely seen about 22 to 25 basis points reduction in the overall cost of funds.

Abhishek Kothari: So going ahead would we kind of expect improvement in our margins on account of reduction in cost side?

Subhasri Sriram: Yes, I would talk about margins especially on the cost of funds we do expect another 25 basis points impact because some of the reductions which happened, happened in the last month of the quarter, to see the impact for the entire quarter probably the next quarter we should see 25 basis points reduction.

Abhishek Kothari: Another question if I can ask is that what is our disbursement to AUM for individual entity and for housing finance?

Subhasri Sriram: In the housing finance subsidiary you are talking about.

Abhishek Kothari: Both.

Subhasri Sriram: In the housing finance let me just clarify is it ratio between retail home loans and wholesale home loans is that the query.

Abhishek Kothari: No my query is suppose you lend Rs.100 as disbursements how much would go for refinancing and how much would go into your AUM.

Subhasri Sriram: We do not have the concept of refinancing I am sorry I do not understand that.

Abhishek Kothari: Refinancing in the sense you getting payment and then disbursing back I just want to understand out of every Rs.100 how much of it goes to AUM?

Subhasri Sriram: Are you talking about the rundown of the portfolio.

- Abhishek Kothari:** No ma'am it is just disbursement to AUM what kind of disbursement every Rs.100 of disbursement what kind of number do you see going into AUM suppose 25% or lets say 30% something of that sort of number is what I am looking out for.
- Subhasri Sriram:** No but let me just put this in perspective if I were to lend about 4200 Crores in a quarter we will have a rundown or a portfolio repayment of the opening book it will be around 3600 Crores so I do not know whether that answers your question.
- Abhishek Kothari:** So you mean to say 1200 will go into AUM.
- Subhasri Sriram:** Yes 1200 will effectively go into AUM, I have ballpark numbers.
- Abhishek Kothari:** Yes, ballpark numbers I am just trying to understand this.
- Subhasri Sriram:** Yes that is right.
- Abhishek Kothari:** Is this the same ratio for housing finance also?
- Subhasri Sriram:** No it is very significantly different, almost 80% will payoff, and then only 10% will pay-off 90% will add to AUM.
- Abhishek Kothari:** 90% will add in housing finance.
- Subhasri Sriram:** Yes, because A is the growing book, B the tenure is longer.
- Abhishek Kothari:** But then if I check on your disbursement number for the quarter it grew only by 2.2% whereas our AUM grew by 20% quarter-on-quarter in housing finance.
- Subhasri Sriram:** Which will be that is what I am saying.
- Abhishek Kothari:** So that is because 90% goes into AUM right.
- Subhasri Sriram:** Yes.
- Moderator:** Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.
- Karthik Chellappa:** Few questions, firstly madam on our gold loan portfolio given the kind of correction that we have seen recently especially in July what kind of margin are safety do we have relative to our initial LTV and do we foresee any interest reversals at any point in time and related to that have we taken any additional steps like asking our borrowers to top-up their gold

holdings are maybe accelerate their repayment so any color on that would be pretty useful. My second question is on our finding mix, what proportion would you like to keep the bank borrowings because it has been consistently coming down so at what level would you be comfortable from a mix point of view between bank versus nonbank and lastly a housekeeping question can I have the gross and the net NPA for the gold and the non gold portfolio separately.

Subhasri Sriram:

To answer your first question what actions we have taken post the gold rates movement the incremental lending from this month onwards there is Rs.100 reduction in the lending rate per gram so it is closer to 1600 to 1700 rather than 1800, second is have we taken action on an existing portfolio customer, it is practically difficult, the number of customers we have and the way to approach them for top-up is not feasible but definitely we will continue to monitor in terms of the extended tenure and probably we will have to accelerate our auction process if we see this gold rate reduction stress continues for next six to nine months but in gold you can actually get this price reversed in next one month, it can go either way so I do not think we can react immediately on the existing book but on the incremental book have taken one-step towards conservative caution, the gold rate per gram to lending rate per gram has been reduced by Rs.100. The second one in terms of a funding mix I do not think we are going away from the banking sector, our banking lines continue to exist, it is just the utilization of the order of limits are less in this two quarters and we have used those limits or using against those limits we are looking at commercial paper, so we continue to enjoy those credit lines of banks and the options are still available with us, if it is required we can shift the entire market borrowing to bank borrowings on an overnight basis. So all the bank lines are still available and open to us, therefore answering your question there is no comfort point, we already are at 50% plus of bank borrowing except that utilization is less than the previous quarter and in third question in terms of gross NPL ex gold and with gold gross NPL non-gold is 3.36 as against 3.17 and the net NPL is 0.52 as against 0.65.

