



“Shriram City Union Finance Q1 FY2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Shriram City Union Finance Q1 FY2021 Earnings Conference Call, hosted by ICICI 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. Abhijit Tibrewal from ICICI Securities. Thank you, and over to you, Sir!

Abhijit Tibrewal: Yes. Thanks, Bikram. Good morning, and a very warm welcome to all the investors and analysts who are joining us for the call today. We have the management of Shriram City Union Finance with us today, represented by Mr. Y.S. Chakravarti, Managing Director and CEO; and Mr. R. Chandrasekar, Executive Director and CFO. We will open the call with opening remarks from Mr. Chakravarti, post which we will open this call for Q&A. Thank you, and over to you, Sir!

Y. S. Chakravarti: Good morning, and welcome to all our investors and analyst friends who have logged in today for the earnings call of Shriram City Union Finance Limited for the first quarter of the financial year 2021. While obviously, it is very difficult to predict when life will return to the pre-COVID stage, we are, at Shriram City, trying our best to return to business as usual mode and accordingly, about 95% of our branches are operational and we also saw some traction in disbursements in the month of June. Between May and June, we have disbursed almost 1.18 lakh two-wheelers and hopefully we will be able to sustain the momentum and expand our disbursement levels as we head into the crucial festival season.

However, we will ensure that such expansion is calibrated and rolled out only after we have met with our customers, especially MSME borrowers and assessed their cash flow situations to the best of our ability. In other words, we will not be unduly aggressive in lending in the immediate term, but the approach will be very calibrated and cautious.

To look back at the quarter, despite lower disbursement levels, AUM grew by relatively low rates of about 6.3% on year-on-year and 2.2% sequentially. However, the two-wheeler loan book grew at 10% annually. There have been other positive developments in the quarter. For instance, we were able to reduce our Opex by 18% annually and 20% sequentially, leading to an operating profit rise of 10.2% quarter-on-quarter and to a significantly lower cost-to-income ratio of 35%.

Our collection efficiency improved by month-on-month, 30% in April to 52% in May and 71% in June. I feel that the collection efficiency can also be considered as a true indicator of the health of the book and the overall business instead of the moratorium numbers. In the

sense, as you see the collections improving, it means people who are initially affected or uncertain about what is happening in the business or lower volumes in business are slowly coming back into the business. So as I said, from 30% to 52% to 71% movement from April to June.

Impairment levels were maintained at Q4 levels and Gross Stage III numbers continue to drop. We provided for an additional Rs.180 Crores of COVID-related provisioning in the quarter, and our aggregate provisioning on this count between Q4 FY2020 and Q1 FY2021 is now Rs.606 Crores. We have largely maintained our yields and NIMs and there was a marginal improvement in cost of funds. During the quarter, we have raised Rs.1,058 Crores from banks and retail fixed deposits. Our fixed deposits, in fact, showed the highest ever gross mobilization in the month of June. We had a liquidity reservoir of Rs.1,732 Crores, which we are comfortable with.

Our subsidiary, Shriram Housing Finance Limited, turned in another decent performance despite disbursements having been affected due to COVID. The housing division grew 23% year-on-year, and they, too, are seeing a gradual return to some sort of normalcy with 60% of average monthly business volumes seen in the month of June.

They have continued on the path of improving asset quality and registered GNPA's of 2.3%, their best performance in five years. Shriram Housing's cost of funds, too, improved significantly to 9.3%. There are enough reserve liquidity for operations until December 2020.

The other point I would like to mention is now that Emergency Credit Guarantee Scheme is opened up for individuals also, where majority of our customers are individual, we are also exploring the option of funding our customers under this route, which probably we will start off from the third week of August.

One more point I would like to mention is that, if you remember, I think at the last call, I had mentioned that we have obtained corporate agency license from IRDA for cross-sell of products to our customers and I am glad to inform that we have received close to Rs.5 Crores of fee income in the first quarter from the cross-sell of some of the insurance products. So with this, the floor is open for questions.

Moderator:

Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Rajeev Agrawal from DoorDarshi Advisors. Please go ahead.

- Rajeev Agrawal:** Hi. Thanks for taking my questions. The first question, Mr. Chakravarti, you mentioned that now personal loans are eligible for something. I am not clear of the sentence. You will start from third week of August? Can you explain what you were talking about?
- Y.S. Chakravarti:** No, I did not say personal loans. I said business loans which are given to individuals now are eligible for funding under Emergency Credit Guarantee Scheme. Earlier it was not available. Now that they have amended provision and that even individual business owners are eligible for funding under the Emergency Credit Guarantee Scheme. That is what I was mentioning, not the personal loans.
- Rajeev Agrawal:** Got it and to what extent will that come in our SME book, which is our biggest book, that could have a significant beneficial impact? Or can you just quantify what sort of impact that could have for us?
- Y.S. Chakravarti:** See, we are not going to do this across the board and offer it across the board. The lending will be very, I would say, depends on the customers' current cash flows and his payment pattern earlier. So I'm not looking at a very large sum of disbursement in this. Because, again, two things. One is yield under this scheme is also lower, but I would like to extend the funding under the scheme to some of our good customers because if they need cash flow, I think it is time that we stand by them. So probably, the scheme is available up to October. So we will be, say, in two months probably, we are looking at Rs.300 Crores to Rs.400 Crores of disbursement like this.
- Rajeev Agrawal:** Right. But I am hoping that this will have a beneficial impact on your nonperforming portion of the book in SME space, is that a fair way of looking at it?
- Y.S. Chakravarti:** No. I mean, if a customer is NPA, obviously, I am not going to fund under the ECG Scheme.
- Rajeev Agrawal:** Got it. The second question is, your personal loans have come down and is that one of the reasons why the net nonperforming assets continue to be high in the personal loans?
- Y.S. Chakravarti:** Yes, we have actually slowed down on personal loans, of course, not only this quarter, even the last quarter also, so which we will be starting off in another week's time, we are initiating the business again. Earlier, we were focusing on just secured. Because see, we were conserving liquidity, and we are focused on only secured business. Now that it looks like we see some easing on the liquidity side, so we will start off personal loans probably from third week.
- Rajeev Agrawal:** Okay and you are starting to see sort of cash flow in your loan book for your customers?

