"Shriram City Union Finance Limited's Q1 FY'22 Earnings Conference Call"

July 30, 2021

MANAGEMENT: **MR. Y S CHAKRAVARTI - MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, SHRIRAM CITY UNION FINANCE LIMITED**
MR. R. CHANDRASEKAR – EXECUTIVE DIRECTOR & CHIEF FINANCIAL OFFICER, SHRIRAM CITY UNION FINANCE LIMITED
MR. RAVI SUBRAMANIAN – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, SHRIRAM HOUSING FINANCE LIMITED

MODERATOR: **MR. PRADEEP AGRAWAL – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Shriram City Union Finance Q1 FY'22 Conference Call hosted by PhillipCapital (India) Private 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. Pradeep Agrawal from PhillipCapital (India) Private Limited. Thank you. And over to you, sir.

Pradeep Agrawal: Request Mr. Chakravarti to do the honors.

Y S Chakravarti: Good morning, ladies and gentlemen. Welcome to the earnings call of Shriram City Union Finance Limited for the First Quarter of FY'22. I have with me my colleague, R. Chandrasekar who is the CFO of Shriram City Union Finance and Mr. Ravi Subramanian, who is the Managing Director and CEO of Shriram Housing Finance.

We have declared our results for the quarter last evening and I trust and hope that you had the opportunity to look them up as well as the related Investor Presentation, which we have uploaded onto our website. The details are also available on the website of the stock exchanges.

As has been the case over the last year and a half, the April-June quarter was also under the shadow of COVID with businesses having been affected, particularly in May, on account of the local lockdowns necessitated by the prevalence of the second wave of COVID and the resultant surge in infections. We as a unit were also quite severely affected particularly from a human cost point of view, we have lost close to 50 of our colleagues to the pandemic, and more than about 2,500 of our colleagues were hospitalized after having been infected by COVID-19. Most of these infections have occurred in the month of March and April. We have however been successful in ensuring that a majority of our team members have since got themselves vaccinated. We have organized vaccination programs across locations for our workforce and while obviously nobody can predict if and when third wave of the disease is likely to strike, at least, there exists a measure of protection for our colleagues, and that is a comforting thought.

As always, we continue to follow all safety precautions and health protocols at all our business locations towards maximizing staff and customer safety.

The quarter began promisingly enough with April being a near normal business month, as a collection efficiency of 99% and disbursements of about Rs.1,725 crores would testify. The situation however in May took a turn for the worse and the speed at which the pandemic spread in that month resulted in widespread disruptions in lives, livelihoods and businesses. Even with no national lockdown, local closures of business establishments and restriction on mobility resulted in major uncertainty. As a consequence, our collection levels dipped to 86% in May and disbursements too were less than 1,000 crores. However, I'm gratified to report that the situation has been looking considerably better from early June, coinciding with the stepwise opening up of the economy as well as the tapering off of COVID-19 cases in the country. And I'm sure that we all fervently pray that this is sustained. Our collection efficiency in June has improved to 93% and accordingly, we reported collection levels also of 93% for the quarter. Disbursements too grew in June and we closed the quarter at an aggregate disbursement of Rs.4,560 crores which was around 25% to 30% short of what we could have achieved on a standalone basis. It gives us reason to believe that we should be able to keep up the momentum in Q2 and beyond.

We managed to maintain our AUM and our current AUM is the highest in the last six quarters. We have detailed the composition of our AUM in our investor presentation and it has largely been consistent I do not think it would be correct to compare the June quarter disbursement with those of the last year June quarter because the country was under national lockdown during this time last year, but as I said, our performance in the latter third of Q1 FY'22 gives us hope.

As anticipated, the demand for restructuring was quite limited and we processed Rs.39 crores of OTR in the quarter. Demand for ECLGS was also tepid. The demand for restructuring, as I said, was actually limited and we don't see any surge in that.

Our key metrics continued to be healthy. Our loan yields improved year-on-year and consequently our net interest margin also grew. Our NIM would have been even higher because our borrowing costs reduced substantially in the quarter. However, this was offset by the carrying cost of a liquidity buffer of almost close to Rs.5,000 crores that we considered prudent to maintain in order to handle any exigency.