Karthik Chellappa:

What will be the gross NPL and the net NPL be for the gold portfolio alone?

Subhasri Sriram:

2.37 and 1.17.

Karthik Chellappa:

Just one additional clarification madam initially on the gold loan portfolio on the existing portfolio approximately what kind of portion would you have on the LTV before it starts to hit your interest reversals?

Subhasri Sriram:

See if we are looking at about 70% LTV and our interest expectation is about 18% even the outer limit actually that ranging from 14% to 18% even I take the extreme end of 18% it is only of 88% I still have a 12% spread cap in terms of business sales and considering the

contract runs for entire one year period so we can probably continue the portfolio for 18 months without any interest income reversal provided there is no gold rate change from the date of lending to the date of auction and the asset quality of the purity levels are as assessed by the appraiser.

Karthik Chellappa: So at this point of time you really do not foresee the scope of any interest reversals or any other stress on this portfolio.

Subhasri Sriram: Not on account of this last this month's gold rate correction, definitely not on this, this reduction is not worrying us.

Karthik Chellappa: And just one question on the housing finance ma'am, we are actually over capitalized in that business to some extent and although we are growing fast I am just surprised that why the cost of borrowing in that business has gone up sharply quarter-on-quarter?

Subhasri Sriram: Cost of borrowing or interest expenses?

Karthik Chellappa: Cost of borrowing; if I look at the presentation, from 9% this has gone up to about 9.5% and compared to a year back which was 8.2 that is like a sharp increase QoQ and YoY so I am just wondering what is driving this?

Subhasri Sriram: Some of these are optical illusions because in terms of what the denominator for what period of interest you are servicing and what is the amount of outstanding as at quarter ending, but incrementally if I can look at it the borrowing mix considering that Shriram Housing also has a mix of NCDs and bank borrowings the cost of funds has been more or less around 10% this quarter there was still more borrowing from the banking sector rather than the NCD market because NCD being a fixed interest rate borrowing we would like to do it in the September quarter and we do expect some interest rate stability before we commit on any long-term borrowing therefore during this quarter we have taken advantage of some bank borrowings so it has been around 10.2%, 10.3% but we have options to borrow in NCD but I have not exercised it during the first quarter that is all.

Moderator: Thank you. The next question is from the line of Parag Jain from Religare Capital. Please go ahead.

Parag Jariwala: Parag Jariwala here, in your housing finance subsidiary if I look at even on the disbursement side retail loan disbursements have kind of gone down so what is the reason, is it largely related to slowdown in property market which is there in tier two, tier three kind of a term or it is a one off thing?

- Subhasri Sriram:** When we are such a small player in the entire market I do not think we are today worried about the slowdown and beating it, that applies to for the larger player when you have already reached a particular level of market share but to answer Shriram Housing's current scenario with the behavior in the last quarter I think two things - one is the March quarter was extraordinarily good the growth was very high I think and considering that I think little bit of slowdown happened in the month of April so we effectively had two, two-and-a-half months to work though there is a little bit of relaxing in the first half of April. I think we are back again this quarter onwards so this is nothing in terms of long-term, it is just an aberration.
- Parag Jariwala:** Can you give me that number what proportion of our book would be collateralized against gold as well as property totally?
- Subhasri Sriram:** Both will be very small it is the segment...
- Parag Jariwala:** Not both if either or...
- Subhasri Sriram:** Either or, gold book in terms of AUM is about 3200 Crores and small enterprise book is about 9300 Crores and out of that you can assume close to about 80% is either whole are partly collateralized by property, so 3200 is entirely gold and 9300 about 80% property.
- Moderator:** Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.
- Nischint Chawathe:** Just wanted to get a sense on the NPL recognition how you kind of plan to make the transition and how will the provisions et cetera play out?
- G.S. Sundararajan:** Out of 180 to 150 we are looking at doing it every year as mandated by RBI and we are looking at their suggested list circular that as of March 31, 2016 which would be at 150 and we will be at 150 on as of March 31st we are not doing it quarter-on-quarter.
- Nischint Chawathe:** So how does the provisioning thing work is it something can you kind of assume that the provisioning kind of number is higher in the fourth quarter are you deferring it or are you not changing the provisioning policy at all.
- Subhasri Sriram:** We will make the provisioning, will recognize the assets as 150 NPA as at March 2016 and provisioning will as per RBI. In terms of coverage while we are very general right now it is close to 80% coverage. When we move to 150 days coverage the board will review what is the appropriate coverage we need to maintain.

