



“Shriram City Union Finance Limited Q1 FY2020 Earnings Conference Call”

July 30, 2019



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Shriram City Union Finance Limited
July 30, 2019

Moderator: Ladies and gentlemen, good day and welcome to the Shriram City Union Finance Limited Q1 FY2020 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nischint Chawathe from Kotak Securities Limited. Thank you and over to you!

Nischint Chawathe: Welcome to Q1 FY2020 Earnings Conference Call of Shriram City Union Finance. To discuss the financial performance of SCUF and to address the queries we have with us today Mr. Y.S. Chakravarti – Managing Director and CEO, Mr. R. Chandrasekar – ED and CFO and Mr. Jai Singh Ponde – Vice President Investor Relations.

I would now like to hand over the call to Mr. Chakravarti for his opening comments.

Y.S. Chakravarti: Good morning, friends. Welcome to Shriram City's Q1 FY2020 Earnings Call.

While we will of course take questions on the detailing, here is the synopsis of the performance for the quarter. First quarter of every fiscal tends to be a little muted for us and you would have seen this in the results that we have put out yesterday evening. We however, largely maintained our disbursement run rate for the quarter, while showing a marginal improvement in AUM.

Our profit after tax grew at 10% year-on-year, SME loans continued to dominate our book. The share now is 59% of the book. We continue to broad base our presence across the country by tapping into our existing branch network. We are comfortably placed on the yield front at close to 20%.

Net interest margin at 12.85%, continues to be strong and as we have been guiding in recent quarters regarding our credit cost, there is significant improvement in our provisions and write-offs, these coming off by about 15% year-on-year. ROAs continue to be healthier 3.4-odd percent and cost-to-income around 40% is in control.

I would like to mention here that in our operating expenses trajectory in comparison to Q4, the higher figure basically was on account of a mark-to-market loss of about Rs.10.5 Crores on a foreign investment, which was a long-term investment, which has been taken through the P&L and mark-to-market loss was as stipulated under Ind AS 9. The other reason for the higher opex in the quarter was assessment of Lease Accounting transitioning under Ind

AS 116, which gives an additional expense of Rs. 2.5 Crores - Rs. 3 Crores. But for this accounting treatment, our cost-to-income would have been below 39%.

So considering the difficult circumstances starting from June first week onwards, I think we have performed reasonably well. Gentlemen, we are open for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Shubhranshu Mishra from Bank of Baroda Capital Markets. Please go ahead.

Shubhranshu Mishra: Good morning. Thank you for the opportunity. I just wanted to understand the disbursements as well as AUM growth - both have declined to multi quarter lows, I want to understand how do we look at the SME disbursement growth going forward as well as two-wheeler AUM growth and the disbursement growth going forward?

Y.S. Chakravarti: On the SME, of course, AUM is the function of the disbursement and the disbursements going forward, well I would say there is a demand in the market for loans. We are seeing strong demand for the funds while actually, our trajectory will totally depend on the liquidity in the market. So going forward, right now we are working with a lot of banks on securitization, assignments and of course we have also approached banks for term loans so basically it all depends on how the liability side of the balance sheet pans out in the next two quarters, to give you a clear cut idea on the disbursement side. In the last nine months we had Rs. 3000 Crores CP on the books which is repaid - about close to 2500 Crores through other means so right now we have about 500 Crores. That means there is a 2500 Crores cash outflow which has actually restricted our disbursements to certain extent. So what we are now doing is focusing on our bread-and-butter business of up to 10-15 lakhs loan size so the disbursement for the next quarter could be around 90% of our normal rates. If the liquidity situation improves we are sure we will be hitting the normal run rate of disbursements of about 6500-6700 Crores a quarter.

On the two-wheeler side, the market has slowed down. I think, we should be probably this quarter; we should be there on the numbers. The share of the financiers is going up in the market. Sales are coming down, but the number of vehicles that have got funded has increased. That's probably because there are a few players the banks are fishing. So converting cash into financing will remain the key for the next quarter.

Shubhranshu Mishra: And any kind of changes in IRR or LTV for two-wheeler financing that we have done?

Y.S. Chakravarti: No not really.