- Y.S. Chakravarti:** Sorry, I did not get you there. Sorry?
- Rajeev Agrawal:** Yes. I was saying, now do you see the cash flows reviving for most of your customers across various sections of the AUM that you have? Like can you just give a flavor of what you are seeing?
- Y.S. Chakravarti:** Yes. I think the proof of the pudding is in the eating, right? So when you look at the gradual improvement in the collection percentages, I feel that, see, even in June, we were at 71% and in July, we have almost reached close to 80% plus. So I think that's a good indicator that the cash flow is coming back, right?
- Rajeev Agrawal:** Okay and this restructuring scheme that RBI has announced, any initial take of yours on what exactly are you planning to do with that?
- Y.S. Chakravarti:** See. Honestly, I mentioned this earlier also in our analyst calls also. I would rather give time for my customer to pay rather than restructuring the whole thing and create an optical wellbeing. But again, early days that they have to come out with guidelines. We will see. But I'm personally, my set of customers, I would rather give them time to pay rather than restructuring the whole thing. Personally, that is my view. But let us see what RBI comes up with.
- Rajeev Agrawal:** Perfect and this COVID provisions we have been taking over the last few quarters, do you think this will continue? Or what is your assessment for the next few quarters as you look forward?
- Y.S. Chakravarti:** I can tell you only we are all waiting with crossed fingers on what is going to happen post the moratorium, right? So very uncertain to comment anything now. But let me put it this way. A couple of my customers, when I have talked to them, in fact, more than a couple of customers, they are worried that the rate of doubling that is happening in some of the territories. So though the cash flows are coming back to normal, some of those customers were saying they would like to hold on to some of the cash just in case again lockdowns happen. So we would definitely look at this even the next quarter also, we will create some provision. We will be looking at very conservatively on this side. So yes, we will create provision next quarter also till we get as clear-cut clarity on the cash flows of the customers, particularly on the SME side.
- Rajeev Agrawal:** Sure. Thanks a lot for taking my question.
- Moderator:** Thank you Sir. We have next question from the line of Vivek from DSP Mutual Funds. Please go ahead.

Vivek: This is Vivek here. It is really heartening to see the pickup in collection efficiency. But given the fact that there is always on and off lockdown is going on, and the sentiment is fragile, I have two questions and one clarification, which I wanted. The first question is, how would you see your liquidity buffers going for the next few months, given the fact that the economic sentiment still seems fragile? Two, the strong pickup in collection efficiency is indeed a positive surprise. In terms of the customers, what is it that has allowed them to pick up their businesses really fast? And the third is the last clarification that I wanted that you had enough liquidity to pay debt till December of this year, right? So those are the three points.

Y.S. Chakravarti: On the collections front, I think what has helped SCUF is basically because we are a small-ticket business loan company, number one. Number two, most of my customers are from trading and a little bit from service industries. Manufacturing less than 7%, 8% exposure. So I think it is basically because the moment, the complete lockdown was lifted, most of my customers were back in business, and they were seeing some kind of cash flows in the businesses. I think the positive factor was that the kind of customer segment that we were funding, which has helped us in this crucial time. Liquidity, as I mentioned, we have about Rs. 1,700 Crores of cash and balances with us. The December 2020, I have mentioned this for Shriram Housing Finance, which is a subsidiary of our company, which has buffers up to December 2020.

Vivek: Okay, Sir. Sir, in Shriram City Union, would you build up more liquidity buffers in terms of your repayments for the next, I mean, let us say, up to three months will take up to March 2021. So what would be your liquidity policy, treasury policy for the next...

R. Chandrasekar: The policy is that we will have about Rs.2,000 Crores as a liquidity buffer.

Vivek: Okay, Sir. And there is no chunky repayments coming up in the next few quarters/

R. Chandrasekar: Normally, every quarter end, we do have some payments, but that is taken care of. That is planned for.

Vivek: Okay. Excellent. Thank you Sir and good luck.

Moderator: Thank you Sir. We have next question from the line of Saurabh Dhole from Trivantage Capital. Please go ahead.