G.S. Sundararajan: Also I think our category of customers as we have mentioned in the past to RBI and I think RBI kept in mind the issue we have on the customers where there was irregularity of cash flows and also the behavior of these customers on banking itself was irregular so to that extent I think we have given the three quarters to try and see what kind of change of behavior we can do for 30 day coming down on the NPA recognition and that will hopefully help us to see a much lower number as opposed to taking it quarter-on-quarter and thereby exaggerating our provisions if we start doing that right away.

Nischint Chawathe: And anything specific that you may want to highlight in terms of what changes have you made on the behavioral front or the way kind of corrections etc are done kind of in order to ensure that the damage is limited at the end of the year.

G.S. Sundararajan: Our collection team has been completely indoctrinated to keep letting customers know that because of the provisioning we are bringing down our date of provisioning, they will need to actually start ensuring that - they were in fact forewarned - that we will advance our legal notice and all that by 30 days. While in principle we would not like to harass our customers like this we know that because we are mandated we will also have to educate them accordingly and I am sure we expect some of them at least to see if they can actually activate some of their cash inflows and see if they can pay today. It is only a question of educating the customers through our collection team which has been fully indoctrinated on this.

Nischint Chawathe: But is the 150 day bucketing delinquency kind of already started reflecting this or it will be possible to take couple of months for that to happen?

G.S. Sundararajan: No as I told you the collection team indoctrination has taken its time so now they will have to educate the customer. It is little bit of a long-drawn process. If we see some positive effect in terms of payment of these customers by the third quarter then we will know that there has been significant impact of our education to the customer.

Moderator: Thank you. The next question is from the line of Mithun Soni from Geecee Investments. Please go ahead.

Mithun Soni: On the Shriram Housing side I have a question we are showing that we have done a construction finance of about 48 Crores. Can you explain a little bit more of what sort of finance is this?

Subhasri Sriram: We are working on in terms of retail customer acquisition that the next phase is to work with builders in smaller towns, tier two, tier three towns where we have not seen too

much of bank support to this sector, where we are also trying to convert that segment into our retail customers in the long run so this is one way of customer acquisition where you can use DSAs, you can market where you get preferred, you are going through the builders and largely focusing on a smaller towns.

Mithun Soni: So is it like financing the builder or do you financing the retailer through this how is it has to go.

Subhasri Sriram: No we are financing the builder where the property is ready for delivering.

Mithun Soni: Only ready for delivery.

Subhasri Sriram: Of course it was ready for delivery and thereafter we are looking at converting that property which has been collateralized to us we convert in to retail home loan customers.

Mithun Soni: And what would be the average ticket towards one particular building or one particular builder you would like to maintain?

Subhasri Sriram: Too early to say because I think we are just putting up testing the thing, we have to give you example we have exposure of even 1 Crore to a builder so it is 1 Crore, 3 Crores, 7 Crores all range available.

Mithun Soni: So you do not see it as a risk because like normally given the balance sheet usually builder loans or whatever what we call is like there can be some amount of risk involved in it.

Subhasri Sriram: In most of this we have actually have ready to delivery, ready to occupy apartments as collateralized to us, mortgaged to us, they are actually retail houses.

Mithun Soni: These are like long term loans which get converted to retail loans.

Subhasri Sriram: Yes, it is about one year to three year loan and technically even many of them get classified as home loan only as per NHB, I am giving against land or property.

Mithun Soni: Okay but you will limit the exposure to these types of loans of the total AUM norms?

Subhasri Sriram: Yes, which will likely to be not more than 25% at this point in time?

Mithun Soni: Isn't that very high like 25% of AUM coming from this type of business.

G.S. Sundararajan: No it is like this you are starting off anyway very small I think we are look at numbers which are not going to significantly alter the concentration of exposure in the housing

finance company which is the reason why the numbers which Subhasri talked of 1, 3, 7 Crores are all initial pilots to test out whether this kind of takeout kind of a financing can be a good origination engine for a housing finance scale. We will do maybe eight, ten cases like this see how it is working and then maybe expand and if we are convinced that this model works then maybe we will take it up to 25% otherwise it will still be much lower.