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- Shubhranshu Mishra:** Okay and one small question on your banks Sir, you mentioned CC as well as working capital - my understanding is that the CCs have come down drastically by the banks. Are we holding any kind of CC lines from the banks?
- R. Chandrasekar:** Yes. As of today with reference to banks, we are able to do securitization and assignment. Some of the CP we actually moved from short to long term. We repaid around Rs.2300. We are not too hurt, we are moving to the long-term loans. But absolutely, there is no issue with reference to any bank.
- Shubhranshu Mishra:** So how much of CC lines do we have Sir if you can give me the quantum of that?
- Y.S. Chakravarti:** We have as of now 2000 Crores.
- Shubhranshu Mishra:** 2000 Crores of CC lines?
- Y.S. Chakravarti:** Yes.
- Shubhranshu Mishra:** Thank you so much.
- 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. My first question is on funding, you are also going to explore a MTN for I think close to about \$750 million. When do you propose to get this done and what would you estimate the all in cost to be?
- R. Chandrasekar:** Yes, with reference to this yesterday we had a Board meeting where the Board has in principal agreed, we are actually starting the process right away. I think, we require dual rating and a lot of steps are estimated. In the next 6 to 8 weeks, we expect the work to be completed and in the month of October we will be coming.
- K Chellappa:** And would you have any estimate on how much it will cost all in?
- R. Chandrasekar:** It is too early to say what exactly because it might change by the time we go in October. Better to wait until closer to the issues rather than now because it is still volatile, a lot of things are happening around the market. So we will be able to give what would be the cost maybe around just one week, 10 days before we are going to hit the market.

- K Chellappa:** Got it. Sir, my second question is on our bad debts recovery. This quarter of Rs.40 Crores is almost half of what we recovered last year, which seems like a very good run rate. Is this something that you would expect to continue in the other three quarters as well?
- Y.S. Chakravarti:** As we have guided earlier, yes, next three quarters, we are looking at a steady decrease in provisions as well as write-offs. And of course, that can happen only with recovery.
- K Chellappa:** Perfect. Lastly, if I were to look at our housing operation, this quarter, we have said that we operate out of 70 branches, if I remember right, the fourth quarter of last year, that is previous quarter, we were operating out of 88 branches that looks like some serious level of brand rationalization, could you take us through what was the reason for the same?
- Y.S. Chakravarti:** I think I have also mentioned last time that now we are confining our lending to 7 states so we are withdrawing from the other states and just focusing on 7 states, which includes Gujarat, Maharashtra, Rajasthan, AP, Telangana, Tamil Nadu and Karnataka. We have withdrawn from rest of the states. The idea is to focus on these 7 states, build a book. Earlier, we were operating from about 17 states, Karthik, and now we have moved back to about 7 states. As I said, the strategy is to build a sizable book before we expand.
- K Chellappa:** My last question, one data point can I have the number of vehicles financed this quarter, two-wheelers?
- Y.S. Chakravarti:** It is about 2.73 lakhs.
- K Chellappa:** Thank you Sir. Thank you very much and wish you all the best.
- Moderator:** Thank you. The next question is from the line of Bunty Chawla from B&K Securities. Please go ahead.
- Bunty Chawla:** Thank you Sir for giving this opportunity. If I remember correctly in the analyst meet after Q4 results, it seems to be management was quite confident on the improvement in the liquidity, which gives on that basis we were, again, targeting around 18% to 20% AUM growth kind of a thing, but now it seems to be, again, the liability issues are coming into the picture so which gives slightly different AUM target for FY2020 on current situation. So what will be the revised number for that you can share with us?
- Y.S. Chakravarti:** I would say the liquidity has slightly improved the third quarter compared to the 40-45 days period starting from first week of June. Securitization is happening, banks are looking at term loans again, probably we hope to see a little more traction on the liability side. So it should be around 15% is what we are targeting now.

