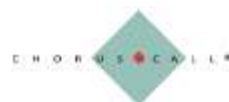




“Shriram City Union Finance Q2 FY2021 Earnings Conference Call”

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ANALYST: MR. KUNAL SHAH - ICICI SECURITIES LIMITED

**MANAGEMENT: MR. Y.S. CHAKRAVARTI - MANAGING DIRECTOR -
& CHIEF EXECUTIVE OFFICER - SHRIRAM CITY
UNION FINANCE
MR. R. CHANDRASEKAR - EXECUTIVE DIRECTOR &
CHIEF FINANCIAL OFFICER - SHRIRAM CITY
UNION FINANCE**

Moderator: Ladies and gentlemen, good day, and welcome to the Shriram City Union Finance Limited Q2 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. Kunal Shah from ICICI Securities Limited. Thank you, and over to you, Mr. Shah!

Kunal Shah: Thank you Sir. Good morning all of you. This is Kunal Shah from ICICI Securities. We have with us which term Mr. Y.S. Chakravarti, Managing Director and CEO; and Mr. R. Chandrasekar, Executive Director and CFO from Shriram City Union Finance to discuss their Q2 FY2021 earnings and give the outlook in terms of the collection efficiency, asset quality as well as growth. Over to you, Sir!

Y. S. Chakravarti: Thank you Kunal. Good morning, and welcome to all investor and analyst friends who have logged in today for the earnings call of Shriram City Union Finance Limited for the second quarter and first half of the financial year 2021. Out the outset, let me convey my best wishes to you and your family for the festival season and with the hope that all of you are blessed with good health and prosperity.

Business, in the second quarter had been much better as you are doubtless of observed from the investor presentation that has already been shared with you and I take this opportunity to first of all express my thanks to all my colleagues in the company in Shriram City for putting parallel efforts to make this improvement possible.

Our teams have faced tremendous challenges in recent times while engaging with customers either for fresh business or collections. Apart from the danger posed with the pandemic our teams had to battle natural disasters for example like floods in Telangana, AP and other parts of the country.

The pandemic itself took a toll on our employees. The 654 of them having been infected and sadly we have lost seven of our colleagues to the outbreak and we owe to them as much as to our investors to ensure that we continue to perform well. Disbursements in Q2 picked up and were substantially higher quarter on quarter. We expect the movement of continue from hereon, also with the disbursements base obtaining traction mild and likely to be sustained in the festival season and beyond we expect growth in the AUM to return especially as we will now open up on long-term assets such as SMA loans.

We will continue our cautious approach with regard to unsecured portion of the book although Q2 slight uptake in the personal loans after three quarters. Two-wheeler disbursements grew 35% sequentially. We are hopeful of turning in a good performance in the festival season in Q3 in this category. Dussehra which happened in October for us has funded more than a lakh of two-wheelers.

Diwali follows in a couple of weeks and we expect to put up an equally strong show on the occasion. One thing I would like to mention here is on the two-wheeler disbursements, we have launched an online app and also through our website where customers can come in and apply for a two-wheeler loan. This has been launched about a couple of months back and I am glad to report that we have funded more than 5000 two-wheelers in the month of October through this online platform.

Among the newer products the three, one, two-wheeler loans are making their presence in our books. We have done a good business of close to about 200 Crores in the quarter gone, three and two wheelers. Gold loans continued to grow both on disbursements and AUM and as I had mentioned in earlier calls, we have introduced gold loans in non-pulse locations. It is filled early day as to was the success of this move, but the current trend makes this optimistic.

We have registered a significant in opex year-on-year and we think some of these costs have been extinguished on a permanent basis. I had mentioned on the Q1 call that discretionary spends are down and we have renegotiated rents and rationalized establishment expenses for many of our branches.

These trends have been carried forward in Q2; however, as business gained further tractions employee related expenses, food fee and effects, we have seen a close to 2000 numbers reduction in the employees, but going forward in the next couple of quarters we may add back about 500, 600 more to the employee count.

We do not however see the need to add any branches for the next two quarters. We will not add new branches, but we off late have opened close to about hundred rural centers with service customers for two-wheelers and small business loans. As and when we see the time is right we will convert this rural service centers into branches.