- Mithun Soni:** Second thing is are we doing any LAP right now in the housing finance right now?
- Subhasri Sriram:** No, it is not a product available to the market. We have one or two cases but more on references. It is not a product at the branch level.
- Mithun Soni:** Today, the loan sourcing how much of it is happening through our own network versus how much of it through the DSA and the external agencies?
- Subhasri Sriram:** Probably around 80% is own and about 20-25% could be through DSA.
- Mithun Soni:** And on the core business, just to understand a little bit you said that on the two-wheeler our market share in the southern market is a little higher, is it possible to get a geographical breakup for the two-wheeler particularly and what would be our market share in Andhra Pradesh and Tamil Nadu?
- Subhasri Sriram:** First, the perspective what we need to understand is only 30% of the vehicles get financed. We are talking market share of the 30%. On the 30% whatever is 25% is being financed in Andhra Pradesh and Tamil Nadu. Of that, Shriram City's market share will be over 30%. More specifically, we will be the number one in these two states.
- Mithun Soni:** What part of our total two-wheeler book will be coming from these two states?
- Subhasri Sriram:** 50-55%.
- Mithun Soni:** Going forward which are the couple of new states you will be looking forward for growth as a key growth driver in terms of states even SME Andhra Pradesh and Tamil Nadu are the key markets for us?
- Subhasri Sriram:** Growth in two-wheeler is I think as I said we are the number one in Andhra and Tamil Nadu. It goes without saying that we are not number one in North and West. Having reached a leadership position in these two states we know what we need to do to reach number one in position in all other states where we operate, so you will see a lot of growth, a lot of traction coming in North, Western and maybe six months down the line Eastern region.

Mithun Soni: On the SME side now we have during the quarter the disbursements or the incremental growth was also pretty good, we feel the momentum is improving or how are you seeing the momentum going forward on the SME side for us?

Subhasri Sriram: I am so glad that 2014-2015 is over because 2014-2015 was a bad year for us. Everything compared to 2014-2015 looks good now in the SME space, so I think from a macroeconomic space I do not think there is much traction. The credit is to the team is we have understood that in spite of the difficult economic market condition how to go about doing business. I think we have got that right now but for us to actually go back to our 2012-2013 numbers I think definitely will require support from the market.

Mithun Soni: What sort of growth we feel we can do across the variety, like two-wheeler and SME versus rest of the book?

G.S. Sundararajan: On SME and two-wheeler we definitely are looking at 14-15% kind of growth which I think we will be able to do because there is a lot more penetration that we can do in Andhra and Tamil Nadu in the SME segment as well as expand on the North and West on the two-wheeler segment because our overall market share in two-wheeler is still less than 10% and on the gold is really the balancing figure, gold we are really able to get our act together and grow by the same amount 14-15% and then we will have an overall growth which will still sustain at what we really want to do.

Mithun Soni: One request, is it possible that you can also share the number of customers what we have in the small business and gold business going forward, active customers whom we have lent?

Subhasri Sriram: The business loan, SME loan customers approximately are about close to about 3 lakh customers; gold I will rather than mentioning the number of customers we have I can tell you what is the number of customers we acquire every month, it is close to number of packets, instead of customers I look at number of packets, it is about 200,000 packets; 200,000-250,000 packets per month.

Mithun Soni: Average tenure of the gold should be less than six months for us?

Subhasri Sriram: It is going beyond six as of now, this again, it can change dramatically when the gold rate or the market condition seasonality changes but right now it has crossed six months.

Moderator: Thank you. The next question is from the line of Harish Krishnan from Kotak Mutual Fund, please go ahead.

Harish Krishnan: Good morning, on the basis of what you just said on SME side, did I get the number right, there were 3 lakh customers?

Subhasri Sriram: Correct.

Harish Krishnan: Has it seen a massive growth or it has been around the same numbers over the last few years? Has the number of customers seen a significant growth or has this been similar to what was around last few years as well?

Subhasri Sriram: Ticket size continue to be about 8 lakhs, this is the traction considering the loan book is two, two-and-a-half, three years and you have to keep in mind that we had last year quite a bit of our customers with shorter duration, so the current AUM portfolio outstanding is about 3 lakhs.

Harish Krishnan: But even based on 3 year book that you would have disbursed it seems to be on the higher side given your ticket size of whatever 8 lakh or 10 lakhs?

Subhasri Sriram: The average ticket size, but the number of customers is close to that.

Harish Krishnan: Secondly within AP and TN can you give us a sense on SME side what is the split coming from these two regions?

Subhasri Sriram: 70%.

Harish Krishnan: The growth that you are talking about and that we have seen in this quarter is primarily a function of the ticket sizes going up or is it a function of more volumes happening in the system?