Saurabh Dhole: Sir good morning and thank you. A couple of questions. First, if I see the employee count this quarter, there has been a very sharp fall in that. So you were running at about 28,000, up and now it is at about 26,000. So any reason as to why there has been a sharp decrease?

- Y.S. Chakravarti:** We are actually rationalizing manpower. One is, normal resignations were there, and we have actually stopped new recruitment and trying to reassign roles. Basically, that's it. It is basically reassigning roles. Normal attrition happening. No new hiring.
- Saurabh Dhole:** Okay. So this no new hiring policy would continue for the foreseeable quarters also? Is that a right assumption?
- Y.S. Chakravarti:** I would say, at least for two more quarters.
- Saurabh Dhole:** Okay and sir, the second question was on collateral prices. If you could talk a little bit about how they are holding up, especially in your MSME portfolio, where 80% of the book is collateralized. So any sense that you can give us there?
- Y.S. Chakravarti:** Very honestly, as of now I'm not really worried about the collateral price. Our average ticket sizes are about Rs.12 lakhs, right? So the average LTV would be about 55%, 60% at best. So plus, when you are lending, the initial lending was done basing on the cash flow and not on the collateral value, though you do look at collateral, but it's secondary. So looking at both, I am really not worried about the collateral prices as of today.
- Saurabh Dhole:** Okay. But in case cash flows get disrupted, collateral is your last resort, right?
- Y.S. Chakravarti:** Correct. Right, right. But then you have average LTVs around 55%, 60%, I think we should be comfortable with that.
- Saurabh Dhole:** Okay, Sir. Okay. And sir, just one last question. I think in the last quarter, you said that you made a provision of about Rs.400-odd Crores for COVID. So I was just thinking where in the P&L statement does this figure appear? Because if I look at the total impairment...
- Y.S. Chakravarti:** Yes, it is basically cost of impairment.
- R Chandrasekar:** It is there in our financial instruments, that Rs.310 Crores. In that, Rs.226 Crores is write-off and Rs.84 Crores is provisions, that Rs.310 Crores includes.
- Saurabh Dhole:** No. So the total figure was Rs.400 Crores something.
- Jai Singh Ponde:** Saurabh, I will send you the details. The breakup, I will send across.
- R Chandrasekar:** So I think provision calculations, JP will give. It has to be calculated in a different way because the opening provision and the last COVID provisioning, plus current COVID provisioning and the closing provision. The closing provisioning and the opening

provisioning is Rs.84 Crores plus write-off is Rs.310 Crores. So that is a matter of calculation. I think Jai Singh will forward to you.

Saurabh Dhole: Okay Sir. Thank you so much.

Moderator: Thank you Sir. We have next question from the line of Sanket Chheda from B&K Securities. Please go ahead.

Sanket Chheda: Hi Sir. Congrats on a pretty good set of numbers, operationally. My question was that, Sir, it has been about more than 1.5 years and still, there is nothing on merger front. So is there any timeline when the merger would go through? And also, are there any other options being discussed that whether it would be a three-way merger as planned earlier or whether it could be a two-way merger or any other options as such?

Y.S. Chakravarti: As of now, nothing being discussed whether at the company level or the board level on the merger side. So probably, as of now, nothing.

Sanket Chheda: So is there a possibility that the merger would not go through or we would be allowed to remain a separate entity? Any remote possibility? Anything on that?

Y.S. Chakravarti: Yes, probably, yes. Because I have not heard anything on the merger as of now. So probably, it's in the cold storage.

Sanket Chheda: Okay Sir. That is all from me.

Moderator: Thank you Sir. We have next question from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.

Pavan Ahluwalia: Yes. Thanks. Just wanted to check on the credit quality situation. So I think you said that you would prefer to avoid restructuring and simply let customers take advantage of the moratorium, given that cash flows are normalizing. So I just wanted to confirm that we understood that correctly. So your view is that as the economy comes back to normal, most of your customers will be able to generate roughly what their normalized cash flows are and therefore maintain the EMIs that they were maintaining earlier, and the implication of a moratorium is the loan will just run a few installments longer. So you would prefer to just take that route out rather than do some sort of restructuring because based on what you are seeing right now, you are quite comfortable that with even a moderate recovery, your customers are going to be able to meet their EMIs. Is that fair to say?

Y.S. Chakravarti: Exactly, Pavan. You got it right.

