“Shriram City Union Finance Limited
Q1 FY2019 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Shriram City Union Finance Limited Q1 FY2019 Earnings Conference Call, hosted by Antique Stock Broking. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Digant Haria from Antique Stock Broking. Thank you and over to you Sir!

Digant Haria: Yes, a very good morning to all of you. Thanks to the management and thanks to the participants for taking out time. I will quickly introduce the management of Shriram City Union represented by Mr. Y.S. Chakravarti, who is the ED and COO, Mr. V. Lakshmi who is the ED, Mr. R. Chandrasekar, who is the CFO and Jai Singh, who is the VP Investor Relations. So without wasting much time I will hand over to Lakshmi who can take us to the financial results and then Mr. Chakravarti and Chandrasekar can take us through the other parts of the business, so over to you Lakshmi Sir!

V Lakshmi Narasimhan: A very good morning to all of you who have joined the call. Thanks to each one of you for joining the call. I will just take a few minutes giving what our perspective for the quarter gone by has been. I will just try and triangulate that to the various guidance that we have been giving for the last six, seven months in the market. I think in terms of a big event we have kind of migrated to Ind-AS and as much as possible we put out enough data in the presentation including the PDs, LGDs and ECLs and the differences between FY2017-2018 and versus June 2019 as well. We will kind of take questions as they come, but I think it is pretty clearly explained. In spite of that if there are questions on that then we will take that including the fact that we have a CFO who will explain each of those numbers as and when questions arise, but largely to kind of connect the knock on the net worth is up 2% when you look at the FY2018 numbers, it was 2.94% for 2017 and 2018 is just about Rs.108 Crores, so there is an Rs.8 Crores claw back, so the knock is slightly lesser. The June 2019 number was predicated on the following basis, we said that we will grow our loan book of anything between 18% and 20%, I think Q1 has been pretty good unlike most of the Q1 that we would have seen in the past. The non-gold book is growing better than the overall loan book and the non-gold disbursements looked better than the overall disbursements as well.

The good news is gold last time we had mentioned that we are trying to work and revive in a manner on where we think that product should grow as well. We have seen disbursements pick up by more than 5% better than Q4, so the Q1 disbursements on gold is 5% better than Q4 disbursements on gold, which is not the case for the other products. We had also said that the cross sell model that we have put in place for the personal loan business should start attracting better for PL and is reflected in the loan book growth and the disbursement growth as well. We had also mentioned that the collections part of it has been reoriented by us as being for standard assets and separate for NPA management. That is still work in progress even though at this point in time if you kind of look at the LGDs drop between March and June it is a good sign because of the fact of better quality portfolio of SME and PL getting into the overall loan book as also collection efforts paying off. One thing, which certainly has not gone away for which we have guided as well is the fact that we said that the yields are expected to drop. We are seeing a drop in the yield. At this point in time the business team is contemplating an increase of some prices in some segments of customers in the market, so the effort is going to be do claw back as much as possible from the drop in the yield that we are visualizing or witnessing at this point in time. So our guidance remains that anything between 50 and 60 basis points drop in yield for the year from the last year of 20.1 remains at this point in time and I think we should do better than that once we get our cross-sell better and what we are doing at this point in time.

We remain committed to getting to the 18%, 20% ROE levels. ROE as per Ind-AS you see is already about 16% up from whatever that you saw in March 2018. I think we should get to regular places of 20% ROE within this year, if not at least the exit ROE for this year you would see that and the next financial year should be better than what we are seeing at this point of time. There are no more branch expansions that we have had. The idea for this year has been to control cost. We are seeing some traction on the cost, for example the number of employees in the June quarter has reduced by about 550 people. We have said post our March numbers that have bench strength of about 1500 people, so 550, 560 of the 1500 is not with us anymore. I think during the next few quarters we should see better control in the manpower cost as well as we go forward. Largely I think I would have said what I wanted to, cost of fund has tracted up even though it has an impact at this point in time, but I think it will look higher as we kind of go forward during the financial year. I now request Mr. Chakravarti and Mr. Chandrasekar to add what they would want to in case I have missed out something.

Y S Chakravarti: Good morning to all the participants of the call. This is Chakravarti on behalf of Shriram Management talking to you. Lakshmi has summed it up very well. The only point I would like to emphasize here again is that the disbursements when you look at, the disbursements I think we were doing pretty well, on our PL, SME and two wheelers. Considering that the first quarter is always low for us we have indicated that our efforts in the last one year are being seen now in the numbers.

R Chandrasekar: This quarter we prepared under both I-GAAP and Ind-AS for which we have presented. Any call on Ind-AS we can also take. Any specific questions on Ind-AS we would like to answer.