- Bunty Chawla:** Okay for a full year basis. Are we expecting any revival in two-wheeler sales or two-wheeler AUM growth also in that? Or we are just hoping for the SME and personal loan to give that much kind of a growth?
- Y.S. Chakravarti:** There is no doubt that the SME and personal loan will contribute to the majority of the growth. Two-wheeler, as I have seen, is almost flat now, but on declining sales. I do not think in the next two-three quarters, two-wheelers sales will pickup drastically but what I am looking at is probably deeper penetration of the financing.
- Bunty Chawla:** Sir lastly, how is the cost of funds moving now in Q1 and incremental what we have seen any rise or any decline as such seen in any benefit we are getting from these banks or market as such?
- R. Chandrasekar:** Cost of funds actually is going up. We expect 15 basis points increase in the borrowing cost. The banks are not actually passing on the rate cut. So this quarter I think 15 basis point increase, but we expect to be around this or even 5 to 10 basis point increase in this.
- Y.S. Chakravarti:** The bank is not biased on any rate such as of now. So we have to see going forward how it happens.
- Bunty Chawla:** Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Utsav Gogirwar from Investec. Please go ahead.
- Utsav Gogirwar:** Thanks for the opportunity Sir. I have a few questions. To start with on the liabilities front, can you just help me out how much money we have borrowed through NCDs and banks this quarter?
- Y.S. Chakravarti:** I think we have done about first 2700 Crores of NCDs this quarter.
- Utsav Gogirwar:** Sorry, I missed this number.
- R. Chandrasekar:** Yes. Actually, we have Rs.2,700 Crores of borrowings during this quarter so out of that, in April-May we borrowed Rs.700 Crores through CP and close to around Rs. 650 Crores we got through public NCD and balance from term loans and others.
- Utsav Gogirwar:** Sir secondly, if I look at on the AUM piece, we have done a pretty strong disbursement on the gold front after a long time. So is this like something structural we can expect improvement in gold disbursement or this is a one-off quarter?

- Y.S. Chakravarti:** Business actually has revived, but going forward, we will take a call depending on the liquidity. If liquidity is comfortable, we will push gold loan otherwise use these resources for other high yielding businesses. So gold may remain flat going forward.
- R. Chandrasekar:** This quarter we expect gold to be flat.
- Utsav Gogirwar:** Sir thirdly on the asset quality piece, you mentioned that going forward the credit cost is expected to come down because of recoveries but if we look at the current micro scenarios or the news flows, the MSMEs are under stress. So just want to understand what is your sense on the reality on the ground level and why we are confident of improvement in the recoveries when the things are not that great at economic level?
- Y.S. Chakravarti:** Primarily, when you talk about MSME's, primarily 80% of my customers are service providers or traders. We have a very little exposure to the manufacturing sector. As of now, I am not seeing any stress in this segment. So that is the reason why we are confident that will be able to stick to what we have projected.
- Utsav Gogirwar:** Sir just lastly on the Shriram Housing bit, we have this one-off loss this quarter. What is it related to?
- Y.S. Chakravarti:** This is basically a builder funding - in the sense we have done only one deal in our history and that turned into an NPA. This is a deal with a builder, buyer and the company, where the project is stuck. It is retail in nature, but the repayments till possession were guaranteed by the buyer.
- Utsav Gogirwar:** I will take this offline Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Kislay Updhayay from Abakkus. Please go ahead.
- Kislay Updhayay:** Thank you for the opportunity. Could you give the fresh slippages number for this quarter and Q1FY19?
- Y.S. Chakravarti:** Sorry I did not get you.
- Kislay Updhayay:** Fresh slippages.
- Y.S. Chakravarti:** Kislay, I will let you know this offline. Let us move on to some other questions.
- Kislay Updhayay:** Secondly, personal expenses came down 2.7% Q-on-Q, anything to highlight here?