- Pavan Ahluwalia:** Okay. Got it. Thank you.
- Moderator:** Thank you Sir. We have next question from the line of Subrat Dwibedy from SBI Life. Please go ahead.
- Subrat Dwibedy:** Yes. Hi Sir and thanks for taking my question. First, on the collection efficiency front, you mentioned that it has reached 80% in July. So does that include overdue collections also from previous months? Or that was just the scheduled collection for July, which has come in?
- Y.S. Chakravarti:** Out of this 80%, overdue collections would be about 3%, 4%. Rest of it is demand for the month.
- Subrat Dwibedy:** Okay. Second, on the liquidity front, so although collection efficiencies, etc., have improved, but if you clearly look at the cash and undrawn bank lines, then it covers around two months of repayment. Whereas normally, we have seen that NBFCs keep around three to four months at least of repayments because one does not know if the collection efficiencies might fall, future lockdowns happen, et cetera. So what is your sense on maintaining liquidity going ahead?
- Y.S. Chakravarti:** As I said, no, liquidity- sorry, Chandru, please go ahead.
- R Chandrasekar:** With reference to liquidity, as of today, we have comfortable three, four months of liquidity with us. As I told you, we have more than Rs.2,000 Crores of liquidity buffer, plus we have quite a bit of withdrawals on hand...
- Y.S. Chakravarti:** As of June, we had Rs.1,700 Crores, Chandru. So July number...
- R. Chandrasekar:** So we have quite a bit of next three, four months of liquidity buffer we have because the repayment of the next couple of months is not very high.
- Subrat Dwibedy:** Okay and just one last question from my side. So in terms of raising money from banks, how is that process now? Is it slow? Or you're able to raise term loans, et cetera, easily? and the second part of it is...
- R Chandrasekar:** Last month, we are able to raise Rs. 700 Crores including retail and wholesale money in the month of June. I think we are also quite comfortable in getting money of Rs. 400 Crores, Rs. 500 Crores from the market, plus, we are also able to do retail. But going forward, I think from September, we may be able to do a couple of securitization transactions on our two-wheelers and other things. And we are discussing with four, five banks. So I think

raising money, we have a plan for raising Rs. 1,000 Crores of liquidity month-on-month. I think we will be very comfortable going forward on the liquidity front. But in the liquidity, we do not have any issues. But we are only clear that we do not want short-term liquidity, we are clearly focused on long-term liquidity because we have quite a buffer to manage short-term things. So we want money for disbursement. So we are looking for long-term money, so we do not have no issues getting a good relationship with the public sector bank and with regard to private sector banks, now we are discussing with three or four banks. So I think we do not have problem for next couple of months.

Subrat Dwibedy: Okay Sir. Thanks a lot. That is all from my side.

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

Nischint Chawathe: Hi. Just a couple of questions, but before that, I did not get the number, how much did you raise in June?

R. Chandrasekar: What number?

Nischint Chawathe: Sir, how much quantum of funds did you raise in the month of June?

R. Chandrasekar: We raised Rs.700 Crores.

Nischint Chawathe: Rs.700 Crores, and this is from banks, is it?

R. Chandrasekar: Banks and retail, we have both. Also, we have some retail fixed deposits also. So both put together. Yes, if you want the break up, it is around Rs.500 Crores and around Rs 275 Crores, both breakup of retail and banks.

Nischint Chawathe: Sure. Just moving on, if I have to look at the SME Credit Guarantee Scheme, I think what you mentioned was that you are looking at disbursements of around Rs. 300 Crores, Rs. 400 Crores. And if I have to consider that as 10% of the loan amount, and you are talking about broadly covering customers with around Rs.3,000, Rs.4,000 Crores of loan outstanding. And if my understanding is right, does the yield on the entire book go down to the government kind of the 14% yield level? Or is it only the improvement in yield that goes down?

Y.S. Chakravarti: It is only the incremental lending that will go down. On this Rs.300 Crores, Rs.400 Crores.

Nischint Chawathe: Okay. Not the entire Rs.3,000 Crores or...

- Y.S. Chakravarti:** It is only on the Rs.300 Crores, Rs.400 Crores.
- Nischint Chawathe:** Sure. If you could give some color in terms of how many branches are operating in the month of June, July and maybe in early August?
- Y.S. Chakravarti:** Yes. To be honest with you, very difficult to pinpoint how many branches because it is changing from week to week. In fact, on a steady-state basis, we have about 18, 20 branches, which are closed because they are in containment zones and they have still not come out. Rest of the areas, in some places, they are open from 8:00 to 11:00 in the morning. Some places, they are open from 10:00 to 2:00. It is like partial opening, closure. They are open for one week, and next week, some directive comes in, you're closed for a week and then you go and open it again. So probably total shutdown in June and July would be about 20 branches.
- Nischint Chawathe:** In August, whatever last 10 days, have been similar.
- Y.S. Chakravarti:** Same. Those branches still remain closed.
- Nischint Chawathe:** Sure. I mean, you have mentioned the collection efficiency percentages? Sir could you share the absolute amount?
- Y.S. Chakravarti:** Yes, sure. Chandru, you have the number with you right now?
- R. Chandrasekar:** So if you want to the month of April, we have collected...
- Nischint Chawathe:** So you shared percentages for the three months, April, May, June. So if you could share the absolute amount and maybe just break up the absolute amount between gold and others?
- R. Chandrasekar:** In the month of April, we collected Rs.560 Crores, 30% collection. In the month of May, we collected close to Rs.1,000 Crores, it's 52%. And in the month of June, it is Rs.1,400 Crores, at 71% collection.
- Nischint Chawathe:** And of this, how much could gold be like? I mean, out of Rs.560 Crores, let us say?
- R. Chandrasekar:** Can you repeat it? Out of how much?
- Nischint Chawathe:** Of the Rs.560 Crores, how much is collected from gold loans?
- R. Chandrasekar:** Gold loans, in fact, entire April month, there is no gold. Because entire April is national lockdown. There is no branch opened. So 100% is from nongold only in the month of April. But in the month of May, there was a gold loan collection, which was close to around

Rs.300 Crores. In the month of June, we have around Rs.400 Crores of gold loan collections.