Coming to asset quality, we saw considerable disruption, especially in the month of May in our ability to contact our customers. It has to be remembered that while we have made enormous progress in the digital way of doing business, the bulk of our target market comprises borrowers who need hands on attention. Moreover, a number of our frontline branch staff were infected with COVID, further hampering our ability to reach out to our borrowers. As a result, we had an uptick in gross Stage-3 numbers which came in at 6.91% versus 6.37% in the March quarter. However, there was a considerable improvement in asset quality on a year-on-year basis, and we are confident of pulling back these numbers beginning as early as next quarter. The caveat of course being that the nation doesn't see a renewed wave of the pandemic.

Considering the constraints on business and collections in much of Q1, our credit cost was not too far off the charts, coming in at below 4%. We expect a roll back starting Q2. Moreover, between our COVID-related provisioning and ECL provisions, we are adequately cushioned against any possible asset quality alarms.

Our finance team continues to excel at raising resources. We mobilized Rs.4,350 crores in the quarter, with an average door-to-door maturity of 34 months. For the last three quarters, we have been successfully raising funds of five and 10-year tenor. As has been our practice over more than two years now, we've stayed away from short-term borrowing.

Our retail deposit franchise continues to do well. Our FD corpus grew to 5,839 crores in Q1, up almost 37% year-on-year. Retail FDs now make up about 22% of our liabilities. Our initiatives of digitally marketing our FDs have been gaining traction, as are our efforts at distributing our FDs from our lending branches. We also owe our growth in retail FDs to our channel partners including several reputed corporate brokers.

We increased our stakes in the housing finance subsidiary, Shriram Housing Finance Limited; We have infused Rs.200 crores in the subsidiary in May and our stake there is now 81.16%. We intend infusing another Rs.300 crores before the end of FY'22. Shriram Housing is a rising star in the affordable housing finance space. The company grew its AUM by 65% year-on-year. This is indeed to be congratulated because the AUM is now in the region of Rs.4,000 crores which places it in the company of peers who are often talked about in current times.

Despite a challenging business environment, during which virtually no business was conducted in April and May this year against the backdrop of COVID, Shriram Housing posted Stage-3 delinquencies of only marginally about 2%. The company has embarked on a program to increase business in affordable housing finance space. The program called “Griha Poorti” involves leveraging the existing network of Shriram City Union Finance branches in Andhra Pradesh, Telangana and Tamil Nadu, and has already been rolled out in certain Shriram City Union Finance branches in this location.

As I said, we also have Mr. Ravi Subramaniam, the M.D. and CEO of Shriram Housing Finance with us. He will be available for any questions on housing finance.

With this, I conclude my opening remarks. We are now open for the Q&A session.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: Firstly, in terms of this GNPL, so when I look at the ECL provisions, the increase has hardly been like Rs.70-odd crores in ECL provisions. So, how should we look at it in terms of the overall credit cost? So, were there significant write-offs as well during the quarter, and what would have been the quantum? So, is that the reason that the gross Stage-3 has gone up only by 50-odd basis points?

Y S Chakravarti: Kunal, actually, on the Stage-3, if you look at it, there were Rs.226 crores of write-offs which if you look at the first quarter last year, was about Rs.225 crores. There is no significant increase in the write-off. Year-on-year if you look at it, it is 225 against 226.

Kunal Shah: So, it's somewhat similar kind of a number, its 225, so maybe almost like 0.7%, 0.8% of the AUM. Yes. Okay. Overall, in terms of the restructuring, it's quite commendable that it's been still managed at a very low number when we look at it. So, is there like more to come in, because the window is still open, and we could see the flow coming through in Q2 or we are quite comfortable that maybe restructuring compared to what we did earlier of Rs.153-odd crores it would be lower than that?

Y S Chakravarti: Customers still have time, but as of today, as you've seen from the numbers, we are not facing too much of an issue there. We could end up doing probably another 70, 80 crores of restructuring at best is what I think before the scheme closes.