Moderator: Thank you. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

Kunal Shah: First of all thanks for such a detailed disclosure on Ind-AS. So just wanted to ask with regard to this exposure to SVL, so that is still standard under this ECL framework as well and there is no impact in terms of the GNPL or the provisioning?

Y S Chakravarti: SVL remains a standard asset, so as per Ind-AS whatever provisioning that we need to do on that has been done.

Kunal Shah: But there was a provisioning on that, may be normal provisioning, which is needed?

Y S Chakravarti: Correct, it is a standard asset and in the book, so it is part of the loans and advances, so anything that we need to provide on that as per the requirement has been provided.

Kunal Shah: Just to get the sense in terms of the reconciliation between the full year FY2018 profit as compared to that of Indian GAAP and Ind-AS, so obviously in terms of the net worth is suggest it should be much lower hardly Rs.8 odd Crores or so, so is it fair to assume that the difference between the Ind-AS and earlier GAAP is only Rs.8 Crores in terms of the P&L full year?

R Chandrasekar: Yes, if you see from March 2017 we have prepared under Ind-AS, the networth was Rs.116 Crores and cumulatively if you take up to March 2018 it is Rs.108 Crores, for the year 2017-2018 it is positive Rs.8 Crores.

Kunal Shah: It is positive Rs.8 Crores, so one was in terms of the higher provisioning as we transition to 90 odd days and that is the reason there were heaviness.

R Chandrasekar: Correct, actually historically if you see we previously when we are in the 120 DPD we are 73%, 74% provision last year March 2017 and this current year we had 62% provisioning on the books, so historically we always have much higher provisioning than the RBI regulation, so depending upon our books and other things.

Kunal Shah: Sir in terms of the provisioning obviously there would be a release - just wanted to get the sense as to what has changed in terms of the offsetting impact as well because of the higher provisioning in fact there should be more benefit coming through in P&L, but that seems to be on a lower side, so what has been the offsetting factor?

R Chandrasekar: If you see the Ind-AS, there are four, five areas where in fact entire book has to be, there is impact on ECL and there is impact on investments, expenses, so everything has to be reworked and the major effect is on 373 and other impact is around 174 and there is a deferred tax effect, so the net effect after taking into account is ECL and other heads and the deferred tax and net effect is Rs.116 Crores, which is knocked off from around 2.3% is the net effect in terms of percentage.

Kunal Shah: Lastly in terms of the loss given default on personal loans, which is unsecured debts nearly like 46% based on the experience, which we have?

R Chandrasekar: The loss given default if you go by our historical book we have seen probability of default on all the products together is 4.46%, loss given default has dropped actually. If you have seen June 2017 it was 46.66, March it dropped to 46.02, now it has dropped further to 43.39, so the book is improving.

Kunal Shah: The only thing was may be in terms of between the secured and the unsecured I think there is hardly any variation everything is between 46 to 51, so that was the reason? Maybe the loss given default seems to be quite low in personal loans?

R Chandrasekar: It is a business it is not a question of security and it is a question of assessing the customer's cash flow.

Kunal Shah: Thanks a lot.

Moderator: Thank you. The next question is from the line of Nagraj Chandrasekar from Laburnum Capital Advisors. Please go ahead.

Nagraj Chandrasekar: Good morning and thank you for taking my question. I had a question on comparative intensity in the SME side in the small and medium ticket segment. Compared to what you have guided to in the last quarter, have you seen this incrementally increase with lot of SFBs especially in the south having hired a large number of staff from you and how much overlap is there between sort of customer base and products in both small and medium ticket SME and two-wheeler?

Y S Chakravarti: On the SME segment probably hardly about 4%, 5% of overlap between two wheeler customer and an SME customer that is number one. Number two is there are lot of SMEs now operating across the country, not only SME there are also a lot of these new NBFCs are trying to come into the space, but then I think as of now we have not felt any stress or strain on the leads that we generate in this business. Point number three is if you look at the number of people that we have lost to SFBs you can count them on your fingertips, it is not a large number. We have lost probably four, five people, that too at a branch manager level and not anybody who is above branch manager. I do not know where you have got that information, but that is the fact.

Nagraj Chandrasekar: Thank you and then on the large ticket side with an SME lending, which is growing within your book, are you competing with banks for NBFCs here and also there have been concerns raised about collateral over valuation in this space by senior bankers and concalls this quarter, is that a risk in your view and how do you assess collateral, is this done internally or externally?

