



“Shriram City Union Finance Limited Q2 FY2020 Earnings Conference Call”

October 26, 2019



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Shriram City Union Finance Limited
October 26, 2019

Moderator: Ladies and gentlemen, good day and welcome to the Shriram City Union Finance Limited Q2 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 telephone. I would now like to hand the conference over to Mr. Nischint Chawathe from Kotak Securities. Thank you and over to you sir!

Nischint Chawathe: Welcome to 2Q FY2020 Earnings Conference Call of Shriram City Union Finance. To discuss the financial performance of SCUF and to address your queries we have with us today Mr. Y.S. Chakravarti – Managing Director and CEO, Mr. R. Chandrasekar – Executive Director 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: Hi, friends. This is Chakravarti here. Good morning and a very Happy Diwali to all of you and I welcome you all to this earnings call of Shriram City for the second quarter and half year ended September 30, 2019.

First, a synopsis of our performance for the period, I do not have to tell you that this has undoubtedly been one of the tougher quarters for us, particularly with demand side issues on the two-wheeler side and the overall scenario was tighter, with more expensive liquidity and combined this we were actually a little cautious in our lending as well as we knew that October Diwali season we needed to have enough liquidity to meet the expected demand in the two-wheeler disbursement side.

Consequently our disbursements are down by about 17% in the quarter and also because we maintain a shorter tenure loan book the run-off, while in line with earlier quarters resulted in a marginal drop in the AUM sequentially while being flat year-on-year.

We are however glad to note that our efforts at improving our asset quality continue to be successful, with our Stage 3 assets having declined from 8.83% in the last quarter to 8.69% in the current one, while we have maintained our PCR.

Our opex also has come down by 5.5% this quarter and cost-to-income continues to be in control. We have also taken advantage of the lower corporate tax rate and our net profit is higher by 12% for the quarter and by 15% for the half year.

As always our strength continues to be in funding small businesses and accordingly the SME book is about 59%. Having said that, our observations about our target market in the recent months is that on the SME side, the demand continues to be there, particularly in the 10 lakh to 15 lakh loan segment. Demand continues to be robust there. However owing to the little tightness in the liquidity market, we have actually moderated our disbursements in that segment.

The September quarter was not a very good quarter for two-wheelers, both for the manufacturers and for the financiers. The growth over the last quarter was also very moderate, if you look at the numbers. We hope to end Q3 with positive growth here.

As I said the enquiries have picked up in October, the deliveries have also picked up. It has been a good Dhanteras. Next two days we are anticipating to deliver another 25000 - 30000 vehicles. Going forward we will have to see, particularly in November and December how it pans out because the model changes and of course the coming BS VI norms.

On the liquidity front, we have seen banks being more receptive and also proactive in initiating fresh credit lines. As you have seen, we have held on to our yields, ROA and Net Interest Margins and also have improved our ROE. Our leverage continues to be low, so we believe there is enough headroom to further to improve all the key parameters.

Now we are open to questions.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Kunal Shah from Edelweiss. Please go ahead.

Prakhar Agarwal:

A couple of questions, first on growth. We have seen a tough quarter indeed in terms of growth across products. Is this because of liquidity pressure at our end or probably demand scenario by itself is weak, which factor would you attribute that to, first? The second part is in terms of recent, as you said the October month has been relatively fair. But our channel check suggest that probably the festive demand has been relatively softer than what most of these guys has been anticipating, what is your take on this?

Y.S. Chakravarti:

Prakhar, on your first question, it is both demand as well as also our liquidity both have played a part in this. On the SME side, there is enough demand but we have slowed down. We have become a little more cautious looking at the environment, even though the demand was there, but also yes, to answer your question, liquidity was also a little tight there, we

had set aside money for two-wheeler, but then the demand tapered off in the two wheeler market.

Prakhar Agarwal: Yes Sir on festive demand?

Y.S. Chakravarti: Can you repeat your second question, it was not very clear?

Prakhar Agarwal: I was saying that we have seen a softer demand. Sir I am saying our channel check does suggest that probably the festive demand this time around has been relatively softer than what we have seen in earlier years, what is your take on that because we are saying that October has been relatively better off, but our channel check suggests that demand has been relatively softer across the board this particular festive season both in terms of till Dhanteras, our channel check suggests the demand has been relatively softer. Sir I was asking about demand during this festive season so our channel check suggest that probably this time around your demand across the industry has been very soft when we compare to what has happened earlier in terms of festive season, while we are saying that October has pretty much panned out well for us that is your outlook in terms of festive season demand, first? Second how do we see that FY2020 ending in terms of growth targets?