Kunal Shah: Okay, another nearly 70, 80 crores. That component will still be less than 1%-odd cumulatively?

Y S Chakravarti: Correct.

Kunal Shah: Lastly, in terms of the housing finance, if we have to look at it, so, obviously, Stage-3 has been managed very well, but on the restructuring part, cumulatively, if we look at it, this quarter, we restructured 72, over and above 58, so now that's more than 3% of the AUM. So, anything to read into that, maybe that seems to be slightly higher compared to that of the other affordable housing finances?

Ravi Subramanian: Kunal, Ravi here. Your question is about 3%, which is about Rs.120-odd crores. Now, out of that, roughly Rs.30 crores was for customers who are in the current bucket. So, largely customers who were good customers but impacted by COVID. And if you look at the restructuring that we have done this quarter, it is spread across all the buckets in that sense. And most of them have actually paid up the EMIs in June. So, I don't think one, it's too much of a consequence, and two, I think if you look around and look at most of the industry today, players have actually restructured somewhere between 4% to 8%, 9% of their books, and there's more to come. So, we are at about 3%, of which about roughly 1% is for the customers who are in the current bucket. So, I don't think there's too much of an issue there at this point in time. Because all the other vitals look pretty simple in terms of falling bounce rates, our collection efficiencies going up, our collection efficiency despite restructuring going up. So, I think overall it continues to be a good story.

Kunal Shah: It would be a moratorium which would have been offered in terms of the restructuring?

Ravi Subramanian: It's a mix of all. No customer has been offered full moratorium. So, there's at least an interest servicing component in most of these cases.

Kunal Shah: A question to Mr. Chakravarti. So, overall, even in this challenging time last 12-odd months or 18-odd months, in fact, we had seen our book behaving much better, okay, compared to maybe the stress which we had seen earlier, be it in '18, '19, where our Stage-3 used to be, even in these times we have been able to manage it sub-7%-odd. So, would it be fair to say that maybe all the initiatives and the efforts which were taken in terms of improving the quality and maybe the ground level initiatives, which we have taken, that is leading to it. And structurally, we should see GNPLs and write-offs to be lower than what we had seen in last three, four years?

Y S Chakravarti: Yes, you're right, Kunal. It's actually a four-year exercise. I think that is what you're seeing, over a period of four years, we've been constantly trying to, one is the quality, second is actually to improve field level metrics, I think, which is working and hopefully by this financial year end, we should be able to see hopefully improved number from what we are seeing in Q1.

Moderator: Next question is from the line of Jaiprakash Toshniwal from LIC Mutual Fund. Please go ahead.

Jaiprakash Toshniwal: Sir, just wanted to understand your digital capabilities a bit more because we are seeing a lot of competition in your segment is coming from fin tech there and all. And so, if we can talk about digital capability particularly in terms of giving top up loan and accessing the customer for other products?

Y S Chakravarti: Are you talking about accessing a customer base in a surrogate? Let me put it this way. If you look at SCUF’s digital journey in the last two years, we are also going to put it up probably by end of the day, today or tomorrow on our digital journey. Probably, by end of August, we would be launching “No Contact Personal Loan, Two-Wheeler Loan” on the app, on our website for our customers. Our fixed deposit program is already online. We started this journey about eight, nine months back and today we are doing fixed deposit about Rs.25 crores per month through the online journey for Fixed Deposits.. It's a seamless journey for the customer. Similarly, as of now, two-wheeler, personal loan should be, as I said, done by end of August and gold loan by end of November, where including the KYC documentation, everything will happen online, which will be probably a five-to-eight-minute journey for the customer before his loan is sanctioned. And if it's a personal loan, the money hits his account, or if it's a two-wheeler loan, he gets an approval note, which he can just take to the nearest dealer and get a vehicle delivered. If he chooses to, he can get the vehicle delivered to his doorstep. So, these are some of the initiatives which are already happening. You will be surprised if I tell you we have been in touch with a bunch of fintechs with the aim of collaborating with fin tech, working with them. Basically, the idea here is to understand what is it that they are doing and how we can adapt it or create a hybrid model of between the touch and feel and the digitization, we actually wanted to create a hybrid model. I'm not boasting here, but to our surprise, we found that the technologies that we are using or the APIs that we have integrated, we are actually much more digitized than most of these so-called fin techs. So, to answer your question in short, probably by this year end, you will see probably SCUF has a totally digitally enabled financial services company including and not limited to these two products that I said, including the entire product suite. Our collections have already been online for about close to four years. There is no physical receipt. The collections happen in a mobile. In fact, our leads for our SME, PL, two-wheeler are generated on a mobile, and the credit team gets to view them real-time, the treasury team actually gets to actually hit the customers’ bank account, probably within 15, 20 minutes, even now today, we have that capability, we are fine tuning it. So, as I said, the journeys will start from August.