Y S Chakravarti: Actually we do not compete with banks at all, we compete with NBFCs, given the cost of funds in no way we can compete with banks today, it is only other NBFCs that we compete with number one. Number two is on the collateral side the entire lending is based on cash flow, collateral is only secondary, collateral could be 150% of the loan or 60% of the loan. End of the day the decision is based on how comfortable are we with the cash flow of the customers. If you are not comfortable with the cash flow of the customer does not matter if the collateral is 200%, 300% we do not do a deal, so overvaluation of collateral, undervaluation of collateral, these are all academic because my primary concern is whether the business has the cash flow and whether the business can sustain competition. These two are the factors when we assess an application, collateral come secondary. Does it answer your question?

Nagraj Chandrasekar: Yes, just one more thing?

Y S Chakravarti: Let me finish, but actually on the other side is conservative valuation of the collateral, our LTVs will be around 50% to 60%.

Nagraj Chandrasekar: Thank you and are you think other people operating in this segment engaging in these practices grossly overvaluing collateral, are you seeing this from competitors?

Y S Chakravarti: There is always competition when people want to grow their books, so it is how fast they want to grow, probably it all depends on how fast they want to grow the book, so I would not like to name anybody, but yes there are people who want to grow their book, so they may take a slightly higher risk.

Nagraj Chandrasekar: Thank you.

Moderator: The next question is from the line of Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain: Thanks for the opportunity Sir. On the yield decline that we have witnessed in this quarter despite the share of gold loan coming down, which means that in the SME portfolio we have witnessed significantly sharper decline in yield because I would assume that in other loan product they will not be yield pressure. That is question number one and second question is on the LGDs - we have seen sequential decline in LGDs across product segments, as per our understanding the LGD calculation will be based on long-term history of your LGD experience and it should not be the case that on quarter-on-quarter basis there is a sharp movement on LGD numbers, is the understanding correct on LGD? These are the two questions Sir.

V Lakshmi Narasimhan: As far as yield is concerned we kind of guided and that guidance was predicated on the fact of two things at a minimum, one is we said that we did not have an original product where we could kind of give a repeat loan to a customer who has performed very well in the past with us, so the customer retention is one of the reason why the yield has dropped because these customers would come in at a lower price, but more than what is lost in the pricing is clawed back as a function of better quality portfolio that we are creating and that is reflected in the second question of yours, which is LGDs. Yes they have dropped, but I am saying likely originally said I am just repeating it again. We will continue to watch the performance as per both practices, which is GAAP and Ind-AS, where 90 plus either which way is something that we should control. We have seen a marginal drop even as per I-GAAP in 90 plus. I think we should wait for at least another three four quarters before we pass a judgement as to whether there is going to be volatility between one quarter and the other quarter. Intuitively, my own feedback would be there should not be too much of a volatility, but I would kind of request all of us to watch this for the next three to four quarters before we take a position on that.

Nidhesh Jain: How quickly a current experience gets captured into our probability of default and NCD assumptions in ECL?

V Lakshmi Narasimhan: See it is a very historical number, so it is all a function of which portfolio has what weightage, so long as it is remaining historical the volatility should not be too much and it should not translate into an immediate capture in the books as well. So say for example the 4.46 PD and 43.39 LGD that we have as of June 2018 should not alter dramatically as we go forward considering the weightage of what will get created is going to be lower. To some extent it is disadvantageous to an enterprise like SCUF because the portfolio that we are now creating is producing better performance than the past, so my own interest would be to get back quickly into the calculation mode, so that it truly starts reflecting the inherent strength in the quality of the book, but I think it will take a while because historical numbers cannot be wished away at least from an auditor or external value added perspective.

Nitesh Jain: Sure Sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Piran Engineer from Motilal Oswal Securities. Please go ahead.

Piran Engineer: Congrats on the quarter. Just a couple of questions on Ind-AS only. Sir firstly when we say that ECL is 2100 Crores what does it exactly mean, do we expect to lose 2100 Crores from this loan book until like the end of time and if so how would you change your credit cost guidance going forward?

R Chandrasekar: This 2132 Crores is based on, as you are aware that there are three stages in Ind-AS and historical book gives us how stage one begins say 0 to 30, stage 2 is 31 to 90 as per our definition and stage 3 is 90 plus, so historically if you see our book the stage one, the stage two, stage three and we have adapted three historical percentage on this. So 2132 Crores is ECL provision in that historically if you see that we lose only 43% and another point you have to see the probability of default is only 4.46%.

Piran Engineer: After calculating the probability of default and the LGD we end up at 2132, so the way I am thinking about is that is about 7% of our loan book today and that is at risk of being written off or being loss and if I think of the residual maturity of our loan book say to be about two years or so that means we will be writing off about 1000 to 1100 Crores for the next two years each year is that a fair assessment?