Y.S. Chakravarti: Prakhar was your first question regarding demand specific to a particular segment or you are asking about overall demand?

Prakhar Agarwal: Overall, in general Sir.

Y.S. Chakravarti: On the growth front, by looking at what has happened in the first half and with an expectation that the second half could be better, we are looking at about 10% overall growth in the AUM, Prakhar and on the demand side, there is a good amount of demand on the personal loan, small ticket SME loan side. Two-wheeler, October was okay but if you ask me I will put this way: if I look at my 2017-2018 numbers today, even this festival season is not as robust as 2017-2018.

Prakhar Agarwal: That is it from my side Sir.

Moderator: Thank you. We take the next question from the line of Karthik Chellappa from Buena Vista Fund. Please go ahead.

Karthik Chellappa: Thank you for the opportunity. Wish you and everybody at the SCUF a very Happy Diwali. Two questions from my side. Firstly, if I were to look at our write-off amount this quarter, at about 200-odd Crores that seems to be like a new high both in absolute terms and as a

percentage of our AUM any specific trends that you notice this quarter for you to have such a high write-off?

Y.S. Chakravarti: I will ask Chandru to answer this.

R. Chandrasekar: Good morning Sir. The write-off, there is a specific reason for it because what happened is during this quarter the general rundown is slightly more when compared to the previous quarters. There is nothing specific, but it is a routine average. So I do not think there is anything specific except the rundown is more - it is just 20 Crores, 25 Crores more. So overall if you see the provision and write-off, provisions have come down because basically all this which is in the write-off is already part of the provisions. So it has just moved from provisions to write-off. So overall if you see provisions and write-offs together, it is in line with the earlier quarters, and you have to understand that recovery in write-off also is now improving compared to the earlier years. Generally we have 15-20 Crores, now it is 30 to 40 Crores which goes with the income account.

Karthik Chellappa: As far as the business loans portfolio in the opening remarks Sir you had alluded to that you are being a little more cautious at a more micro market level what do you need to see for you to start growing meaningfully again in the business loan portfolio. Can you give me some guidance?

Y.S. Chakravarti: To be honest with you, Karthik my collections have been robust, they are holding up well, the portfolio quality also has been holding up well. It is just an apprehension that is all, but if the liquidity situation improves we will actually push. It is just an apprehension that let us wait for a couple of quarters and see how the scenario is shaping up even though there is a good demand there, and of course since the liquidity also was tight, we have channeled some of the liquidity available towards personal loans and to the two-wheeler market. If the liquidity situation improves we will actually push the pedal on SME also. Other point is even though we have raised about 2200 Crores in the last quarter almost close to about 1000, 1200 Crores has gone to replace short-term debt. Now that we are over that hump on the short-term debt side we have actually decided that we will also not raise anymore short-term debt and so if you see our CP now has come down to about 500 Crores. Whatever CP is there is a one year CP, so we have actually closed out almost close to 2000 Crores of CPs. What is happening is that new longer-term borrowings are replacing some of our short-term borrowings. Some of the money raised has gone there. So there was slight liquidity tightness during the quarter.

Karthik Chellappa: So to put in another way the order of priority where you are trying to schedule your disbursements based on the liquidity availability is basically two-wheeler and then personal

loans and then if the liquidity further improves then business loans and if it further improves then your gold loan - is that a good way to think about your prioritization?

Y.S. Chakravarti: Correct.

Karthik Chellappa: Sir lastly can you give me what were the numbers of vehicles financed this quarter, the two-wheeler?

Y.S. Chakravarti: This quarter was close to 275000 vehicles.

Karthik Chellappa: I believe same quarter last year was about 292 would that be right?

Y.S. Chakravarti: Yes right.

Karthik Chellappa: Thank you very much. Wish you all the best and Happy Diwali once again.

Y.S. Chakravarti: Karthik, I am sorry, I think I gave you the last quarter number was 274000, this quarter it is 2.3 lakhs.

Karthik Chellappa: So then it is materially down year-on-year then because I think last year second quarter was about 292.

Y.S. Chakravarti: Correct.

Karthik Chellappa: Thank you very much wish you all the best.