Nischint Chawathe: Okay. That is it. Thank you very much.

Moderator: Thank you Sir. We have next question from the line of Piran Engineer from Motilal Oswal Financial Services. Please go ahead.

Piran Engineer: Hi Sir. Congrats on the quarter. I have a couple of questions. Firstly, did I hear you right when you said collection efficiency in July is 80%, 8-0?

Y.S. Chakravarti: Yes, that is right.

R. Chandrasekar: We have Rs.1,550 Crores collection.

Piran Engineer: Okay. And sir, my other two questions. Sir, firstly, what percentage of customers have not paid a single installment since the lockdown? And my second question is, I wanted to gather your thoughts on the recent RBI regulation allowing 90% LTV for gold loans for banks. So how does this play out in the, say, near to medium term in the next 12 to 18 months? And when customers move to bank, will they eventually stick to banks? Or can they come back to players like- so I just want to get your thoughts around that?

R. Chandrasekar: Yes. Because of...

Y.S. Chakravarti: Chandru, let me take this question. So between 20% to 22% of my customers have taken the full moratorium. That is, they have not paid a single installment since April, okay? On the gold loan side, right now, RBI is allowing banks to lend up to 90%. So we will have to see how aggressive banks will be. I mean, with all due respect, I do not think most of the banks have appraisers on their roll where they have a permanent appraiser sitting in the branch, and as and when the customer walks in, they disburse. Most of the banks, you need to inform in advance that you want gold loan and then they call in an appraiser from outside. He comes in, appraises and then you will get the money. So there are a lot of waiting time there. So we will have to see how the customers would want that, one. Two is, I am not sure how many banks would really be willing to go up to 90%, looking at the way the gold has shot up. The price of the gold has shot up and the way it has corrected yesterday. So 90% may optically look very attractive or look like that. But then when it comes to policy, I am not sure majority of the banks would lend up to 90%. So I am not really worried about banks taking away business as of now.

- Piran Engineer:** Okay. And do you think if, say, the bottom 5%, 10% of the customers move to banks will eventually sort of stick to those banks and do not come back from April 1, 2021. Is that a possibility?
- Y.S. Chakravarti:** That is a possibility, but then this market is so huge. The market for gold loan is so big and so huge, it is your ability to reach the customer that will determine whether customer is going to bank or to you. It is also accessibility important.
- Piran Engineer:** Okay. That is all from my end. Thank you and all the best.
- Moderator:** Thank you Sir. We have next question from the line of Abhijit Tibrewal from ICICI Securities. Please go ahead.
- Abhijit Tibrewal:** Yes Sir. Thanks for taking my question. Sir, again asking on the liquidity side. You raised about Rs. 550 Crores in Q1 FY2021. If I remember correctly, out of this, about Rs.350 Crores was from SIDBI, where the other Rs 200 Crores in the form of term loans from banks?
- R. Chandrasekar:** Yes.
- Abhijit Tibrewal:** Okay. And have you seen any newer lines of borrowings in the month of July and August? And idea of asking this is...
- R. Chandrasekar:** We have a couple of sanctions from a couple of banks, which we will be drawing over the next 10, 15 days.
- Abhijit Tibrewal:** Sir, the idea of asking this is, I mean, just trying to understand whether the current liquidity tightness can constrain some of your disbursements in the near term?
- R. Chandrasekar:** No. Because we are just waiting for the moratorium period to get over, We are already doing the two-wheeler business, we are already doing Gold. SME customers, we have to assess. We are just waiting because we do not want to be aggressive at this point of time in disbursing. So we are just waiting for this moratorium to get over. Once the moratorium is over, I think we will come back to the normal aggressive mode of assessing the customers and then give. So liquidity is not going to be a constraint for disbursal.
- Abhijit Tibrewal:** Sure, sir. The second question I had was on your write-offs. The write-offs that you took during the quarter that they are majorly in the personal loan segment?
- R. Chandrasekar:** No. Basically, write-off is not in the personal loan segment. It is in all the products. And basically, we are trying to assess our business, how much credit loss in the business will be

there. So it is across all products. It is nothing in personal loan. It includes all the SME, gold, two-wheeler, every product. So we have a mechanism. There is a bad debts policy we have. As per the policy, we do the write-offs.