G.S. Sundararajan: No, it will be more volumes, more customers, as I told you the penetration opportunity for us in Andhra and Tamil Nadu from the chit ecosystem is still very high possibility and we know that we can penetrate two to three times more within that segment as well as we have got new business models which have matured in Maharashtra, Gujarat and Madhya Pradesh on the cash flow based lending wherein they are competing with the rest of the market, so both these segments are definitely there is a huge opportunity for growth which is what we are trying to take advantage of.

Harish Krishnan: Maybe if you can elaborate, you said that your team has finally cracked it on the SME side to grow despite the poor economic environment within AP and TN, if you can tell us what exactly from a behavioral standpoint you are doing different for us to have greater

confidence that there is book and grow over the next two, three years despite a subdued economic environment?

G.S. Sundararajan: Are you saying outside of Tamil Nadu and Andhra or in Tamil Nadu and Andhra?

Harish Krishnan: Within Tamil Nadu because SME you are saying the growth is primarily going to come from these two.

G.S. Sundararajan: See Tamil Nadu and Andhra anyway are our very focused chit geographies and we have got about 3, 3.5 million customers of chit funds which is available with us. Most of our SME business in these states has come from our ability to data mine and penetrate this customer base. While we have been quite conservative in terms of graduating these customers from chit fund status to Shriram City Union Finance SME customer now we understand that the kind of community lending we do using surrogate and also looking at lending amounts which are much lower than the average SME lending which happens in the market for this category of customers and the fact that these are our captive customer base where there is not too much of competition which can come in because of the fact that they are at the bottom of the pyramid. Our ability to actually get the kind of pricing we need and pick and choose these customers within the overall customer base we have is relatively easier and that is the reason why I am saying that despite and most of these customers are very, very local guys, they cater to local consumption rather than being dependent on macroeconomic factors. Given that the opportunity can definitely be leveraged in the coming years as well.

Harish Krishnan: Just to reconfirm on the capacity build out front I think in terms of head count last quarter you were at close to about 26,000 odd employees, is it fair to say that this number will remain similar even for the whole of this year?

G.S. Sundararajan: Yes, it has to in fact, I think we are, I am sure you are aware the last three years we had moved a lot of chit fund employees, so that I think we have to work on the productivity and all that and see how we can get more from the existing field population rather than hiring fresh people, so yes the employee strength should not go up.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Capital 72 Advisors, please go ahead.

Kashyap Jhaveri: Good morning and congratulations on good set of numbers. I had a question on your expense ratio, after fairly long period of time after many quarters that number seemingly has declined on quarter-on-quarter basis, is it that most of the capacity building that we had to do on the collection side as well as on the market expansion side is probably done and

from hereon how do you see expense growth vis-a-vis the EM growth, I probably might have missed this in the initial comments because I joined a little late?

G.S. Sundararajan: Yes I think we have definitely built our capacity for at least the next 12 to 18 months, especially in the collection and origination side and yes despite the fact we did not have the desired growth in the MSME space in Andhra and Tamil Nadu. Last year we still built out the infrastructure because we knew that we have the opportunity to leverage on the captive customer base we have and also we wanted to be well equipped for any delays in collection that might happen and therefore we needed a lot more manpower in this place but having built all of that we are now confident that we can leverage on this for at least the next 18 months and hopefully improve our cost to income ratio much because the income will go up rather than the cost going down.

Kashyap Jhaveri: I missed out on the NPL ratio in the gold loans, what was that number? Gold portfolio gross and net NPL.

Subhasri Sriram: 2.35 and 1.17.

Kashyap Jhaveri: This 2.35 in the preceding quarter, previous quarter was 3.12, am I getting this correct.

Subhasri Sriram: Gold alone was 2.28 in the previous quarter; now it is 2.35 and net NPL which was 1.38 now it is 1.17.

Kashyap Jhaveri: So in terms of the expense ratio now that should more or less grow or rather overall expenses should grow in line with the AUM growth, would that be the right assumption?

G.S. Sundararajan: No, it should go less than that.

Kashyap Jhaveri: One last question on our SME book, if I look at AUM growth we had about a single digit growth in let us say Q2 of last year and gradually picking up to now about 20% kind of a number now, so one part of it which probably I could pick up from the last quarterly call was that the tenures are slightly getting longer and ticket sizes are getting larger, now in terms of disbursement now what is the customer number pickup overall in terms of new customer acquisitions, how is that moving, I don't need a precise number but probably just any qualitative comment would do?

G.S. Sundararajan: I think the ticket sizes will continue to be where they are after they have grown to a certain extent now but the customer acquisition numbers will go up and that is where we see the growth coming from in the MSME space.