- Y.S. Chakravarti:** Nothing it is basically a rationalization of work force, nothing specific.
- Kislay Updhayay:** Thirdly, Sir, I remember in 4Q after the analyst meet and even after the analyst meet we were of the view that liquidity will not be a challenge for larger NBFCs like us, only cost of funds can be a challenge, liquidity will be a challenge only for the smaller ones and that in conjunction with slow growth in SME, but gold doing good, is there a way we can link all this?
- Y.S. Chakravarti:** I still feel that the liquidity is not a big challenge. The only thing is, what is happening is, sanctions which used to take about 2 to 3 weeks earlier is now taking a fair amount of time. Banks are still considering the proposals, but what is happening is they are back to basics again in the sense we had to go through the ratings in the pool, it has become a little more time consuming, one. Two, total drying up of CP market and the investments from mutual fund was what we have not anticipated. We thought the CP market will still be there in some form or other but it looks like it totally disappeared. So it sucked liquidity of close to Rs.2500 Crores out of our system. That was one concern definitely we were facing because we used to always use short-term paper for gold loan funding. So that is one issue. And as far as gold, if you look at the gold numbers, on the disbursement side, there is close to roughly about Rs.400 Crores of disbursement that has happened in the quarter. That is because what we have reached about something like Rs.500 Crores of CP during the quarter, which we used for gold.
- Kislay Updhayay:** This part I am not getting it very clearly. If we were able to raise the Rs.500 Crores of CP, why did not we utilize it as much in the SME and in gold loan?
- Y.S. Chakravarti:** As I said, we are not sure of the rollover of the CPs so we thought we should use this only for short-term where we will be able to match the asset with the liability.
- Kislay Updhayay:** I will take the slippage question offline.
- Moderator:** Thank you. The next question is from the line of Gaurav Singhal from DK Partners. Please go ahead.
- Gaurav Singhal:** Thank you for taking my question. My first question is regarding this news items on reverse merger of Shriram City Union Finance and Shriram Transport into Shriram Capital. Can you give us some update and some more thoughts on this? And what is the timeline and what is the valuation of this reverse merger?
- Y.S. Chakravarti:** I think, I have answered the same question in the last quarter also and the answer remains the same that probably Shriram Capital are looking at it, but nothing concrete has reached

us or has happened as of now. So it is too early and too premature to talk about valuations or the timeline.

Gaurav Singhal: The second question I had was in terms of your underwriting I am looking at slide #12 for the MSME loans you mentioned that on the LTV section you mentioned cash flow based lending. Elaborate that a bit more on what cash payment, how do you judge an LTV equivalent metric based on the present value and cash flow?

Y.S. Chakravarti: Well, I do not have any issue in answering this question, but it will take some time to answer that so we can always do this on a one-on-one, if you can we meet up and I can explain the procedure of how we do this, whenever is convenient for you I have no issues on that. Or you can link up with Jai. Jai will organize a meeting with my credit team or whichever way you want or a call.

Gaurav Singhal: Thanks for taking my question.

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

Pavan: Thanks for the opportunity. If I summarize what you have been saying, you are basically saying liquidity is tight and a little bit tighter at least temporarily than you expected so while liquidity is tight, you are going to take growth maybe a little bit slower, you will focus on the most profitable niches which is the bread-and-butter business and you will be very careful to make sure assets liabilities are matched because you want to make sure that there is no issue of balance sheet risk being able to repay or anything like that. For us to be able to see accelerating growth, there are a couple of possibilities, one is system wise liquidity improves, banks start processing things faster, in the event that does not happen, let us say, banks for whatever reasons choose to be very, very conservative and very slow for the next 2 or 3 years, is the likely solution going to be foreign borrowing, securitization, can you give us some color on bank's appetite for securitization, who are the banks that are doing it and what you think the scope is for offshore borrowing, how long would it take, what kind of resources you could raise that is my first question and the question really has to do with in the event that this liquidity freeze becomes a medium term issue, right and the CP market does not come back, the mutual fund market does not come back, what is our plan B and how much growth can we expect in the event of a Plan B? The second question is obviously credit quality broadly stable this quarter. There was a bit of an uptick in stage 1 and 2 although stage 3 was stable I was wondering do you have any comments on that?

Y.S. Chakravarti: On the funding side, Pavan, it is like this. I definitely do not expect the CP or the mutual fund market to come back any sooner so we have taken it as given that it will not come back

in the next 2 or 3 quarters. So the plans are various: plan 1, continuous reaching out to the market with a public issuance of nonconvertible debentures; second, accelerate our fixed deposits program; third the overseas borrowings. We probably may hit the overseas market sometime second week of October if things go all right. I mean if everything is in place, probably second week of October so this is not a one-off exercise that we are planning to do. Probably, we are actually planning a program so that for the next couple of years, we are planning to hit the overseas market on a regular basis as well as the domestic market. So these are the broad plans. As far as securitization is concerned, I think, almost all the banks are actually looking at funding through the securitization route. So from our book, we expect about Rs.1000 Crores – Rs. 1200 Crores through securitization per month.