- Y.S. Chakravarti:** Okay. There is no spike in any single product. That is what Chandru is mentioning.
- R. Chandrasekar:** It is across all products.
- Abhijit Tibrewal:** Okay. But what your GNPA's, I mean, have seen a good correction in personal loans?
- R. Chandrasekar:** No. That is basically because the last two quarters, we have not done any personal loans. So the book is running down and the denominator effect is pushing it up. But actually, in terms of rupees, it is coming down. Because the denominator is going down, the percentage is going up. Once we start doing business from next month, I think, once again, it will start going down.
- Abhijit Tibrewal:** So essentially, the AUM of personal loans has come down primarily because of the collections that we have demonstrated?
- R. Chandrasekar:** Collections and also because, as I told you, the AUM also is running down because there is no fresh disbursement for the last two quarters, last 2.5 quarters.
- Abhijit Tibrewal:** Okay. Sir, the last question that I had was on this ECLGS scheme for individual MSME customers. You have already alluded to that, I mean, earlier in the call. Just wanted to understand, there is a capping of 14% on these loans under ECLGS. So would not that be dilutive on your yields and NIMs?
- Y.S. Chakravarti:** That is why I told you. I mentioned that at best, we will do about Rs.300 Crores to Rs.400 Crores. On a book of Rs.16,000 Crores, Rs.17,000 Crores, it will be about Rs.300 Crores to Rs.400 Crores.
- Abhijit Tibrewal:** Okay. All right. And sir, lastly, about this MSME restructuring scheme, which is there. I mean you have already said that you'll actually want to give more time to the customers rather than restructure the account. So this MSME scheme was already there. It is now been extended till March, where we are already doing some restructuring? Or have we not been doing any restructuring?
- Y.S. Chakravarti:** No, we have not done, we have not done anything.
- Abhijit Tibrewal:** Sure Sir. That is very very helpful. Wish you the very best.

Moderator: Thank you Sir. We have next question from the line of from Pradeep Agrawal PhillipCapital. Please go ahead.

Pradeep Agrawal: Yes. Hi Sir. A couple of questions from my side. One is, how do you see your margins panning out going forward, especially in a scenario where some of the competition like Cholamandalam have become aggressive in two-wheelers, you have banks coming into gold loan aggressively. So how do you see your margins and yields panning out? And what I understand is a few quarters back, we have reduced yields on two-wheelers by about two to three percentage points. So how do we...

Y.S. Chakravarti: Sorry, I missed the last part. You said what the last two, three quarters?

Pradeep Agrawal: What I understand is, in the last quarter or so, we have reduced some interest charge on two-wheelers by a couple of percentage points. So how does that stand as of now, are we still charging lower? Or are we back to normal rate of interest in two-wheelers?

Y.S. Chakravarti: See, typically, that is basically because of the festival season. In a festival season, we normally offer a discount on interest rate to the customers. So that is what has happened earlier. So back to normal yield now. See, every year, during the festival season, Navratri and Diwali time, we offer a little lower rate to the customers, which is normal industry practice. Otherwise, there is no pressure on the yields as of now. So Cholamandalam or somebody getting aggressive does not mean we will compromise on yields because 2-wheeler is a highly manpower-intensive business. And you need to protect your yields. If you do not protect, then very easily, you will end up making losses. So that is not a worry.

Pradeep Agrawal: Okay. And second question is on collection efficiency, which you mentioned is about 80-odd percent. So I just want to understand the 20-odd percent where we have not collected, is any particular segment where the skewness is higher? I mean as far as SME...

Y.S. Chakravarti: Yes. SME, so, obviously, if you look at it, yes, SME, we are at about roughly less than 60% of efficiency versus rest of the products. SME, we expect it to touch about 70% , I mean it is about 70% in July and probably normalize by end of September.

Pradeep Agrawal: Okay. And just one data point. The Rs. 270 Crores which we raised through banks in June, was at what rate?

R. Chandrasekar: Actually, the rates were actually lower. We took it from a couple of banks. We took it from SIDBI at 6.2%. It is a lower rate, all rates on other term loans, it is around 9% and we got from SIDBI special scheme with 6.2%.

- Pradeep Agrawal:** Okay. That is it from my side. Thank you so much.
- Moderator:** Thank you Sir. We have next question from the line of Ankur Jain from Prayaas Capital. Please go ahead.
- Ankur Jain:** Hi. Good morning Sir. I have two questions. The first question is on the cost-to-income ratio, which has dropped significantly from 40% to around 35%. So just wanted to understand how sustainable is this drop? I mean, after two quarters, can we expect this cost-to-income ratio to go back?
- Y.S. Chakravarti:** No. once the business starts picking up, then we will have the variable cost coming in. So we should be around 37%, 38%.
- Ankur Jain:** Okay. So that reduction of 2% to 3% from the normal levels, can we say that is happening both on digitization in the...
- Y.S. Chakravarti:** Digitization, rationalization of manpower, reduction in some of the costs, reduction in rentals...
- R. Chandrasekar:** A lot of savings on promotion expense, traveling, so many heads.
- Ankur Jain:** Right. And the second question I have is on the branch network. So if I look at the company, for the almost seven, eight years, I mean, we used to have around 980 branches and over a period of time, the number of branches has come down to 947. So I wanted to understand how dependent is our business growth on the distribution reach, which is the number of branches that we have? When things normalize...
- Y.S. Chakravarti:** Yes. Got it. I will put it in this way, we constantly evaluate and rationalize the branch presence. So though I have only today, 947 branches, we are operating in close to 1,800, 1,900 locations. So basically, you operate on a hub-and-spoke model, where the branch acts as a hub. So wherever we find that there is some other branch, we can do the same work without branch, we rationalize and then close that branch. So unless we are moving to newer geographies, this branch network will not expand. So for example I will give you an example. For example, in Delhi, Delhi and NCR, we used to have about 13, 14 branches. Today, we have only nine because we have rationalized those branches, and we are using the other branch as a hub. So that is how the calls are taken.
- Ankur Jain:** Right. And just last question on this AUM by geography. So North contributes less than 10%. So over a medium-term basis, what are the thoughts on diversification and capturing more market share in the North and the Eastern geographies?