V Lakshmi Narasimhan: No I think Piran first thing is this 2132 does not necessarily mean that this whole book is a write off that is the first point we need to understand. This 2132 is a mix of stage 1, stage 2 assets and stage 3 assets, so it is again just reinforcing the point that 2132 is not right. when you want to actually evaluate what is the ultimate write off that the enterprise will have then it is simply put PD into LGD, which translates to sub 2%, but I am saying again do not get to a place of doing all those modeling on the basis of 2% write off, just hold it for the next three to four quarters let us see together and then get to the place. To reinforce regarding provisioning as per Ind-AS, so if you see my reconciliation on slide #3 or something between FY2017-2018 you will see the clear title that we have mentioned it is provisioning as per ECL, the equivalent number for March 2018 was 2088 Crores, and the difference between 2132 for Q1 FY2019 versus 2088 translates to about 44 Crores when you go to my P&L as per Ind-AS you will see a 44 Crores debit to the P&L, so 2132 Piran is not straight to say that okay this is going to be a loss in over a period of next two years these guys will take a 1000 Crores write-off, that is not the way to look at it.

Piran Engineer: Yes, I get the debit to the P&L will be the delta between end ECL and beginning ECL like that, but I just want to understand because the whole point of migrating to Ind-AS was that you get a particular idea for the final losses rather than having GNPA and that kind of stuff anyway, so how does that change your credit cost guidance then, are we still sticking to 2.5% to 2.75% credit cost guidance going forward now?

V Lakshmi Narasimhan: At this point in time we are sticking. My only point is let us take it one quarter at a time, let the migration to 90 plus as an enterprise stabilize, let the migration as per the Ind-AS accounting stabilize, at the end of fourth quarter we will guide or reguide if the write off numbers and the credit cost as an overall number is going to alter. At this point in time let stick to our original guidance of being 2.75% to 3%.

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

Karthik Chellappa: Thank you very much for the opportunity Sir. My first question is if I look at your exposure to the top 20 borrowers, which was around 722 Crores, if I remove SVL, which is about 400 Crores, the per head borrowing amount still works out to about let us say 17 Crores per borrower. Given our average ticket size is usually in the range of let us say 10 to 20 lakhs, can you give us some colour on what is the profile of these borrowers, what kind of interest rates do we charge and predominantly, which geographies would these loans be concentrated in?

V Lakshmi Narasimhan: I think one way to do it is the way that you are doing that remove the 400, the balance divided by 19 will kind of give you 17 Crores ticket size. The other way to do it is in actual sense the top 10 may occupy close to 80% of book so on and so forth, but having said that Karthik the profile of customers would be customers who have regular banking rights, customers who would have several loans in the past, customers who require an urgent money considering that the bank lines would take anything between six months to a year to be revised, so these are regular customers who are in the market for money and it is not just me there will be several other financiers who will have an exposure on this customer at the same time, so the profile of the customers would be completely bank customers, who are capable of kind of reflecting the cash flow officially on a piece of paper with audited statements on and so forth.

Karthik Chellappa: What will be the kind of rates that we charged and predominantly, which geographies would they come from?

V Lakshmi Narasimhan: See geography will be a split between something like a west, which is Maharashtra, Gujarat and some part of South, which is Chennai. These would largely be the territories from where these customers would come and the interest rates, if you look at my SME band we have mentioned 14 to 22, right, so the interest rate would be in the region of about 14% odd.

Karthik Chellappa: If I look at number of two wheelers finance this quarter that has grown by about let us say 18% odd or 19% odd. Given that the overall market per se has actually been quite buoyant in the first quarter grown by about 15% to 16% and given that our share of the overall market is still low because the share of financing is still low, why is the growth not faster because the difference between the overall market growth and our disbursement growth is only like 2%?

Y S Chakravarti: Karthik, this is not a river from where I am putting in a bucket and taking out water - there is a lot of work, we are the number one financiers in the country and we are still growing at 19% and you are telling me why are you not growing faster I have no answer to that.

Karthik Chellappa: Or let me ask the question in another way, some of the recent new entrants that have come in the two wheeler finance market, have they had any impact in any geography at all at the margin?

Y S Chakravarti: Sorry margin, what do you mean by margin, you are talking about on the yields?

Karthik Chellappa: No, what I mean is let us say if this competition was not there you would have probably done another 4% to 5% points higher because of them you may sacrifice some business because of either yield reason or quality of customer reason?