Pavan: To reach a 15%- 20% growth target, how much would you need to raise via NCDs offshore, etc. what is the amount that we would be looking to raise?

R. Chandrasekar: Basically next 8 to 9 months we have around Rs.6000 Crores of commitments so we have to raise close to around Rs.9000 – Rs.10000 Crores so on an average Rs.1300 Crores is what we have to bring. The source is one through bank term loans, securitization of payment and probably the NCD, fixed deposits except CP, everything is available.

Y.S. Chakravarti: About close to Rs.1300 Crores per month is what we need to raise per month if we have to keep the disbursements on target and the AUM on target.

Pavan: That answers the first question. Could you give us some color on the Stage 1 and 2?

Y.S. Chakravarti: Yes. I think if we look at the Stage 3, there is a flow of assets from Stage 3 to Stage 2 and Stage 2 to Stage 1 that is the primary reason.

Pavan: Got it. Thank you.

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

Umang Shah: Thanks for taking the question. Congratulations on being able to retain the ROE in such a challenging time. Now I have two questions, the first one is, there was a drastic fall in small enterprise disbursements in Q1 from Rs.3000-odd Crores in Q4 to Rs. 2200 Crores in Q1 so what explains that?

Y.S. Chakravarti: Two factors. One, as you all know, we have two channels: one is a corporate channel and one is our bread-and-butter channel of Rs.7 lakh, 8 lakhs ticket size, so on the corporate side, we have moved away from large ticket loans in the sense, we have moved away from ticket size of anything above Rs.1Crores. So that is largely disbursements there, which used

to be around Rs.150 Crores to Rs.200 Crores per month has come down to about Rs.25 Crores to Rs.30 Crores. That was the major reason for SME business coming down.

Umang Shah: Sir the second question is on the two-wheeler business, some data questions for Q1 you mentioned 2.73 lakhs vehicles if you can mention the same number for Q4 FY2019 and Q1 FY2019?

Y.S. Chakravarti: Can you send your number I will give those numbers, I do not have those numbers in my mind, during the call, I will give those numbers just give me another three four minutes.

Umang Shah: Sir we would love to hear from you more color on the two-wheeler AUM growth? Is it coming from volume expansion? Is it coming from ticket size expansion and how do you see this going forward?

Y.S. Chakravarti: Volume obviously I will put it this way, the number of two-wheelers funded has remained almost flat, but I am happy that it remained flat in the sense if you look at the market, market has degrown, the sales have come off, but even then we were able to match more or less those numbers. Definitely, ticket size has gone up, insurance has definitely added to the ticket size. Ticket size has gone up by about close to Rs.5000.

Umang Shah: Got it Sir. And Sir it will be helpful if you can share the Q1 FY2019 and Q4 FY2019 two-wheeler volumes? That is it from my end.

Y.S. Chakravarti: Yes.

Umang Shah: Thank you Sir.

Moderator: Thank you. The next question is from the line of Jignesh Shial from Emkay Global. Please go ahead.

Jignesh Shial: My first question had been your fixed rate borrowings has seen a sharp rise, whereas your variable debt borrowings have seen a decline so will that in case if the scenario favors further and further rate cuts have been announced by banks still you will be consistently seeing a pressure on margins, is my assumption correct? That is No.1. And No.2, have you done any rate hikes I mean interest rate hikes in recent times in any of your portfolios?

Y.S. Chakravarti: I will answer the second question, first. I will leave the first question for the CFO to answer. On the rate hikes, in the last two quarters, there was a slight tweaking of rates here and there, but nothing substantial. And we are not looking at increasing the rates at least for this quarter we will see how the borrowing cost pans out and then take a call next quarter.