Moderator: Thank you. Next question is from the line of Govind Prabhu from ICRA. Please go ahead.

Govind Prabhu: Thanks for the opportunity. My first question is with respect to the balance sheet number so there is a separate line item called right of used assets for about 150 Crores. So I just want to get a sense on what is the nature of the asset and the second one will be on the quantum of debt availed during the Q2 you mentioned about 2000 Crores, so of it 1500 Crores will be the short-term CP debt is it or could you clarify on the quantum of debt availed and particularly sell down portion through direct assignment?

R. Chandrasekar: Yes, to come back to your second question, during this quarter we raised close to around 300 Crores of term loan and we got around 500 Crores of assignments and close to around 900 Crores of securitization. Most of the securitization was beyond 40 months and direct assignment is around 25 months and public NCD we got has been of 45 months, term loan 22 months and the retail borrowings was 2 months. So basically whatever we mobilized

during the quarter close to around 1900 Crores from banks and others and 500 Crores from gross securitization and deposits, probably everything is a long-term debt. Retail deposits will be close to around 30, 32 months so as a matter of policy and as a principle, because of so many things that have continuously been happening in the market, we are ready to go only for long-term borrowings. In fact if you look into our last one or two or three quarters we are continuously repaying the CP which was close to 2800 Crores during the end of Q3 it has now come down to just 500 Crores and we do not want to replace it, because we thought it is a healthier practice to get into long-term in the current market situations.

Govind Prabhu: Regarding the write-off you said about 150 Crores is there which I presumed is not there in the previous year so this will be on account of...

R. Chandrasekar: Write-off will be close to not 150 Crores it was 200 Crores.

Govind Prabhu: Write-off you said is it?

R. Chandrasekar: Yes, basically write-off. As I told you, most of the write-off has moved from the provisions because if you see overall put together write-off and provision together is somewhere around 197 Crores, 198 Crores. So overall if you look into the P&L impact is around 2.6%.

Govind Prabhu: My question is with regards to the balance sheet there is a specific line item mentioned as the write-off of used assets so this is about 150 Crores which has not been there in the previous year. So maybe I will take this separately offline.

R. Chandrasekar: Yes, we will take it separately we will answer it.

Govind Prabhu: Sure okay, and lastly on the asset quality part. So the gross Stage 3 number has declined. However what is the sense on the Stage 2 number? How was the trend from March level, or from March to June to September has there been any improvement or how do you see the traction in general?

R. Chandrasekar: If you see from March level it is coming down so now in fact over the last one year I think around 70, 80 basis points has come down. So Stage 3 is improving and gross NPAs were less and coverage is holding up, if we look at Stage 1 and 2, because Stage 3 is all moving to Stage 2 so there is good collection mechanism. Collections in almost last one year are continuously increasing quarter-to-quarter, it is reflected in the gross NPA numbers and our net NPA numbers.

Govind Prabhu: Thanks Sir. That is it from my side.

R. Chandrasekar: With reference to write-off regarding Regulation 33, which we will answer it, take it separately. Jai Singh will be in touch.

Govind Prabhu: Okay.

Moderator: Thank you. Next question is from the line of Abhijit Tibrewal from ICICI Securities. Please go ahead.

Abhijit Tibrewal: Thanks for taking my question. Chakravarti Sir I had a question for you and I think we have discussed this in the past as well. If I understand correctly I mean the segment that we operate the demand looks good, like you suggested SME demand looks good, two-wheeler again will depend on the new two-wheeler sales from the auto OEMs and personal loan demand remains good, loan book demand remains good. So if I understand correctly the problem that we are facing today is more on the liquidity side. Can you just elaborate a little bit that what are the different instruments, what are the problems that we are facing and why are we not exploring more of securitization now which some of your peers they have already done or are doing at a very healthy rate.

Y.S. Chakravarti: Abhijit, to answer your question see Mr. Chandrasekar has already mentioned that we have raised more than 2200 Crores this quarter out of that close to about 930 Crores is securitization and about 500 Crores of direct assignments and about 140 Crores of NCDs and then about 200 Crores of retail fixed deposits and there is a term loan of 300 Crores. So it is not that we have left any avenue unexplored. We are working on all of that, but what happened is as I said one reason was we have constantly taken a decision that we will replace all our short-term debt so we have actually out of this 2200 Crores fresh mobilization utilized close to about 1000 plus Crores towards retirement of short-term debt that is including CPs and some of the short-term private NCDs issued to mutual funds.