- Kashyap Jhaveri:** Let us say if the customer acquisition growth would be from herein acceleration would be high or how would you define that?
- G.S. Sundararajan:** As I said because we have the resources and people on the ground who have been sufficiently trained and we have the opportunity to penetrate our existing customer base we do believe that number is going to go up, which is what I was saying that a chit fund employees who have moved in have been trained enough to enhance their productivity and all that on the customer origination side, we do expect that number to significantly be upped in this year.
- Moderator:** Thank you. The next question is from the line of Mitul Patel from Laburnum Capital, please go ahead.
- Mitul Patel:** Thank you for taking my question. My question has been partly answered, just one question, on a 150-day basis can you give us a ballpark number for what the gross NPA and net NPA percentage would be if you guys were recognizing it now?
- Subhasri Sriram:** The 3.17 will be close to about 5.5.
- Mitul Patel:** What is the target for the cost to income ratio going forward next year or so?
- G.S. Sundararajan:** We want to steadily keep coming down on that. I think it depends on how much we are able to leverage on the existing people cost and infrastructure cost to generate more income, obviously we want to go back to our best number of 36 but that could take about three to four quarters.
- Moderator:** Thank you. The next question is from the line of Hitesh Gulati from Espirito Santo, please go ahead.
- Hitesh Gulati:** My first question is what percentage of gold loans is retail and what percentage is SME?
- Subhasri Sriram:** Now moving towards more to retail than SME?
- Hitesh Gulati:** More or less everything is retail now?
- Subhasri Sriram:** More than 90% is moving to retail.
- Hitesh Gulati:** Secondly SME in the business loan segment what percentage of loans are secured and what is not secured?

Subhasri Sriram: 80 to 85% are secured and the balance 15% definitely will have personal guarantees and partial security.

Hitesh Gulati: What will be the LTV for this?

Subhasri Sriram: Ranging from maybe we have about 50%, we also would have financed 110%, we have started a loan against property business, not necessarily the collateral has to have some LTV proportion, the lending amount is determined on the cash flow and the business needs and the property is the second decision, so there is a possibility there will be a possibility where the collateral amount is maybe around 100% of the loan amount.

Moderator: Thank you. The next question is from the line of Pradeep Agarwal from Phillip Capital, please go ahead.

Pradeep Agarwal: My question pertains to your strategy of rolling our SME products through two-wheeler branches, if I am not wrong, around 55% of your branches are doing SME product as against 98% for two-wheeler, so over the course of next one to two years what proportion of these two-wheeler branches you look at doing SME product as well?

G.S. Sundararajan: See when we go in to new geographies or visit geographies we start with two-wheeler and gold and of course we also have a separate set of branches in Maharashtra and Gujarat where we are doing SME through the cash flow lending business, but I think typically in North we really look at two-year kind of timeframe for them to do the two-wheelers and gold, build the relationship with the community and over a period of time we actually license branches to start doing SMEs once we know the branch team is well versed with the community and they also understand how to leverage on those relationships to do SME lending. Today, there are about of the non-chit branches, there are about 25-30 branches which are doing SME and that is about 20% of the non-chit branches.

Pradeep Agarwal: For next year where do you see that number?

G.S. Sundararajan: We would like it to grow but as I said it is again dependent on the people and it is more qualitative in terms of whether they have the ability to do that business but since two-wheeler and gold itself is making the branch profitable we are happy as they continue to do that well rather than defocus them from getting in to SME. Also on the surrogate based lending on SME for non-chit customers we ourselves I do not think are very confident of doing that in other geographies, however we would like to expand the business which we have done through the cash flow lending model which we are doing in Maharashtra and Gujarat to other states which I think will happen over the next couple of quarters.