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- R. Chandrasekar:** With reference to your first question generally the fixed component is around 45% to 50%, so quarter-on-quarter, that can be some minor change but it should be around 45% to 50%. I do not think there is going to be a much change going forward.
- Moderator:** Mr. Shial, sorry if you have any follow up questions request you to join the queue please. The next question is from the line of Antariksha Banerjee from ICICI Prudential. Please go ahead.
- Antariksha Banerjee:** My question is regarding your personal loans bit, what is your strategy in allocating capital when you are in a mode to conserve liquidity here because you have seen this portfolio grow from 6% to 9% over the last 2 years and I assume this is also a high-yielding portfolio and the duration is also around 2 years or 3 years I would assume. So what is your strategy in personal loans? And if we look at the asset quality within 11% kind of GNPA, which used to be, say, 6%, 7%, 3 years back and it is moved up a little bit can you throw some color on that, please?
- Y.S. Chakravarti:** See the idea of capital allocation to personal loans is that today we are disbursing only to an existing customer. We have moved out of the market sourcing of personal loans totally. The company has close to about 2.5 million live two-wheeler customers and if you take 1 year expired, 12 months data that is about another million customers. So what we have worked on this data and we did run pilots on only funding from this data and we found that the results were way off in the sense they are much, much better than what the market PL is. So we have decided to discontinue the total market PL and started funding only for existing customers basing on certain parameters.
- Antariksha Banerjee:** All your PL customers are two-wheeler customers is that right?
- Y.S. Chakravarti:** As of January 2019 all PL is only disbursed to either a two-wheeler or an existing customer who have finished his PL. So it is all to an existing customer and nothing to a new customer.
- Antariksha Banerjee:** So in this blended 11% GNPA that we see in this portfolio is there a substantial difference you see in the existing customer versus a market sourced customers. Have you done that analytics or something?
- Y.S. Chakravarti:** 400-500 basis points difference. We have allocated capital into personal loan.
- Antariksha Banerjee:** Sure. Stage 2 assets number if you can share, it was 16% in the annual report, if I remember?
- Y.S. Chakravarti:** Sorry can you repeat that again?

- Antariksha Banerjee:** The stage 2 assets it was 16% in the annual report how much does it stand now?
- Y.S. Chakravarti:** Can we come back to you on this?
- Antrakish Banerjee:** Thanks.
- Moderator:** The next question is from the line of Piran Engineer from Motilal Oswal Financial Services. Please go ahead.
- Piran Engineer:** I just have a couple of data-keeping questions firstly what is our total off balance sheet book size?
- Y.S. Chakravarti:** It is 500 Crores.
- Piran Engineer:** You had mentioned that we will go back to about 90% of our run rate disbursements from next quarter is that overall or just in MSME?
- Y.S. Chakravarti:** Overall.
- Piran Engineer:** Okay. And Just last year MTM loss 15 Crores right you mentioned, what exactly was the ...
- Y.S. Chakravarti:** I think around 10.2-10.3 Crores.
- Piran Engineer:** Okay and what exposure was that specifically?
- Y.S. Chakravarti:** This is a strategic investment in a Sri Lankan company of about 100 Crores.
- Piran Engineer:** Debt investment you are saying?
- Y.S. Chakravarti:** No, it is an equity investment.
- Piran Engineer:** Okay and what does a company do? Is it an NBFC?
- Y.S. Chakravarti:** No, this is into a general insurance, general and bank insurance in Sri Lanka.
- Piran Engineer:** Thank you so much Sir and all the best.
- Moderator:** Thank you. The next question is from the line of Prateek Ramchandani from CRISIL. Please go ahead.
- P Ramchandani:** Sir I just wanted to have a color on your SME LAP side, is there any NPA increasing you are seeing the slowdown in particular company you are looking for particular sectors?