Y S Chakravarti: I do not think so because today these players actually are helping the share of finance to grow, pie is getting larger, so I would not say that because these guys are there I would have done more, but I would say from 30% to 35% of penetration the market has moved to 40%.

Karthik Chellappa: Just one clarification to an earlier question, I know we have to wait for another three to four quarters to see where the ECL settles at, but assuming a level of let us say about 7.5% if we look at our write offs of 2.5 and our standard asset provisioning of 2.3 would you say that our current provisioning level is just about adequate, so the chances of it being either lower or higher are low and that we are right now at probably the appropriate level?

V Lakshmi Narasimhan: Yes, so we are seeking a status as of a specific date, I think it is higher than what we require because all of us have two methods kind of this or that, one is what the RBI says and what the RBI says will take me to just about 35% I am at 62%, when you look at it from an Ind-AS perspective I think we are pretty well covered because Ind-AS does not give any chance of a non-coverage, so if at all it is quite well covered, it is very judgemental to say whether it is high or low I think we are quite well covered that is the best position for me to kind of take on this topic here.

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

Nischint Chawathe: First of all thank you very much for the detailed disclosures on Ind-AS. Now a couple of operational questions, if I look at the growth in business loans there seems to be increase in tenor of business loans this quarter, which means that the annualized repayment rate has actually gone down, so wondering whether it is just something to do with this quarter or there is something structurally changing in the business?

Y S Chakravarti: Structurally there is nothing that has changed. It is just that for our earlier SME loans of Rs.10 lakh to Rs.25 lakh ticket size loan basically the tenure from 36 months has gone to 48 months over a period of last one-and-a-half years. It is nothing to do with this quarter specifically again. We do business loans from say 12 months to 60 months right. Basically the tenure has increased by about seven to eight months, now the average tenure is about closer to four years.

Nischint Chawathe: This is because of any specific how should one think about it?

Y S Chakravarti: Basically the lower tenure earlier was a function of our Chit team's perception of "shorter the tenure better recovery" right. It basically extends from the fact that again even 70% of the business comes from the states where we have run our Chit business and where we have absorbed senior employees from Chit. So it took us time to change the perception, basically we had to prove to them that shorter tenure does not necessarily mean better quality, but it is impacting the cash flow of the customer. It took me about close to two years to convince them that we need to move to at least 48 months and not stick to the 24-month loans or 36-month loans. The desire is to make sure that based on his cash flow the customer is able to service the loans comfortably and that the 48 months and 60 months are not a risky loan.

Nischint Chawathe: Just two small questions, one is LGD on the gold loans has declined very sharply quarter-on-quarter, what is the tenure of period when you really kind of calculating the LGDs and PDs?

V Lakshmi Narasimhan: LGD also is again historically.

Nischint Chawathe: But one quarter it has kind of come down very sharply. That is what the question was.

R Chandrasekar: If you see June to June, June is 3.51 and Q1 to Q1 comparison is same, but may be the one quarter because of year end and the recognition of 120 to 90 all these things are there, so last quarter we had recognition we moved to 90 DPD I think the current comparison will be Q1 to Q1.

Nischint Chawathe: When you are doing these maths how many years of data do you consider, is it like last three years, five years, two years?

R Chandrasekar: Five years.

Nischint Chawathe: Would you have different pools for let us say Tamil Nadu versus the rest of the country or South India?

R Chandrasekar: No. It is uniform across the country.

Nischint Chawathe: Just one last question - on slide #5 you have the reconciliation on the loans and advances side. This 160 versus 269 how much of this would be on account of interest reversals?

R Chandrasekar: Slide 5?

Nischint Chawathe: Yes loans and advances.

R Chandrasekar: Could you repeat the question again I am sorry?

Nischint Chawathe: Here you have the reconciliation on loans and advances line item, you have Rs.160 Crores as the impact on net worth as on April 1, 2017 and the same number is Rs.269 Crores in 2018, so I believe this has two components one is interest reversals and the other is deferment of fee income, which is what you have given in slide #4, so I just wanted to understand how much of it is on account of the reversals?

R Chandrasekar: Yes interest reversal is around Rs.330 Crores.

Nischint Chawathe: Sorry I could not hear you clearly?

V Lakshmi Narasimhan: I think we will need to come back on that. Off-hand we do not have those numbers.

Nischint Chawathe: No problem. Thank you very much and all the best.

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

Umang Shah: Thanks for the opportunity. I have got two questions. One is just extending Nischint's question a little bit more on the LGDs so to say, so in the gold loan business what we are seeing is that on a quarter-on-quarter basis clearly under I-GAAP the NPLs have also fallen, so is it a fair assumption that let us say if either NPLs as we look under I-GAAP or if you look at the overall stress exposure under gross stage three if it starts trending down the overall ECL numbers will start looking down or how sooner these LGD or the PD numbers will kind of start reflecting that?