Jaipraksh Toshniwal: Second question is to Mr. Ravi sir. Of this home loan product, if you can give us some idea about the customer profile about its earnings and also what is the LTV ratio in the home loan product?

Ravi Subramanian: So, about 80% of our customers are self-employed and the balance are salaried. So, we are largely a mid-segment self-employed lender in this space. This is a segment which does not interest banks. This is a segment wherein there is a natural moat because banks find it very expensive to get into this space, because a lot of this is a touch and feel of the customer which leads to underwriting. We also lend largely to credit-tested customers, we have about 7% to 8% of customers who are new to credit and the balance are credit-tested customers. We have about 80% of our customers having CIBIL scores in excess of 700. These are customers who have small shops, small merchants, small traders, people who have small industrial units, people who operate out of their own houses, your tailors, your tuition masters, etc., largely, self-employed people who do not rely on the organic sector for their income. As far as the average ticket sizes are concerned, this is typically about 15 lakhs or thereabouts in ticket size. The ticket size is slightly higher in Bombay and Delhi for obvious reasons. But in rest of the country, it's closer to about 15 lakhs. And LTVs would largely be measured by an external agent or our own technical team which visits the property and assesses the property and basis that we give out the loan. Our average LTV would be in the region of about 55% to 60%. Though the range of LTVs would range from 30% to about even 85% to 90% in some cases.

Moderator: The next question is from the line of Shalini Vasanta from DSP Mutual Fund. Please go ahead.

Vivek: This is Vivek here. Actually, what we are struggling with is correlating numbers across organizations and your performance has been exceptionally good. Mr. Ravi Subramanian mentioned CIBIL scores. Do you see a migration in CIBIL scores because May was virtually a washout for most finance companies and your numbers are still strong. Is there a buildup in Stage-2, are the CIBIL scores declining, and what explains the strong asset quality even like say something like two-wheelers, which usually gets very highly impacted by lockdowns?

Y S Chakravarti: So, other than SME, we do not actually take CIBIL score as a parameter for lending. CIBIL scores could be impacted due to various reasons. CIBIL as of today is not a criteria for us. So, I wouldn't know if it is declining, the scores are declining, because again as I said, even if we do our CIBIL, more than 70% of my customers will have a minus one score that means they will not have a credit history. So, that's the customer segment that we address. To answer your question, Yes, Stage-2 has increased but the one redeeming factor for us is even within Stage-2, it is more of 1 to 31 rather than the 30 to 60 bucket that has increased. So, most of the increase has come from 31 to 60 rather than 60 to 90. We are confident that we'll also do a pullback in the next coming in this current quarter from these numbers.

Vivek: Could I have your Stage-2 numbers for March and June if possible, because one and two are clubbed together?

R Chandrasekar: March figure is 7.93 in Stage-2 and now it's 11.68.

Moderator: Next question is from the line of Prashant Sridhar from SBI Mutual Fund. Please go ahead.

Prashant Sridhar: Just one data base keeping question and one other. If you could give us a break up of disbursement into top up for existing and new customers and how much you would have done under ECLGS? And the second question would be if you can give some idea on the on-ground situation or what you're hearing from your customers in SME and two-wheeler, how has business volume resumed, and in two-wheelers, how are repossession trend going?