Abhijit Tibrewal: Sir now what you are suggesting is the CPs are down to about 500 Crores and that to you are suggesting there are one year CPs so I do not think in the next two quarters we have any more short-term obligations that we need to repay. So if we were able to mobilize the same quantum let us say about 2200 to 2500 Crores over the next couple of quarters as well the quarterly run rate I mean you think our disbursements can pickup meaningfully in the next two quarters now?

Moderator: Excuse me Sir I am requesting the participants to please stay connected please do not disconnect your lines we are trying to reconnect the management back to the conference. Thank you. We also have Mr. Abhijit Tibrewal. Sir you may please go ahead with your question and if you could repeat yourself please we have the management back. Thank you.

- Abhijit Tibrewal:** Yes, Chakravarti Sir what I was asking you is now that our CPs are down to about 500 Crores and that to you are suggesting our one year CPs so we do not have any more short-term CPs that we need to repay over the next two quarters so let us see if our liquidity mobilization remains around that 2200 to 2500 Crores quarterly over the next two quarters, do you think our disbursements can pickup meaningfully now?
- Y.S. Chakravarti:** Yes that is right, that is what I mentioned earlier also, that now we have our CPs that will be also become zero by March. So basically we are now working with banks on this.
- R. Chandrasekar:** So basically 500 Crores of CPs which is outstanding in our books is from banks. It is from the same banks who are willing to give once again long-term CPs. We may take it otherwise we may not. So, basically as of September 30 all borrowings we have in the books is long-term. That is also reflected in our ALM statement which if you have a look at it, you can see that, continuously we have a cumulative positive mismatch right through.
- Abhijit Tibrewal:** Sir, can you just repeat the number of vehicles financed that we did in the last quarter and Q2 of the previous year?
- Y.S. Chakravarti:** It is 230000 two-wheelers that were funded and last quarter was 274000.
- Abhijit Tibrewal:** Sir if I heard it right during your opening comments did you suggest that the Diwali looks good and we are looking to deliver about 25000 to 30000 vehicles in Diwali.
- Y.S. Chakravarti:** Additional to what we have already delivered.
- Abhijit Tibrewal:** Okay so 25000 to 30000 is what we have already delivered?
- Y.S. Chakravarti:** No, I what I am saying is in addition to whatever I have delivered so far next two three days we are likely to deliver another 25000, 30000 vehicles is what I said. So in addition cumulatively we should cross about 1.1 lakh, 1.2 lakh two-wheelers for this year.
- Abhijit Tibrewal:** Sir how was the Dussehra sales?
- Y.S. Chakravarti:** Dussehra nothing, not much, only Diwali that picked up.
- Abhijit Tibrewal:** Thank you so much Sir.
- Moderator:** Thank you. Next question is from the line of Jignesh Shial from Emkay Global. Please go ahead.

- Jignesh Shial:** Thanks for the opportunity. Quickly if this understanding is correct, you basically have raised 2200 Crores during the quarter of which 900 Crores is securitization and roughly you paid 500 Crores to banks. I mean sorry roughly you squared a bit of a CP and you are planning to pay off additional 500 Crores of CP by March and convert that into long-term is that my understanding correct?
- Y.S. Chakravarti:** You are right unless the banks are willing to rollover for the CP for at least a year. We are not in the market for short-term.
- Jignesh Shial:** That is precisely the reason why your cost of funds are sequentially inching up because you are moving from short-term to long-term?
- R. Chandrasekar:** From short-term to long-term and also moved into lot more retail deposits.
- Jignesh Shial:** So that indicates if this trend continues second half you will see a little bit more surge in cost of funds side?
- Y.S. Chakravarti:** See I will put it this way we are looking at probably the cost of funds could be at this level, it may not go up but it will not come down is what we are clear.
- Jignesh Shial:** How is your overall view on the banking side? Can you say even I am hearing from Transport as well that the banks have become little more receptive? Can you give little more color on this - is it PSU banks which were a little reluctant earlier and they are now coming down and started lending? How is the experience with private banks and all can you just briefly give some sense about this?
- R. Chandrasekar:** Yes, if I understand your question, banks are now lending money to us and public sector, private sector, foreign banks all banks are actually more positive in lending money to NBFCs. Some banks prefer assignments, some prefer securitization, some banks prefer term loan. So it is according to the needs of the bank. We hope even in Q3 and Q4 we will be able to mobilize lot of money from the banking sector.
- Jignesh Shial:** Sir I do not want the names and all but overall are the banks forcing you to convert this CPs into long-term or it is your conscious decision of doing this?
- R. Chandrasekar:** It is our management decision. The point is as you know that last one year continuously there are lot of things going on, and we have decided that we should get into only long-term borrowings and not into short-term borrowings. Our loan tenors are two years, so there is no meaning in providing short-term and giving long-term. So we do not want any ALM