Y.S. Chakravarti: So East, we have just started. We are there in Bihar, about 10, 12 branches in Bihar. West Bengal, seven, eight branches. Odisha, we have a few branches. Assam, next month, we will be starting off our first branch in Assam. So East, it will take some time. But North, we have enough penetration. Only thing is we need to increase our presence. North, the reason why you see the business, normally particularly SME business when we start in new territory, we will start with a small-ticket business, that is less than Rs. 5 lakhs. Work on it for some time before we move into a larger ticket. So it will happen gradually. See, when you looked at our business, probably five, six years back, even our two-wheeler business was 70% South and 30% rest of the country. Today, it is the reverse. South contributes just 30% in two-wheeler business, whereas West and North contribute 70%. So it will happen, but- in SME, it will be slower than two-wheeler because I need people to be trained in this business, and this is something which I do not want to push very aggressively.

Ankur Jain: Got it Sir. Thank you.

Moderator: Thank you Sir. We have next question from the line of Abhishek Murarka from IIFL. Plf.

Abhishek Murarka: Hello. Hi. So my question is on gold loan, and basically the question is, how are you seeing the demand scenario play out? Are you witnessing a sort of withdrawal in, let us say, the jewelry that is kept with you as prices go up, any sort of trends like that? And are you losing customers to banks because now the incentive gap is even wider if banks offer higher LTV, even 5%, 10% higher LTV than before. So how is that impacting demand?

Y.S. Chakravarti: Too early, too early. Because this 90% has been around just four, five days back, so it is too early to see how will it impact. We may have some impact in the urban and rural areas. But then, the one point here is the last two months, in fact, in the rural and semi-urban, there have been redemptions of gold loans. Basically because I think agriculture cash flows have improved. Urban area, it is not so. Not so much of it at all, but urban area, in fact, the business has improved compared to pre-COVID. So as far as banks posing threat of increased LTV, it is definitely possible. But then as I said earlier, it all depends on how efficiently a bank can turnaround, a customer who has come in for a gold loan. If somebody was sitting there for a half a day, obviously, it is a different thing..

Abhishek Murarka: So of course, LTV is just one of the incremental things that have happened now. But even otherwise, in urban areas you are saying, you are not seeing sort of attrition of customers to banks or loss of...

Y.S. Chakravarti: As of now, no. But then going forward, if the banks aggressively promote the 90% LTV or 85% LTV, probably we may see some attrition. We will have to wait and watch.

- Abhishek Murarka:** And any early feelers as to what they are doing?
- Y.S. Chakravarti:** No. I mean, I have talked to a few bankers. They were skeptical of the 90% because they do not want to risk getting caught on price fluctuation. In fact, if you see, see, I think there was close to, what, about 5% fluctuation yesterday?
- R. Chandrasekar:** Yes.
- Y.S. Chakravarti:** So if you are a prudent banker, that should give you jitters.
- Abhishek Murarka:** Sure. Thanks Sir. That is what I wanted to check. Thank you so much.
- Moderator:** Thank you Sir. We have next question from the line of Subramanian Iyer from Morgan Stanley. Please go ahead.
- Subramanian Iyer:** Yes. Thanks for taking my questions. Sir, you mentioned that 22% of customers have taken full moratorium. Is this by value? So that is one question. And second thing is that, I am assuming that this is completely the non-NPA portfolio, which has opted for moratorium. So based on that, what is your portfolio at risk in your current assessment out of this 22%?
- Y.S. Chakravarti:** See, this 22% of customers and about 25%, 26% of AUM under morat, okay?
- Subramanian Iyer:** Got it. Yes.
- Y.S. Chakravarti:** So portfolio at risk, see, probably, I will be looking at on an overall portfolio, probably about we are looking at about 90 to 100 basis points of incremental credit costs.
- Subramanian Iyer:** Okay. Got it. And just to clarify, so this 26% by value, this is completely the piece that was non-NPA, right, I mean, previously?
- Y.S. Chakravarti:** Yes.
- R. Chandrasekar:** For moratorium, only Standard assets...
- Subramanian Iyer:** Yes, no, I just wanted to get it...
- Y.S. Chakravarti:** Just wanted to cross check, right? Yes.
- Subramanian Iyer:** Yes. And just a follow-up question, if I may ask. This is on your funding. So the funding has been tied for almost two years now, and you have not been growing your portfolio as well. Whereas if I see your headline numbers, I mean, both on capital and coverage, you

seem pretty solid. So in your conversation with you, whereas what I see is that many other smaller retail niche NBFCs have actually been growing their balance sheet even in the last two years. So in your conversation with bankers and, say, the capital markets, what is the feedback that you get? Why are they unwilling to give you incremental funding?