Y S Chakravarti: Top ups are very rare. So, it would be less than 5%, 6% of the total disbursement in the quarter. Existing customers on SME would be about 60%, existing customers in the sense customers who have finished their existing loans and come back would be about 60%, fresh customers will be about 30% as far as SME is concerned. Two-wheeler 90% of it would be, there is no top-ups in two-wheeler, two-wheeler and other products, no top ups actually, it could be repeat customers on the two-wheeler side, could be about 20%, 25%, rest of it would be fresh customers. Personal loan 100% existing customers. On-ground situation, two-wheeler has not yet picked up in real steam as compared to the four-wheeler industry. Also, this month being inauspicious month down south, south is a little slow. Probably this should be over somewhere in the second week of August. We expect volumes to pick up in August. SME, there is a demand from small businesses, but then we are also looking at it more closely, in the sense that we are looking at those businesses a little in the perspective that what if there is a third wave, what will be the impact on this businesses, what sector that this businesses are in and we are focusing on small businesses which are actually catering to the essential services. So, that is what we are driving at, probably that is what we will do for this quarter. And if the economy stabilizes and cash flow stabilize, then we will look at other sectors. As far as ECLGS is concerned, the total disbursements so far was about Rs.90 crores.

Prashant Sridhar: Just to clarify, you mentioned in two-wheeler, 20%, 25% of disbursements would be repeat customers?

Y S Chakravarti: Correct.

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

Nischint Chawathe: My question actually pertains to the two-wheeler business. If you look at some of your peers and very specifically, I can name, let's say, Bajaj, who has something like almost 19%, 20% of GNPL in this sector. Some of these players have shown a very sharp increase, but somehow in your case, the overall Stage-3 has been curtailed quite a lot. So, just wondering, is there anything that we are doing differently or maybe if you could give some color on Stage-2 also for the two-wheeler segment, so maybe that can help us to collaborate the numbers better?

Y S Chakravarti: If you look at my portfolio of two-wheeler, almost close to 85% of my portfolio comprises of Hero and Honda vehicles. My Bajaj share would be about some 8%, right, one point. The second point is Bajaj finance is funding only Bajaj vehicles. So, they have their own issues there, but I think, as a resale in the market, I think this Hero and Honda have higher value, so, customers tend to pay you better because they know that if the vehicle goes for a sale, typically, they will lose. Also, if you look at my portfolio, we also have close to 35% of my portfolio is scooters. The scooters actually perform much better than motor bikes. The scooter segment, the buyers actually are better payers than also motorbikes. So, various reasons. The third point I have always been telling that two-wheeler is not a disbursement business, it's a collection business. So, it depends on how strong is your collection team on the ground for you to do well in two-wheeler, you just can't leave even one installment on the table, because one installment is taking away all your earnings over a period of 24 months. So, as I said it's not a disbursement story, it is a collection story two-wheeler business.

Nischint Chawathe: If you could share the Stage-2 for the two-wheeler business for last and this quarter?

Y S Chakravarti: It's about 11.95% this quarter, last time, it was about 8.5% or so.

Nischint Chawathe: And if you could just repeat the Stage-2 numbers for the overall company as well, I think I missed it?

R. Chandrasekar: Overall company last quarter was 7.93, now this quarter was 11.68.

Nischint Chawathe: And for the housing business?

Y S Chakravarti: We'll get back to you on that. I will ask Ravi to answer that question. Probably he must have dropped off.

Moderator: Next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: The first question was around the digital journey that you kind of talked about where you are looking to go live in a lot of product segments. Some of them by August, gold loans by November. But what I am a little worried about here is let's say if you are suggesting that we will start doing personal loans you are saying the fin tech model, or the digital model in the past when we used to do open sourcing…

Y S Chakravarti: Sorry to interrupt you here, but small miscommunication from my side, the personal loan will be available exclusively only to our existing customers, it will not be available to market.

Abhijit Tibrewal: So, which means personal loans will continue to remain a cross sell predominantly to your two-wheeler customers.

Y S Chakravarti: Yes.