mismatch and we are very clear on this, so management has taken a decision to borrow only long-term. It is only a conscious decision of the management.

Jignesh Shial: Number two have I understood it correct that you have highlighted that there has been a positive movement whereby Stage 3 is getting improved to Stage 2 - basically you are seeing an improvement in the asset quality trend?

Y.S. Chakravarti: Yes correct.

Jignesh Shial: So that accordingly you should have got some reversal on the provisioning side as well right.

R. Chandrasekar: That is what I told earlier when the question on bad debts came. The provisions actually is doing well because from provision it moves to bad debt so if you see this quarter our Credit Cost is 2.5, 2.6. I think we are quite comfortable with what we have projected and even if compared to previous year there is very good improvement.

Jignesh Shial: Sir the write-off just if you can say this write-off is more to do with getting a tax advantage or if my understanding is incorrect. I mean the write-off has been taken to get tax advantage and then whenever the recovery happens you pay tax accordingly, is this correct?

R. Chandrasekhar: No it is not tax advantage. When you see our taxation benefit we do not have a deferred provisioning on this, we are prudent in doing this which we are able to get in income tax also. So the issue is not that. The issue is that consciously we have a policy as write-off. We go by that where we look into individual cases and do it. So overall when you look into provisioning, because of Ind-AS coming in the logic is different. so we base it on Ind AS for the last five years, how the staging behaves, products, and how this is built into PD and LGD. So there is a scientific method of doing this but overall as I told the quality of book is improving.

Jignesh Shial: Now two questions to you Mr. Chakravarti on the business side. One I understood that basically there is a demand for SME, you are getting conscious and accordingly you are putting more feet on the street for two-wheeler and all but even housing seems to be slowing down pretty heavily, the disbursements are in double digits if I see the presentation correctly, how that particular segment is doing and any particular reason for the slowdown in housing segment?

Y.S. Chakravarti: Yes, see actually what happened was that in Housing, they had a big repayment commitment in the month of September, so since the liquidity was tight they have decided

to go slow on the disbursement to meet that commitment. That is the primary reason why the quarter disbursement has come down but now that they have become comfortable on the liquidity front we are expecting a 300 Crores disbursement in the third quarter.

Jignesh Shial: So that is more of a technicality from your side rather than a demand environment deteriorated norm?

Y.S. Chakravarti: They are bullish and we expect them to close at 300 Crores disbursement in the third quarter and end up with probably around 2300 Crores of AUM by end of the year with about close to 25% growth on the AUM.

Jignesh Shial: It sounds good. Secondly how is the experience overall in rural versus urban? I mean I know it is too much to be subjective rather than objective but are you seeing that finally rural is slowing down considerably in last six months compared to urban and how is the trend now for the next six months we are expecting the monsoon is going to help rural picking up or you still see a sluggishness to stay?

Y.S. Chakravarti: See to be honest my market is 70% - 75% rural and semi urban, and that is what is sustaining us even today. From our side we have not seen much of a slowdown there, and in the coming two quarters also we expect that to sustain.

Jignesh Shial: Just lastly if now suppose that corporate tax shuts has already been announced you already moved 4% plus sort of an ROA very decent ROEs and all to remain competitive or to get a little better quality assets do you even think of passing on this advantage to end customers by cutting down on the yield side and all because your ultimate ROEs still be managed better considering the tax cut advantage have come up or nothing like that in your mind?

Y.S. Chakravarti: See the kind of segment of customers that I am operating in, whether I reduce it by 1% or a 2% my run rate is not going to make a difference on the delinquency side.

Jignesh Shial: It is more to do with the demand side?

Y.S. Chakravarti: Yes.

Jignesh Shial: I mean, this monsoons will definitely help you out I mean that is my understanding is it correct, I mean, the good monsoon, a delayed monsoon will bring in the demand in November and December?