- Y.S. Chakravarti:** Can you repeat this question if you do not mind?
- P Ramchandani:** I just wanted to have a color on your SME side, particularly NPAs rising in LAP portfolio, do you see any slowdown in some specific industries or services?
- Y.S. Chakravarti:** We are pretty much spread out so basically we have moved away from the construction sector in the last 1.5, 2 years and all allied industries or allied activities that are connected to construction. I still see that that is pretty much where the whole slowdown is happening.
- P Ramchandani:** As we see the LAP segment is particularly gaining most of the asset quality issues so are you facing some issues in particular SME segment? Or is it a slowdown across the segment?
- Y.S. Chakravarti:** We do not have LAP book as such in our portfolio.
- P Ramchandani:** Thank you.
- Moderator:** Thank you. The next question is from the line of Anubhav Kaul from Ward Ferry Management. Please go ahead.
- Anubhav Kaul:** Thank you for taking my question. I notice that this quarter we have added approximately 1000 employees despite us closing three branches and there seems to be a change in trend because over the last four five quarter I remember we were rationalizing our employee base so could you just help us understand the rationale for the employee addition?
- Y.S. Chakravarti:** Where, in the housing?
- Anubhav Kaul:** No overall.
- Y.S. Chakravarti:** Anubhav I am sorry, some part of the question was not clear.
- Anubhav Kaul:** I will repeat it. I notice that this quarter we have added approximately a 1000 employees to our overall workforce right, so I just wanted to understand the rationale of that given that the disbursement trend is not very strong?
- Y.S. Chakravarti:** Some of this has happened on the collection front, some additions I think about 600 employees got added into the collection team and about closely 200 people into the credit team and rest of the 200 is basically is for replacement people who have been hired where people were in place for the notice period employees.
- Anubhav Kaul:** Just a follow up on that could you just help us understand what you are guiding towards as far as cost to income is concerned for the year?

- Y.S. Chakravarti:** Probably around 39 to 38.
- Anubhav Kaul:** Thank you.
- Moderator:** Thank you. The next question is from the line of Govind Prabhu from Money Craft. Please go ahead.
- Govind Prabhu:** This is regarding the AUM, actually we see a sharp increase in the southern based region, from last quarter it was about 67% to this quarter it is about 57% or 59% so what is the reason behind this sharp growth in this south based AUM?
- Y.S. Chakravarti:** Can you repeat that again sorry?
- Govind Prabhu:** Basically the geographical mix if you look at the south based portfolio if you look at it has grown sharply, the mix has changed from about 67% as of March to 59% as of June 2019 so any specific reason why this has moved or is because some large exposures have shifted or is that the reason?
- Y.S. Chakravarti:** No, we did not have any large exposure in the book. It is basically the book that is growing in the Western region. It is a normal business practice, nothing extraordinary. And two-wheeler, obviously South share is declining and the West and North share is going up. Basically the West has grown pretty strong in two-wheeler, the South share has gone down.
- Govind Prabhu:** Okay.
- Moderator:** Thank you. The next question is from the line of Sangam Iyer from Consilium Investment. Please go ahead.
- Sangam Iyer:** Sir I joined a bit late so sorry if this question has been asked earlier. Given the tight liquidity situation and kind of change in the liability mix that we are trying to bring in to match our asset profile, how should one look at the second half and for the growth which are the segments that we see that could actually witness or drive the growth in AUM in second half?
- Y.S. Chakravarti:** The growth in second half will definitely be driven by SME and small ticket personal loans.
- Sangam Iyer:** But having said that I mean during the call you did allude to the fact that you have seen slowdown in SME and even in the personal loans you have been very choosy in terms of whom to give, bringing down the ticket sizes so could you elaborate a bit more in terms of how it is?