Abhijit Tibrewal: The other thing that I wanted to understand, sir, is while you talked about digital coming in, in your origination and collections, I could not see what is it that we are planning to, I mean, where is it that we are planning to leverage digital to underwrite customers better because I mean, like you're aware, obviously, once we go to the fin tech model, and like you only suggested more than 70% of your customers have a minus one CIBIL score, meaning that it will be very difficult for you to fetch bureau data, where is it that we are kind of looking to digitally underwrite these customers?

Ravi Subramanian: Can I just answer the earlier question? I am back on the call. Nischint, the Stage-2 numbers for housing are 4.36, Stage-3 are 2.08.

Y S Chakravarti: Probably they're also looking at a comparable number, Ravi, in the sense, QoQ or YoY.

Ravi Subramanian: OK, so the last quarter number for Stage-2 was 3.2% and it is 4.36 this time, and Stage-3 was 1.67%, up to 2.08.

Y S Chakravarti: As far as the question on digital is concerned, it's not the current customers that I'm looking at. The idea here is by working with on the digital platform side, we are looking at acquiring new customers, new segments of customers, more of urban customers, that was the idea.

Abhijit Tibrewal: So, basically, the digital journey that we're looking to undertake will help you more on the sourcing side, in terms of looking at a new segment of customers, which may be sort of fin tech partnerships can bring to you and not too much on the underwriting?

Y S Chakravarti: Other one is it will also help us in streamlining our processes. It will also help us in reducing our TAT with our current customers also. Basically, it's not just an online application where customer is doing it, we are also deploying a lot of analytics; there will be a lot of analytics behind it. We have developed our own business rule engines. So, we will actually test it out as we go forward and then expand. It's not that end of August, I'm going to start across the country. We're going to test it out in pockets and then if tweaking is needed, we'll tweak it and then deploy. So, it will be a step-by-step process, it's not something that you will launch tomorrow across the country and then go whole hog.

Abhijit Tibrewal: You were explaining why your asset quality performance in two-wheeler is in stark contrast to let's say what a Bajaj finance has reported. But fundamentally speaking, I mean, in terms of ticket size, be it a Hero vehicle, Honda vehicle or a Bajaj vehicle, I would say not too much of a difference in ticket size or let's say even if you talk about motorbikes or scooters, I will say, just hazarding a guess maybe 10,000 kind of a difference in ticket size. So, in pandemic, I am guessing everyone would have been affected, I mean, be it someone who's holding a Bajaj motorbike, or maybe someone having a Hero motorbike. But then, just because I mean our portfolio is more Hero, and Honda, I could understand it could have helped you better on the sourcing side, but how has it helped you on the collection side? And sir, the last question I had was on Shriram Housing. You said you're looking to infuse another Rs.300 crores, you're already at about 4,000 crores in AUM and what we have typically been seeing around at 4,000, 4,500 AUM is where a lot of these affordable housing financiers are looking to list. So, are we also going down the same way where we will overly capitalize our housing finance subsidiary and then potentially look for an IPO in the next one year?

Y S Chakravarti: I will leave Ravi to answer the second one, but to answer your first question, see, there are certain facts that I wouldn't want to put out in public. But let me put it this way. If I go to a used two-wheeler dealer, right, and try to buy a different bike from different manufacturers, you will understand the reason why my delinquency will be lower, number one. See, as far as scooters are concerned, it is basically used by the whole family. So, definitely, the performance will be far superior pandemic, no pandemic, number one. Number two, If I'm a Bajaj finance guy, and I'm financing only Bajaj vehicles in a dealer point, I have no choice but to fund majority of the customers who walk into the showroom. Whereas if I am “x finance company” and I'm a Hero or a Honda dealer, I choose. If you want a much more elaborate reply on this, you can call me.

Abhijit Tibrewal: I understand. I’ll get in touch with you.