R. Chandrasekar: No. Incremental funding is actually, in fact, last year, we have a clear-cut plan that we want to get out of the commercial papers. We want to get into long-term things because every time, every year we get into something or other. So as a management policy, we always felt that we should be having clear-cut liquidity road map for the future. One of the liquidity road map is that we want to go on procuring only long-term funds and get into more - the plan is around 15%, 20% through securitization route. The term loans preferably three to five years, and retail money also three to five years. So our plan is short-term plan rather than - even in this quarter, I think there are a couple of TLTRO money available for three months all those things. So we actually do not want three months, four months money. We are actually looking for three years or four years money because our book runs first. So it is a strategy which we feel short-term money should not be used for disbursement. So that we always look into the long term rather than short-term approach to liquidity and businesses.

Subramanian Iyer: Got it. Thank you.

Moderator: Thank you. We have next question is from the line of Prashanth Sridhar from SBI Mutual Funds. Please go ahead.

Prashanth Sridhar: Yes. Good morning Sir. Sir, just on this 80% collection efficiency. I wanted to check if there is any significant difference in any particular state, district? And are you noticing any political interference on this aspect?

Y.S. Chakravarti: No, political interference at all. Nothing of that sort. See, significant impact in a particular state? No, nothing is there. Probably month-to-month, there is a difference. For example, in the month of June, when you had lockdown in Chennai and four districts, in the last 10 days, there was a slowdown in collection in that area, but which picked up in July. So basically, it is like nothing specific to a specific state.

Prashanth Sridhar: Sure. And just the other aspect was securitization is a good proportion of our liabilities. So now with disbursement slowing down, how do you see that part of the liabilities moving?

R. Chandrasekar: Yes. With reference to securitization, during this moratorium, I think banks may not be much willing. In fact, we have even one or two sanction orders, which we are waiting for the moratorium to get over. But now the banks are actually discussing with us wherever the customers have not taken moratorium for the last four months, who have paid it regularly,

the banks are willing to do. So we may do one or two transaction in the month of September on two-wheeler front. So going forward, maybe Q3 and Q4, we will do securitization on our SME book. We do only on two-wheeler and SME, but two-wheeler has already the collection has reached 90% plus. So we will start doing from September. But as I told you, SME, we will do it from Q3 and Q4. But the market is available – we have to convince the bank and we have to have a collection efficiency has to reach a reasonable level, around 90% for the bank to fund securitization. Otherwise, banks may not be because the banks will be at risk. So we are discussing with the banks, and we are already lined up for four, five transactions, but we are just waiting for the moratorium to get over.

Prashanth Sridhar: Great. That is it from my side. Thank you so much Sir.

Moderator: Thank you Sir. We have next question from the line of Rajeev Mehta from YES Securities. Please go ahead.

Rajeev Mehta: Hi. Good morning. A few questions. Sir, firstly, July collection efficiency, you said overall aggregate is 80%. And it was just mentioned that two-wheeler, it could be around 90% and small enterprise loans, it could be around 70%. Would that be right?

Y.S. Chakravarti: No, I said less than 60% for July, yes, you are right.

Rajeev Mehta: 70%, right? Okay. And so this nonpaying customers since April, you said about 20%, 22%, customers have not paid, and that proportion will be much higher in case of small enterprise loans, it could be around 30%, 35%?

Y.S. Chakravarti: Yes. You are right, about 30%, 35%.

Rajeev Mehta: Okay And so these nonpaying customers, when you engage with them, can you give some color in terms of reasons for them not having - start making payments? Are they more in the affected areas or their occupation or their – does not allow them - they have not recovered so much so far. And so I just wanted to understand from their occupation color perspective. And also whether what proportion of these nonpaying customers would have overdue as on February 29, 2020?

Y.S. Chakravarti: As on February 29, 2020, let me take this thing first. On the occupation side, it is basically school, small clinics, doctors, doctors running small clinics, then travel services, some retail restaurants, basically restaurants and eateries. These are the guys who have taken the morat. And that number, I will have to get back to you. I will get back to you on that number. In the February...

- Rajeev Mehta:** Yes. Because I think the only thing that we are worried about is that if the moratorium ending on August 31, 2020, if somebody has an overdue and you said that the normalization in SCL portfolio in terms of collection can only be reached by November. So intermittently, we can have slippages coming through between September and November if somebody has an overdue?
- Y.S. Chakravarti:** One more point that I would like to mention here is some of these customers, when we meet them, though they have started the businesses, cash flows are coming in, some of these customers were saying, since the morat is available, they want to avail of it. Because they want to shore up their liquidity. So the thing is you cam not press them also. Since you have given the moratorium and they have availed the moratorium, you just cannot press them. Even though they have liquidity, they are saying we will wait out this period, and then we will pay you once the moratorium is over.
- Rajeev Mehta:** Right. So I think those are the questions from side. Best of luck.
- Moderator:** Thank you very much, Sir. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Abhijit Tibrewal from ICICI Securities for closing comments. Over to you, Sir!
- Abhijit Tibrewal:** Yes. Thanks, Vikram. On behalf of ICICI Securities, I would like to thank the management of Shriram City for giving us this opportunity to host this earning call today and patiently answering all our questions, and to all the investors and analysts for a very enriching discussion. Thank you all.
- Y.S. Chakravarti:** Thank you all.
- R. Chandrasekar:** Okay. Thank you.
- Moderator:** Thank you very much, Sir. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference call. Thank you for joining with us, and you may now disconnect your lines.