Y.S. Chakravarti: Right now most of the country is grappling with excess monsoon so let us see how this pans out.

Jignesh Shial: Alright, thanks a lot Sir and Happy Diwali to all of you.

Moderator: Thank you. Next question is from the line of Saikiran Pulavarthi from Haitong Securities. Please go ahead.

Saikiran Pulavarthi: Just an understanding, you mentioned that you have not seen any kind of environmental challenges especially in your home markets and you have got a comfortable liquidity and also you are seeing the asset quality trends improving primarily on the Stage 3 and then benefit ahead. Sir why such a caution in these kind of things this should ideally result in you being little more aggressive on growth also coupled with you have got some benefit on the tax rate as well. What is that which is holding you back in terms of growing now?

Y.S. Chakravarti: Liquidity. It is liquidity. We are working with banks. See, proposals which were taking about 45 to 60 days today are taking anywhere from three months to four months to materialize. It is materializing but it is taking its time. I do not blame the banks because they are actually doing a lot more due diligence now in the sense they have some external checking, cross checking, with their credit teams coming and looking at the books and the customer requirements and all that so it is taking time. It is just that the liquidity is what is actually making me go slow right now.

Saikiran Pulavarthi: Sir but you already mentioned that banks have been more receptive and proactive on extending credit lines?

Y.S. Chakravarti: Yes that is right. There are lots of proposals at the banks' doorsteps which we are working on and as and when they materialize we will push, but at the same time because proposals are there at the bank I cannot over extend.

Saikiran Pulavarthi: You were answering. I think we got missed out if you can just continue.

Y.S. Chakravarti: What happens is I have proposals lined up with various banks and financial institutions which are undergoing their own scrutiny and work that is happening. Now I also have repayment commitments. That means obviously I would like to have a buffer with me and not utilize all my cash and disbursement, expecting that these evaluations or applications with banks will turn into disbursement. In effect what I am saying is I need to have a buffer. So I conserve some cash so I do a cautious lending and not overextend myself because if the proposals get delayed by a week, ten days, I want to make sure that we have enough

money to meet our commitments on a continuous basis. So the first priority is for meeting a repayment commitment, second priority would be disbursement, that is the reason why we have actually had kept about 1000 Crores plus cash and not disbursed.

Saikiran Pulavarthi: Even if you see our ALM we are...

Y.S. Chakravarti: The other point is that we wanted to make sure that all our ALM has a positive mismatch throughout the bucket.

Saikiran Pulavarthi: Sir second thing on the SME side and MSME side we keep hearing that there is lot of stress especially at the bottom of what I can say value chain. What are you seeing and you also in one of the earlier questions mentioned that there is a significant demand which is there from their levels can you explain what you are seeing in this segment primarily from the demands perspective and their own cash flow behavioral perspective?

Y.S. Chakravarti: Our average ticket size as you know is around 10 lakhs today so what we are looking at is that between 5 lakhs and 15 lakhs segment we are seeing lot of demand there and I am not seeing too much of a stress in that portfolio. We have about 80% of the SME AUM comprising traders and service providers, so we have very little exposure to manufacturing sectors. In this trading and service sector we have not seen much of a stress particularly in the semi-urban and rural market.

Saikiran Pulavarthi: Got it Sir and one final is the gold loan for the Stage 3 loans on sequential basis also have seen a deterioration. A little counterintuitive considering the gold prices have been moving up. Would you like to comment on that?

Y.S. Chakravarti: Because the loan tenor used to be about 150 days earlier, it has just moved up by about 50 basis points. But then we are not really worried about it. This is a phenomenon where on receipt of notice customers come back and pay you. So this would be a temporary phenomenon.

Saikiran Pulavarthi: One more last question if I can squeeze in. This quarter the tax rate have been lower than what at the 25.2% what is that it going to be for the next couple of quarters it will be closer to the marginal tax rate or what will be the rate?

R. Chandrasekar: You know the tax rate has now come down to 25.62%, but we expect the full year to be around 27.4% or 27.5% because there is some deferred tax assets in the books, but for the full year we may be paying close to around 27.5%. From next year it will come back to

25.62%. But we are getting a good benefit and in fact that is why our ROA and other things are improving as compared to our PBT. Our PAT is much better because the lower taxation.

Saikiran Pulavarthi: Great, thanks a lot everyone. Thanks a lot and wish you very Happy Diwali.