Ravi Subramanian: So, on the second question, which is on the infusion of capital, just would like to draw your attention to the fact that in March when the SCUF board had met, they had approved a 500 crore infusion into Shriram Housing, out of which Rs.200 crores came in April, and the next 300 will come in on a need basis when we require it. Look, the fundamental ethos of this group is not to just stuff the companies with capital and then pump up the valuations. I think the fundamental ethos of this group is to give as much capital as required, make that capital run a long distance and focus on return on equities rather than excess cash in your balance sheet. So, to that extent, as we think that we will require the excess Rs.300 crores capital infusion based on our growth towards the end of this year, maybe December this year, or maybe January, Feb, March next year, that's the time when we are looking at infusing that extra capital, which is on a planned basis. Two, as far as your question on other organizations listing around 4,500 crores of AUM is concerned, look, we are already at 4,000, by the end of this year be at about Rs.5,500. We will not list just because others have listed at this point in time, we will list when the time is right and when the reasons for listing are right. In fact, a lot of investors in the group should derive a lot of comfort from the fact that the group chooses to invest, to stay invested for a very long time in new businesses and businesses like ours, but particularly businesses which have a long gestation period. So, the long answer to that to your question was that. The short answer is, well, we will consider all the options; if listing is the right option for us to go in, we will go in for listing, but the reasons for listing have to be the right ones.

Abhijit Tibrewal: Ravi sir, I remember about a year back, we used to say that we are predominantly restricting ourselves to the six core states. This time around, we have given a detailed split of our branches statewide and I see there are another, I would say, six or seven states which are beyond your top seven states. So, what's the idea like now going forward in FY'22 would you be looking to become a pan India affordable housing player…?

Ravi Subramanian: No, if you look at the distribution, there are three states of West Bengal, UP and Kerala where we are there because we historically have had a presence and we have a reasonable portfolio there; we have about Rs.200 crores of portfolio in these three states and these three states also contribute significantly to the NPA. So, we had stopped sourcing two years back, for example, last year out of Rs.2,100 crores, Rs.90 crores came from these three states. But we have stopped sourcing from these, but we are present there because if you exit those states completely, then collections will become a bit of an issue. So, we would rather be there, manage our workforce and underwriting and origination properly, and continue to just make sure that we are there and keep collecting. And those are not growth states. The growth states for us are clearly those six states that I mentioned to you. And that's the way it is. In fact, YSC mentioned our "Griha Poorti" project in the beginning in his opening remarks, and as per that project, by December we will actually be in every nook and corner of Andhra Pradesh and Telangana, we will be opening 170 locations contiguous with a SCUF branch. And that kind of reinforces our thought process that we need to be present in few states, dominate those few states before we go national. India is a summation of 30 countries. So, you can't really be in 30 countries at one point in time and do a good job. So, we will focus on these six states, we will try to dominate these states, we'll build our business in these six states. And only after we grow our business in these six states will we turn our focus to the other states.

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

Subramanian Iyer: Just a follow up question on the two-wheeler portfolio. I just wanted to check, is it a purely two-wheeler portfolio or does it have three-wheeler as well because it also seems that for some of your peers, the challenge was also on the three-wheeler side?

Y S Chakravarti: To an earlier question, yes, Bajaj also said that they had a pain point on the three-wheeler side. But no, it's purely two-wheeler. Anything other than two wheels is slotted under auto loans.

Moderator: The next question is from the line of Prakhar Agarwal from Edelweiss. Please go ahead.

Prakhar Agarwal: If I were to step back a quarter, quarter and a half back, in your assessment, how has the portfolio of SME behaved, and do you see that probably you are past the hump, not only for SME, but if at all there is no COVID-3, probably we are past the hump on asset quality or do you see probably better to wait out for the quarter than pointing out that?

Y S Chakravarti: I think we're past the hump, assuming there are not going to be any more scares on COVID I think we are past the hump. We are seeing that clearly, even in July so far we are seeing an improved numbers.

Prakhar Agarwal: In terms of SME, in your assessment, whether the behavior is better or probably it has panned out as per your expectation?

Y S Chakravarti: To answer you, honestly, I was surprised actually, right from last March, because we expected much worse, leaving aside the disruptions and all, we were pleasantly surprised by the commitment of the customers, a lot of those small customers who have actually paid up, though they were struggling with cash flows, most of these people have turned up and paid, which is actually very gratifying, when you look at the ticket sizes, average 12, 13 lakhs and these people in spite of their problems, turning up to pay you, we are very pleasantly surprised.