V Lakshmi Narasimhan: I think we should wait and watch. I kind of mentioned we should look at it for this full financial year. My own request is please do keep looking at it like that on a quarter-on-quarter basis. Whether the ECL number will come down or not all this is a function of how things pan out as we go forward, so at this point in time it looks good. I think we have given enough hands and legs to say that it is going to look good considering that the new book is behaving better and the cross sell is behaving better, more of those two getting into the system will ensure that the ECL will look down, but let us kind of play this along as we go forward.

Umang Shah: Perfect and the second question is clearly the share of SME in the overall AUM is kind of rising as we had indicated earlier; however, the yields are kind of as you already highlighted in your opening remarks yields are coming in lower because of the repeat business and clearly better quality business that we are underwriting, against this backdrop of lower yields and higher cost of funds what would be the impact on sustainable NIMs and eventually the ROAs assuming that our ECLs remain at about 3% odd?

V Lakshmi Narasimhan: I think the original guidance on yield holds good. I do not think we would drop it any further. We had also mentioned at the beginning at certain customer segments one is looking to increase the price at which we are lending. That should start showing up possibly during Q3 and Q4 because not that you increase it now it will start reflecting. As far as NIMs are concerned, it is also a function of the cost of fund. On cost of fund when we kind of did the call in February and again at the end of March we said that we have budgeted for 15 to 20 basis points increase in overall cost as a function of 50% of the then borrowing being fixed pricing in nature. Post that we have altered that. We said instead of the 15 and 20 that we originally saw we would expect the cost to go up by anything between 20 and 25 basis points, so the NIM should not be challenged that is the thought behind the desire to increase the pricing in the market for certain segment of customers, so what we are seeing now should be representative of what we will get during the financial year. Again each quarter will kind of tell us where we are on that desire of ours.

Umang Shah: Got that and thank you so much and all the best for your future quarters. Thanks.

Moderator: Thank you. The next question is from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal: Sir if you are booking interest income on your NPAs then how come your yields are down compared to I-GAAP? If I see your 1Q FY2019 yield as per I-GAAP is 19.7 as per Ind-AS it should have been at least 150 basis points higher, given that you have around 9% NPA?

V Lakshmi Narasimhan: That is a good question and a very good observation as well. Just one correction to the thought that you have Pankaj, I think you should also visualize that the processing fee is now getting amortized unlike the I-GAAP where it is upfronted.

Pankaj Agarwal: Had you been amortizing your processing fee then the impact should have been positive right?

V Lakshmi Narasimhan: Yes.

Pankaj Agarwal: Leaving aside the accounting impact where do you see your NPAs settling down at the end of the year because when I see your SME NPAs they are still sticky they are not coming down, so what is driving these higher NPAs and where do you see this NPA settling now?

V Lakshmi Narasimhan: You are speaking GAAP I presume?

Pankaj Agarwal: Yes 90-day DPD. You can make provisions as per accounting, but ultimately as long as you know assets are in the 90-day you will have to provide more sooner or later?

V Lakshmi Narasimhan: My own suggestion would be shift to the factor what is the ultimate loss in the business, so this provision is a function of several stuffs including the desire to maintain a higher provision coverage ratio, so I was inflating the gross NPA is one indicator not the ultimate indicator, the real indicator would really be what is the ultimate write off that I am taking and that write off from any perspective is not altering from the original position that we have taken that it would always be historically as it has been in the region of about 2, 2.6, but there is no reason for us to kind of look at gross NPA and then carry an impression that the write off should be higher than what we are showing, so it would still be in the same region, so my suggestion Pankaj would be to shift from nearly looking at gross NPA as number to the fact of what the ultimate write off in the enterprises.

Pankaj Agarwal: One final question on your gold loan business do you think you are making money on this business on standalone basis and if yes or no I mean whatever?

Y S Chakravarti: Of course yes, we have no sentiment on any line if I am not making money the line will be closed.

Pankaj Agarwal: Is there any per branch AUM, which you think is the limit below, which you would not be able to make money?

Y S Chakravarti: I have very few standalone branches for gold loan. My entire branch infrastructure is shared between all the products and not just the gold loan business, so my costs for gold loan are shared, actually the infrastructure is shared, common people, so per branch AUM for sustainable business would be much lower than any other standalone gold loan companies.

Pankaj Agarwal: Because of the shared infrastructure?

Y S Chakravarti: Exactly and shared infrastructure, shared manpower.