- Pradeep Agarwal:** If you can give some color as to what is the asset quality or delinquency levels in those 25 to 30 non-chit branches versus chit branches?
- Subhasri Sriram:** Asset quality wise there is not much of distinction, in fact the non-chit branches asset quality comparatively is better than actually chit states, that probably more or less sort of reflects the credit risk or the risk appetite which we have in the non-chit is much lower when we are in chit and ability to collect and manage the portfolio and risk taking is more in the chit state, not necessarily in terms of customer profile, it more reflects our caution in those markets we completely open out the market.
- G.S. Sundararajan:** Which also reflects in those segments the NIMs are lower, therefore if you really look at an overall ROA it will be a two-and-a-half as against 3.2 in the chit customer segment, therefore we will calibrate it and grow it relatively slower but we do want that to be spread across more geographies so that it is a good hedge for us vis-a-vis concentration in chit customer base.
- Pradeep Agarwal:** What would be your number for GNPA in your SME segment and net NPA for this quarter?
- Subhasri Sriram:** Gross NPL for SME loan portfolio alone 2.62 and 0.53.
- Pradeep Agarwal:** What was this net NPA number in the previous quarter?
- Subhasri Sriram:** 2.49 and 0.49.
- Pradeep Agarwal:** If you can give me two-wheeler also?
- Subhasri Sriram:** 4.77 this quarter and 0.64 and last quarter 4.70 and 0.68.
- Pradeep Agarwal:** Secondly on your employee side over the last three years what number of employees would have been transferred or shifted from their rolls to our rolls?
- Subhasri Sriram:** Last year out of the 25,000 employees close to about 15,000 employees some of them with much longer vintage in Shriram Chits where Shriram Chits would have taken them in the last three to four years and thereafter moved them to Shriram City.
- Pradeep Agarwal:** So out of the current employee base of around 25,000, 15,000 would be.
- Subhasri Sriram:** Will have their past work experience at Shriram Chits.
- Pradeep Agarwal:** Secondly if you can give some clarity or comments regarding your continuance with the group?

G.S. Sundararajan: Whenever there is some clarity required to give to all of you in the market we will give. As of now, there is nothing required to be given.

Moderator: Thank you. The next question is from the line of Gaurav Maheshwari from Unilazer Ventures, please go ahead.

Gaurav Maheshwari: Just wanted to check on the last quarter you mentioned about going asset light on the gold loan part of the portfolio, what has been the progress on that?

Subhasri Sriram: It has slowed down a bit this quarter, beginning of this month the bank with which we had arrangement with had to, completely they revamped their software, so it took a month or two for us to get ourselves sync with their package, so it effectively started only at the end of last quarter, so it will take a while for us to settle down on that segment while we will continue to explore with other banks too.

Gaurav Maheshwari: So do we expect that part of the business to start Q2 onwards?

Subhasri Sriram: Yes definitely but it might not be very dramatic immediately, it will take a while before which it fully settles down.

Gaurav Maheshwari: Second question pertains on the excessive capitalization that we have on the balance sheet and assuming the good growth rate or escalated growth rate continues on all the business fronts still we do not see the company requires so much of capital, so would there be any thought on returning on the excess cash to shareholders, any thoughts on that front.

G.S. Sundararajan: We have already taken the first step of doubling our dividend payout ratio last year and therefore we will continue to keep doing that and I think both our partners Sanlam and Piramal have been putting a lot of pressure, but that is not going to make us do reckless things because we do want to go and look at acquisition because we have excess capital, we will be looking at related opportunities and continuing to have a higher dividend payout ratio, maybe over the next couple of years there will be some excess capital which will continue to be there unless we really stumble upon some good acquisition opportunity.

Gaurav Maheshwari: My last question pertains to the slow growth that we saw in the two-wheeler business this quarter, what lead to that growth I do understand you mentioned in one of your remarks that going ahead we will see the strong growth coming back but what lead to the slow growth in the quarter?

Subhasri Sriram: Comparison, and fortunately March is a better quarter and I think in the case of June 2014, March 2014 was not such a good number, so June 2014 had a slower effect, but in terms of

market share and our continuing to be a market leader across the segments where we operate I do not think there is any slippage, so we will continue to outperform the market in two-wheelers.

Gaurav Maheshwari: In that case would you be able to give the disbursement number for two-wheeler in the last quarter and the same for Q1 FY 2014 as well.

Subhasri Sriram: 781 Crores is the disbursement for Q1 2015 and 831 Crores was March 2015.

Gaurav Maheshwari: To one of the earlier question Mr. Sundararajan mentioned that the growth for the semi and two-wheeler is going to be somewhere around 14-15%, but growth even in the last year which you consider as a bad year has been around 19 and 16% respectively, so are we guiding for a slower growth going ahead or?

G.S. Sundararajan: We would like to exceed your expectations; therefore we would like to give you guidance when we are sure about it.

Subhasri Sriram: On the disbursement side small enterprise finance quarter-on-quarter there is a 5% growth, if you can extrapolate it, it is about 20%, year-on-year and the portfolio the disbursement has grown by 57%. Actually what you see is a slowdown in the gold book, if you look at product by product the SME has outperformed.