Prakar Agarwal: On housing, when I look at peers who are operating in a similar geography, while we have done relatively well this quarter, but when I look at the overall performance over last few years, the trend seems to be slightly divergent in terms of their performance, and in terms of what we have reported in terms of our asset quality performance, the trend seems we are slightly on a higher side vis-à-vis those guys. What is the differences between us and those guys, because they are essentially reporting less than 50 basis points of credit cost despite of getting 7, 8 years into this housing market, and we are operating at a relatively high level?

Ravi Subramanian: Prakar, I have two points to make here, and I will call a spade a spade here. One, you need to look at how the SHFL asset quality has panned out over the last two and a half, three years, and you would see that we've actually dropped from about 5.6, 5.7 to about 1.67 as of March 2021 in terms of our GNPA. Two, you need to also look at the fact that my new book, which is roughly about 76% of my total book, which is a 30-month vintage book, has an NPA of about 0.13%, Show me another housing finance company which has 0.13% NPA portfolio of last three years. Three, I think you also need to ask the question to the industry that how can somebody who has a margin which is probably three times of HDFC have an NPA, which is one-fourth of HDFC. Somewhere, something is not right. You need to ask those questions and probably go back to those people and ask questions. But having said that, I think overall when you look at the nitty-gritties of our book, look at the intricacies of our book. I think we are far than satisfactory and our portfolio quality to my mind, what it has been in the last and I think most of the people on this group will agree, what has been over the last two to two and a half years has been absolutely stellar.

Prakar Agarwal: In terms of operating into this segment, what is one key thing that you probably look at which probably is the difference between various companies, what is one particular aspect that you will probably assign this happening, right?

Ravi Subramanian: The one thing which is most critical when you operate in this segment, is your quality of resource down at the grass root level. And if you compromise on that quality of resource at that grass root level, you are bound to get into trouble. So, if I can stand up and say what's worked for us, we've hired the best and we've retained the best and I think that's what has worked for us very well. On the credit front, we moved away from people who have slightly complicated CIBIL history, we've focused on people who have performed on their past loans, we have brought down our dependence on first time customers and we have also focused on the quality of collateral so that we are able to repossess and sell those properties. Now, all these things have worked for us in our endeavor to build a good book and I hope it continues to do so.

Moderator: The next question is from the line of Aswin Kumar Balasubramanian from HSBC Asset Management Company. Please go ahead.

A K Balasubramanian: My question relates to your earlier comment on Stage-2 assets. I think you mentioned 11.68 if I am not wrong in the previous quarter. So, just wanted to know if this increase which you see in the Stage-2, I mean, is it more to do with seasonality or is this more the impact of this COVID second wave, and if it is the latter, then I am just a little bit curious to know like, I mean, we have seen a fair bot of increase in Stage-2, but not in Stage-3. So, I mean, just curious to know why that would be the case, because generally from what we hear, the roll forward rates in general into further buckets is where people have more difficulty collecting, so, just wanted to understand?

Y S Chakravarti: One perspective is we were at 16% pre-COVID Stage-2, that's December '19 we were at 16%, just to give you a perspective. Now, even within this Stage-2, if you look at it, out of this 11.68% about 7% of it is 31 to 60 bucket so majority of it is in the early bucket, which is basically reason being, see, as you know, you already seen that a lot of disruptions in May and June it is slowly coming back. So, we are not overly worried about a forward flow there. We are pretty certain that we will be able to contain it and pull it back in this quarter. It's mostly branches shut down, people not able to move around, not able to reach people on time that was an issue.

Moderator: Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Pradeep Agrawal for closing comments.

Pradeep Agrawal: Thank you, Mallika. On behalf of PhillipCapital, I would like to thank the entire senior management team of Shriram City Union and all the participants for joining us on the call today. Thank you and have a good day.

Moderator: On behalf of PhillipCapital (India) Private Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.