- Y.S. Chakravarti:** Yes. On the personal loans side, I think, choosy is basically as I said I have a universe of about 3.5 million customers, existing customers. There, today my run rate is about 2% per month or less than that, it is about 1.5% so that is where I am looking at doubling this number and still be very, very conservative even if I double the number, and the ticket size is about Rs.55000-Rs.60000 there on the personal loans side, right? So that is what I mentioned earlier. And the SME side I am not saying I will grow conservatively. What I am saying is given the liquidity I will use my liquidity towards high-yielding products so probably I will use more of the money towards funding SME followed by the personal loans and two-wheeler loan. That is a priority that I would say.
- Sangam Iyer:** Okay and do you see increased credit cost because of the increase in the high-yielding assets going forward?
- Y.S. Chakravarti:** No. See, in all the three segments I have mentioned, the credit costs have come down and I am actually positive that we will be able to control our credit cost in this segment going forward in the next two-three quarters.
- Sangam Iyer:** Got it. Finally in the margin front, I mean we did say that because of the shift in the liability mix of our cost of funds would be going up may be 10-15 basis points but did you see the pressure on NIMs coming in or would it get offset to a certain extent because of this focus being on high-yielding assets?
- Y.S. Chakravarti:** More than that I would say it could be offset by our control of costs, personal and freight expenses is what we are looking at controlling.
- Sangam Iyer:** But that would be at the pre-provisioning level right but at the NIMs level?
- Y.S. Chakravarti:** On the NIM side, no, we are not looking at any increase in yield.
- Sangam Iyer:** Definitely there will be some pressure on the NIMs part because of the shift towards longer tenure your cost of funds will go up.
- Y.S. Chakravarti:** That is the reason why I said then I will need to look at it below the NIM.
- Sangam Iyer:** To that extent that impact would get offset at the cost control part, so at the PPP level it kind of manages, that is what you are saying.
- Y.S. Chakravarti:** Correct.
- Sangam Iyer:** Overall is there any outlook that you are given for the full year in terms of what is the kind of AUM growth that you are looking?



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- Y.S. Chakravarti:** No, I have already mentioned that probably we will be looking at about 15% growth in the AUM.
- Sangam Iyer:** Thank you.
- Y.S. Chakravarti:** Nischint, there was a question on the number of two-wheelers funded on the Q1 2018, it was we have funded about close to 2.75 lakh two-wheelers in 2018 Q1 and Q1 2019 is about 2.9 lakh.
- Moderator:** Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities Limited. Please go ahead.
- Nischint Chawathe:** Just one clarification, what was the incremental borrowing during the quarter and which are sources, I know you mentioned it but it was not very clear, so may be if you could just repeat that?
- R. Chandrasekar:** We have borrowed close to around 2700 Crores during this quarter and out of that, 700 Crores through public NCD and 700 from CP and 1300 Crores through bank.
- Nischint Chawathe:** So you borrowed 2300 Crores?
- R. Chandrasekar:** 2700 Crores during this quarter, during Q1.
- Nischint Chawathe:** In this 1300 is from bank loans?
- R. Chandrasekar:** Yes, 1300 is from bank, 700 from our public NCD and 700 through CP.
- Nischint Chawathe:** That is it from my side.
- Moderator:** Thank you. The next question is from the line of Shubhramshu Mishra from BOB Capital Markets. Please go ahead.
- Shubhramshu Mishra:** Thank you for the opportunity again. Sir just wanted to understand the credit loss as well as the opex that has there for the PL that you cross sell what is the kind of opex and the credit loss for the existing customer that you assume when you lend out PL?
- Y.S. Chakravarti:** On the opex I cannot give you a product wise opex.
- Shubhramshu Mishra:** Sir a ballpark number of percentage at least let say what percentage of the existing customer would be the opex for PL?
- Y.S. Chakravarti:** No I did not get you.



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- S Mishra:** If I spend say Rs.100 of opex for a new customer what percentage of that would be for PL sourcing opex?
- Y.S. Chakravarti:** You are talking about cost advantage of working with my existing customer right?
- Shubhranshu Mishra:** Yes.
- Y.S. Chakravarti:** There would not be a too much of a difference in the cross sell but the difference would be in the credit cost.
- Shubhranshu Mishra:** Okay and what is that Sir?
- Y.S. Chakravarti:** It is almost close to 400-500 basis points lower.
- Shubhranshu Mishra:** Thank you so much.
- Moderator:** Thank you. We take the next question which is from the line of Neeraj Mehra from Enam Holding. Please go ahead.
- Neeraj Mehra:** If you could just give some guidance on growth for the year both for disbursements and AUM, I believe you had mentioned like the growth rate depended on the liquidity available but any rough numbers?
- Y.S. Chakravarti:** I have already stated couple of times in this call itself. Probably we are looking at 15% growth on the AUM side.
- Neeraj Mehra:** Thanks.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Nischint Chawathe for closing comments.
- Nischint Chawathe:** Thank you everyone for joining the call today, we thank the management for providing the opportunity to host the call. Thank you.
- Y.S. Chakravarti:** Thanks everybody.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Kotak Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.