Pankaj Agarwal: Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Viral Shah from Credit Suisse. Please go ahead.

Sunil Tirumalai: Good morning, this is Sunil Tirumalai. Sir if I may have two questions, one is the Tier 1 reporting is it any difference to RBI under Ind-AS?

V Lakshmi Narasimhan: It is still GAAP.

Sunil Tirumalai: So there is no change to that?

V Lakshmi Narasimhan: No that is not changed.

Sunil Tirumalai: Secondly the SVL group exposure that was disclosed are there any companies that you have lend to which are under NCLT?

V Lakshmi Narasimhan: Under NCLT?

Sunil Tirumalai: Yes.

Y S Chakravarti: No there is no company under NCLT.

Sunil Tirumalai: There is nothing in this because even SVL limited asset seems to have been referred to NCLT and there are some group companies within SVL, which are in NCLT, you do not have any exposure to any of them?

Y S Chakravarti: Subsidiary of SVL, which was referred to NCLT.

Sunil Tirumalai: So you do not have any exposure to?

Y S Chakravarti: We do not have any exposure to that company.

Sunil Tirumalai: Thank you.

Moderator: Thank you. The next question is from the line of Abhishek Murarka from India Infoline. Please go ahead.

Abhishek Murarka: Good morning Sir. Just a couple of questions, one is if I look at your loss given default for the SME business it is close to about 50%, but you said that apart from cash flow you will also have collateral in 80% of those loans, which have 65% to 70% LTV, so in that event and if there is a loss should not the ultimate loss given default be much lower because you should be able to realize nearly everything from liquidating the collateral?

V Lakshmi Narasimhan: Abhishek just go back to that reply, which Chaks gave for the entire business as a function of cash flow, and collateral is an additional support that we have. While you are logical in saying that since we have a property so on and so forth you should be able to reduce the loss rates, please realize that what is this LGD calculation about. It is about historical performance on a given book. Now even if you have filed a legal case against a specific customer and you have yet to receive the money it would translate into that being an amount that is not received as per the LGD calculation. Number two is even if you have received it you got an NPV effect on that calculated up to the date on which it became an NPA, so even if you have received 100 on 100 and the receipt was after say five years what you would get is an NPV at the beginning of five years on that Rs.100, so the LGD does not really translate into should we have a lower loss rate. LGD is a moving number and as and when the legal recovery is improved considering the timeframe that courts take in India to kind of attached property, sell so on and so forth this number will be a moving number.

Abhishek Murarka: Even by that logic then your real loss given default is much lower than your loss given default, which you have calculated today, is that the implication?

V Lakshmi Narasimhan: Correct.

Abhishek Murarka: The other question if I just multiply your exposure at default with PD and LGD the total comes to something like Rs.600 Crores, I think can you just sort of help me reconcile that instead of Rs.2100 Crores, so I am just struggling to sort of calculate or get something close to Rs.2100 Crores?

V Lakshmi Narasimhan: So this Rs.2100 Crores Abhishek is a function of stage 1, stage 2 and stage 3 right, 2132 Crores is nearly a provision as per the ECL requirement, so your PD, LGD into an asset book will not take you to 2132 because you will need to know what is the quantum that is lying in which stage and what is the percentage that needs to get applied for each of those quarters, so this is not a straight math. What you will need to live with is the fact that it is a

4.46 x 43.39 is the ultimate loss as of June 2018 and each of those passed quarter that is reflected in the book, so 2132 will not straightaway get into the LGD, into the PD for a given product.

Moderator: Thank you. The next question is from the line of Subramanian Iyer from Morgan Stanley. Please go ahead.

Subramanian Iyer: Thank you, my questions have been answered.

Moderator: Thank you. The next question is from the line of Vinod Jayaram from ER Advisors. Please go ahead.

Vinod Jayaram: Good morning, Sir could you talk a bit more about your SME business in terms of the ticket sizes that you focus on the kind of businesses and also the asset quality currently?

Y S Chakravarti: SME right now our focus is between 5 to 25 lakhs and we do not have any specific segment, focus segment, but there are some segments, which we try to avoid funding, otherwise we are sector agnostic. Around 80% of the book compromises of traders and service providers.

Vinod Jayaram: Seeing the current asset quality and going forward how do you see on the asset quality front Sir?

Y S Chakravarti: I hope you have gone through our investor presentation.

Vinod Jayaram: I just want to get on the ground how are the businesses coping up with the current changes that have happened, so are there any concerns on the asset quality going forward and currently as well?

Y S Chakravarti: Absolutely no concern on that.

Vinod Jayaram: We have been maintained at the same level, but just wanted to get on the ground how are things?