Moderator: Thank you. Next question is from the line of Anil Tulsiram from Contrarian Value Edge. Please go ahead.

Anil Tulsiram: Sir my question is according to disclosure on MCA website that appears to be some bulky advances of more than 50 Crores to Coffee Day Enterprise, Shriram Properties and Pallava Engineering, Sir can you please explain the rationale thinking process for these bulky loans? Thank you.

Y.S. Chakravarti: What, Coffee Day Enterprises?

Anil Tulsiram: Yes.

Y.S. Chakravarti: What else you said?

Anil Tulsiram: Coffee Day, Shriram Properties and Pallava Engineering.

Y.S. Chakravarti: No, I am sorry I do not know where you have seen this.

Anil Tulsiram: This is as per the disclosures of MCA website where the disclosure charge created by the company in the favor of Shriram City Union?

Jai Singh Ponde: Is that Mr. Tulsiram?

Anil Tulsiram: Yes.

Jai Singh Ponde: I will connect with you on this, and let me tell you that we have no exposure to some of the names that you mentioned here. But for this let us reconnect on Monday or Tuesday. We will take this offline.

Anil Tulsiram: Second question is the provision coverage used to be 60% to 65% under Indian GAAP till March 2019 which has declined to 45% under the Ind-AS so can you please explain the rationale and our thinking process behind that?

R. Chandrasekar: Because now we are following is Ind AS, last it was around 46% - 47%. Now it has come down. This is per Ind-AS. Previously it was 65% under I-GAAP so now since we are going

by Ind AS for last one and a half years, it is around 43.48%. It is steady for last five, six quarters. Hope you got it?

Anil Tulsiram: Sir in the December 2017 Analyst Meet you said that the company is still debating whether expand gold advances or not, whether to expand to new states or not, so what is our strategy for next three, to five years for gold advances?

Y.S. Chakravarti: If you are looking at three to five years yes we will expand gold but that will be later. We are looking at expanding in the new territories for gold probably post 2022.

Anil Tulsiram: Why I am asking is because since 2013 our gold advances on a year-on-year basis have been declining, and the gold loan NBFCs have already crossed the 2013 peak so is there some change in our thinking process, we find gold loans to be very risky or what is it is what I am trying and want to understand?

Y.S. Chakravarti: No, it is nothing to do with risk perception. Gold loan is one of our favorite products, I am not worried about it. The thing here is that we were funding aggregators of gold earlier which we have stopped now.

Anil Tulsiram: Sorry come back again.

Y.S. Chakravarti: We are actively focusing on the retail side of the gold loan where a large portion of our AUM earlier used to be also from funding to the aggregators.

Anil Tulsiram: Sir earlier you also motioned that once the SME customer completes one or two cycles with us, there is high propensity for him to move to the other NBFCs because of the lower interest rate and we were planning to introduce the new product so any progress on that front?

Y.S. Chakravarti: We have already introduced a product within 14% to 17% rate and some of these customers have migrated there.

Anil Tulsiram: So what proportion of our book is under that 14% to 17% of SME book?

Y.S. Chakravarti: Right now it is less than 5%.

Anil Tulsiram: One last question from my side again in the earlier December 2017 and then if I remember well it was mentioned that under the new credit process our gross NPA is almost 4%, 5% only and so it is almost a year and a half passed but if I look at the gross NPA of MSME it

is still 9% and when I also compare with the small finance banks like Equitas and who is being dream for a last four five years the same ticket size, same yield its gross NPA is 3%, 4% I understand and appreciate our credit cost is very low but still why the gross NPA remains high can you explain on that front?

Y.S. Chakravarti: No. I think what you need to understand is probably I do not know whether they are operating in the same segment because I have not seen too many people operating in this segment. But for the kind of customers that we operate in, the gross NPAs will continue to remain at that level, probably in another 12 to 18 months it should come down to about 7%, 7.5% or even lower but I have never mentioned this. I mean, where did you get this? I mean I do not think I have ever mentioned that we will be at 4%.

Anil Tulsiram: No, no not 4% I was listening to the December 2017 Analyst Day recording again and I think Lakshmi mentioned that under the new credit process which we had introduced the gross NPAs is almost half of the existing levels?

Y.S. Chakravarti: What Lakshmi said was that the incremental book is better by about 200, 500 basis points. That is what we have mentioned on the incremental book. That is the reason why I am saying probably in 18 to 20 months we should see a overall drop in the GNPA going forward because the overall book will be mostly replaced by that time.