Gaurav Maheshwari: My question basically pertains to the SME and two-wheeler part that should be much more than what we have grown in the last quarter in the AUM growth side.

Subhasri Sriram: Two-wheeler is bit of a thing, as I explained we should get back on the third quarter, typically third and fourth quarter two-wheeler is much better than the first two quarters.

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

Adesh Mehta: Congratulations on a good set of numbers. Would just like to ask what could be our NPA if we are moving to 90 days, like you have mentioned 150 day NPA, what could that number be for 90 days?

Subhasri Sriram: I think it is two years forward, looking at the current number NPA and assuming to that being the number which will be in 2018 which I think is a little bit extended As Mr. Sundararajan explained that we are working towards orienting the field executives and the customers. I think it will take a while. Maybe this would be a good thing to look at

beginning of next year but it will have to be seen at a very long time 180 has moved to 150, that will give us way forward in understanding how the customer behavior will be for 2019.

Adesh Mehta: So just wanted to clarify, if you are moving to 150 days, already that ratio is going up north of 50-60%, so would it fair to say, just hypothetically that if you were to migrate to 90 days that the number could be more than doubled than what our current NPAs would be?

Subhasri Sriram: Hypothetically yes, I cannot say this will be the number end of 2018 but yes current number we can double it for 90 days.

Adesh Mehta: One question to Mr. Sundararajan Sir, you mentioned that you are more comfortable with a cash flow based lending compared to a surrogate based model, so sir just wanted to know what is the difference between the two models, if you can kindly articulate that?

G.S. Sundararajan: First of all I don't think I said that I am more comfortable with the cash flow lending model; all I said that was we are used to doing the chit fund customers through surrogate based model and the customer community lending in the SME space because we have a history of our chit fund customers, we know that community well and that wholly puts them in our favor because there is an absence of financials in these customers, you do not get really a representative financial and we have to actually go and look at their areas in business, look at who their customers are, what kind of market they are in and do reference checks, so some of these things we do and we have hard collateral available and we lend based on what we feel is appropriate. We had piloted about four years back in Maharashtra and Gujarat a cash flow lending model which is what every other NBFC and bank does in terms of lending to category of customers looking at CIBIL as a filter and then looking at financials and assessing what kind of and we also do secured and unsecured in that space. The competitiveness of that space ensures that we do not get more than 6-7% NIMs there as against 11-12% in the surrogate based lending. We have more or less matured in that segment of the cash flow lending model that is what I referred to which we have piloted in about 30 branches in Western region and because we have matured there and also because we know that the ROA there is only 2.5 as compared to 3.2 in the MSME space. We would like to ensure we grow it in other geographies within a similar manner, at the same time not grow too much because we do not want the overall ROA to come down, therefore we are comfortable that we have succeeded in doing that model in an ecosystem which does not believe in experience in cash flow lending, to that extent we are comfortable but we would like that to be a 15-20% part of our overall SME book as we forward and not beyond that.

Adesh Mehta: 15-20% of our overall SME book. Okay, Sir what could be the incremental ticket sizes in this cash flow based product?

G.S. Sundararajan: There it will be much higher. We have almost about 15-20 lakhs on the secured side. On the unsecured it is 5-6 lakhs. On the secured side it is almost 20-25 lakhs.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Capital 72 Advisors, please go ahead.

Kashyap Jhaveri: I have a question on the housing finance which sort of in some of the earlier questions has already been touched upon, if I look at your net NPA number in this business on an 884 Crores AUM that is roughly about 18 Crores, now quarterly profit that we make, let us say a full year profit that we make on this business would be roughly about 20-25 odd Crores, the net NPA number now is equivalent to the full year profits as such, should one worry about it at this point of time or these are the ratios which probably as the business grows will continue to sort of continue to go down?

Subhasri Sriram: I think we are looking at an early stage, the company is just 3 years old and looking at an asset book which is an 8 year old asset or 10 year, I think this is disproportionate. These ratios will really make sense when the complete assess cycle one tenure is gone for the portfolio and there are many provisions, we are provisioning on the loan book which is valid for next 8 years, so you cannot take that. When we do a provisioning or providing on the entire future principle it will be too early to do a comparison. If the loan book or the company has run a full cycle of one asset cycle then this ratio would probably make a very relevant number.

Moderator: As there are no further questions I would now like to hand the floor over to Mr. Karan Uberoi for closing comments.

Karan Uberoi: On behalf of JM Financial I would like to than Mr. Sundararajan and Ms. Subhasri Sriram of Shriram City Union Finance and all the participants for joining us on the call today. Thank you and good bye.

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