Y S Chakravarti: Absolutely no concern, in fact it should tract lower.

Moderator: Thank you. The next question is from the line of Shweta D from Prabhudas Lilladher. Please go ahead.

Shweta D: Good morning Sir. Thanks for the opportunity. I just would like to dwell more on the gold loan growth side, so if I look at the industry the gold loan business per se has not been moving like for almost four years now, also there is a risk of cannibalization by microfinance loans given the yields and customer base are similar, so what is your outlook there?

Y S Chakravarti: Fundamentally first thing is gold loan most of the time is not a client borrowings. It is an emergency borrowing. So I do not think microfinance cannibalizing would fill gold loan today it is more of I think lot of business has moved into the unorganized sector back again. Actually earlier when you look at it gold loan business was predominantly dominated by the pawn broking community in the unorganized sector. Thanks to the gold loan companies it actually moved away from them, but I think last four years again it is moving back into the unorganized sector. Cannibalization by microfinance companies is not because the microfinance industry was doing very well four years back compared to today.

Moderator: Thank you. The next question is from the line of Ritika Dua from Elara capital. Please go ahead.

Ritika Dua: Sir, could you just help me reconcile this, so when I see your slide #13 wherein you have given that what is the provisioning number as a percentage of your UM under IGAAP and under Ind-AS. For both the quarters like 1Q 2018 and 2019 the ratio has come off, but when we actually see the same number on slide #11 where you have given the PDs and LGDs for both 1Q FY2018 and 1Q FY2019 on a product-buy basis you do not see any significant difference there in fact your PD has moved up and your LGD almost the same then third is when I see your slide #13 your standard asset provisioning obviously has moved up from 0.4 to 2.3, so how do I reconcile these three and yet your ratios have come off, so what I am referring to is that sorry if it was confusing that suppose if in 1Q FY2019 in slide #13 we have 1.11% under I-GAAP while under Ind-AS we have 0.62%, but when I compare all these ratios on a Y-o-Y basis it seems like the books have not really changed too much in terms of PDs, LGDs and in fact your standard asset provision has moved from 0.4 to 2.3, so how do we understand this?

V Lakshmi Narasimhan: We will kind of handle what we can on this call. My request is if there is some more stuff that is pending your mind please do kind of reach out we will speak again on the topic. First thing is I think you are comparing slide #11, slide #12 and then slide #13 so on and so forth. In one slide there is an amount and the other side there are mere percentages, so if the asset book is growing and your percentages are applied on the asset book then the amount will look different. Essentially if you are trying to say that this 44 Crores of P&L hit that we have taken as per Ind-AS reflects a drop in the overall provisioning compared to the I-GAAP and your LGDs and PDs tell some other story then how do we reconcile this, I think you are going to have all the numbers in front of you do the percentages and then speak on this because there is no comparison between this 44 Crores hit that one has taken in FY2019 versus the standard as a provisioning. We have said that stage 1, stage 2 from 0.4% it has increased to 2.3%, so that is as per the Ind-AS calculations, so I am trying to find out how do I support the thought of yours as to why should I keep it at 2.3 except for the guideline of stage 1, stage 2 is requires me to keep at 2.3. There is really no other reason why it will be at 2.3.

Moderator: Thank you. The last question is from the line of Darpin Shah from HDFC Securities. Please go ahead.

Darpin Shah: Thanks. A couple of questions from my end. First is the employee expenses is up around 11% to 12% sequentially whereas you mentioned a number of employees have gone down, so what explains that first question, second is how much provisions we have done on SVL is it just 2.3% standard assets or we have done something more on it?

V Lakshmi Narasimhan: So, the second one first, we mentioned at the opening of conversation as well that it is 2.3% because it is a standard asset and whatever norm that applied as per the Ind-AS has been applied on that as well. The second case is for the employee cost going up post the year-end you give bonus and post the year-end you also give increments to people, so in spite of the number of the people dropping the cost has gone up essentially because of these two reasons.

Darpin Shah: Just to understand on SVL again so would you like to escalate the provisions in going quarters or coming quarters or we will just hold on and steady that?

V Lakshmi Narasimhan: We will follow the norms. Whatever the guideline tells we will kind of go according to that right.

Darpin Shah: Thanks a lot Sir.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today's conference. I now hand the conference over to Mr. Digant Haria for closing comments. Thank you and over to you Sir!

Digant Haria: Thanks everyone for taking out time. Have a good day everyone. Thank you.

Moderator: Thank you. On behalf of Antique Stock Brooking that concludes this conference. Thank you for joining us. You may now disconnect your lines.