Anil Tulsiram: Thank you Sir. Thank you. That is it from my side.

Y.S. Chakravarti: Sorry and to answer your question. We have no exposure to Pallava Engineering, Shriram Properties, CCD, but since you mentioned the MCAs website we will go ahead and check it and come back to you again.

Anil Tulsiram: Sir I sent you the snapshot of the thing which I got from there because Coffee Day was also reported in the newspaper also the Shriram City Union has exposure to Coffee Day so that is why I am asking this question.

Y.S. Chakravarti: Sometime back there was a very short exposure which was closed even before that. Even on the day of reporting there was no exposure.

Anil Tulsiram: Thanks a lot Sir. Thanks a lot for the clarification.

Moderator: Thank you. Next question is from the line of Subhadip Mishra from UTI. Please go ahead.

Subhadip Mishra: Thank you Sir. What would be your gross Stage 2 number?

- R. Chandrasekar:** Put together it is around 846 Crores of provision for a 26000 Crores and we have around 3.2%.
- Subhadip Mishra:** Second question would be Sir on the around 800 Crores, 850 Crores of cash on your book how much of that would be encumbered?
- Y.S. Chakravarti:** No encumbrance, free cash.
- Subhadip Mishra:** Basically whenever you were doing a securitization you will have to keep some FD or something?
- Y.S. Chakravarti:** No, no, that is not cash.
- Subhadip Mishra:** So that is not the cash and liquid investments and everything put together whatever you have so what percentage of that would be encumbered that is what my question was?
- Y.S. Chakravarti:** Nothing.
- Y.S. Chakravarti:** One second.
- Y.S. Chakravarti:** Talking about securitization.
- Y.S. Chakravarti:** The margin on securitization, no that is why the fixed deposit...
- R. Chandrasekar:** Yes, that is the standard. This is free money, but that is on fixed deposit. Even for fixed deposit we have SLR. This money is free-money. No encumbrance on this. This is cash and cash available in the bank. 10% on securitization and 15% SLR on fixed deposit is encumbered. That is separate which we do not take for a purpose of this calculation
- Subhadip Mishra:** Thank you so much. That is it from my side.
- Moderator:** Thank you. We take the next question from the line of Govind Prabhu from ICRA. Please go ahead.
- Govind Prabhu:** Sir generally the loss given default number if I look at across segments, barring the gold segment which is 2% to 3%, the other segments have been in the range of 40% to 50%. The logic behind is that the asset class is secured. But one thing is that on the personal loan front alone still the loss given default number if you look at a last one year trend also it has been hovering around 40%, 42% level. I understand that this is an unsecured loan wherein based on the cash flows we will end that but given default part so if you look at the last four to six

quarters time, so barring the gold loan segment which has the loss given default of 2%, 3% the other segments have all been holding between that 45%, 50% level while the other segments are secured. The personal loan segment alone if you see it is largely unsecured and based on the cash flows we will end again so the number at 40% I just wanted to understand the rationale behind this like what kind of collateral or what kind of recoveries are we seeing in this 40%? Are we seeing in that segment or is it actually a kind of a secured segment with some back kind of backup in this segment?

R. Chandrasekar: Basically whatever we have given product wise except gold, are generally around within 40% to 50% is what at the ECL Stage 3 we lose, so the calculation is like this. Subsequently how much out of Rs.100 we lose but it is taken on a formula on a discounting method so we have to also keep in mind the overall picture that we operate around 19%, 20% yield. Overall, credit cost is what is important which in this quarter is 2.62% and the previous quarter it was 2.58%, and compared to last year which was around 3.1%, 3.2% our credit cost has improved by 50 basis points. Even Stage 3 has improved by 70, 80 basis points over the last one year.

Govind Prabhu: Okay.

Moderator: Prabhu do you have some further questions?

Govind Prabhu: No that is it from my end.

Moderator: Thank you. Ladies and gentlemen, that is the last question for today. I would now like to hand the conference over to Mr. Nischint Chawathe for closing comments. Over to you Sir!

Nischint Chawathe: Thank you everybody for joining us for the call today. Wish you all a very Happy Diwali and thank the management for giving us this opportunity to host the call.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Kotak Securities that concludes this conference. Thank you for joining. You may disconnect your lines now.