Our cost to income ratio is at 36.16% slightly higher sequentially, which is expected as the business has picked up in the quarter that is significantly less than that about a year ago. Collection efficiency has been very strong with quarter. The progress from collection efficiency levels of 80% in July to 82% in August and then to 95% in September thus we are getting back to our pre-COVID level on this front.

Another point I would like to highlight, I am very glad to report is that on the digital payment front from the customer side during the April to June quarter about 18 lakhs transactions have taken place. Customers have done 18 lakhs transactions on our digital platform, which has gone up to 22 lakhs in July, September quarter and we hope to sustain this digital payments mode, which are going forward are able to handle this and increase this contribution in the payment side. We expect to see stabilization or reduction in our collection process going forward.

Thank you the untiring effort to our collection teams. We continue to improve our asset quality, gross, stage III delinquency is reduced to 6.67% and again to 7.28% in Q1 and 8.69% year ago. This improvement substantial in itself is even more commendable because had we factored in the effect of the Supreme Court deduction allowing GNPA forbearance up to August 31, our gross stage III would have been lower at 5.98%. We improved upon our provision coverage ratio as well to 54% in Q2 versus 50% in Q1.

Based on improving business matrix, almost normal collection efficiency and the good progress on the asset quality front we moderated our additional COVID provision into 101 Crores in this quarter. Our overall COVID related provision thus stands at 777 Crores, which is almost close to 2.6% of our book.

Our asset yields too improved by 32 BPS sequentially to 19.9% in Q2 aided by the growth in the two-wheeler and pre-owned two-wheeler portfolio. NIM improved by 38 BPS to 12.58%. Our preprovision profits thus grew almost 5% annually to over 8% impairment and write offs came up sharply over the last quarter and ROA was healthy 3.44%. We are climbing back up the ROA later as well and closed the quarter with this number at 13.63%.

Capital adequacy is at 30.14% and is robust and our leverage is less than three times, which allows enough maneuverability while negotiating incremental debt. We were strong on the resources front too and raised fresh funding of 3147 Crores in the quarter besides servicing a liquidity buffer of 2619 Crores as encumbered assets and Rs.730 Crores in SLR investments.

Bank funding is our mainstay and formed almost half of our liability mix. Retail fixed deposits the other integral component in our resource mix group to 22% of our liability and I take this opportunity to thank our family of over 2 lakhs depositors for continuing to repose their faith in us.

On the deposit front, I am also glad to inform that we have actually launched an online and app based FD facility where customer can buy an FD in about 5 minutes and we also launched our recurring deposit facility for our existing customer. Basically this has been

launched because of the lot of demand from our existing depositors for our recurring deposit product.

We have launched this in July, and we have reached about 10 Crores of online deposit in September. Going forward, we are looking at about 25 Crores to 30 Crores on a month to month-basis from this line by about March. We have also launched a B2B application, which facilitate our channel partners to launch deposits to self-fixed deposit to which hoping that will substantially improve our fixed deposit rate and also lower at procurement cost of deposits.

On the regulatory front while RBI permitted lending institutions to restructured loan account affected by COVID, we do not envisage having to restructure too many of our loans. The numbers could be less than 1% of the customer base and we are not looking at probably our estimate could be anywhere between 100 Crores to 150 Crores loans to be restructured and this possibly could be extended to residential hotels, standalone hospitals, some schools and garment retailers we have relatively some exposure to this segment as well as to manufacturing.

The majority of our borrowers including SME customers have indicated to us that they would regularize payments statements in the normal course of the loan tenure or with minor extension hitherto.

Our subsidiary, Shriram Housing merits a special mention, in my opening remarks. SHFL has done a wonderful job this quarter pretty much in continuation of what we have been doing over the last couple of years. We have registered highest level loan disbursement in Q2 apart from growing the PAT by 142% year on year and 200% quarter on quarter. The AM too grew at 48% annually and stands at 2779 Crores and with the best of the asset quality ever at 2.2% gross stage III.

Shriram Housing also had a high collection efficiency of over 94% in September and we are comfortable on liquidity with Rs. 692 Crores of reserve funds. Also we have taken rapid strides in data analytics and current area of these operations. Shriram Housing substantial also has some expansion plans and are looking at adding 10 branches in the next two quarters.

I am also happy to inform that the board had declared an interim dividend of around 100% and that is backed on dividend track. With this, I would now open the floor for question.

Moderator:

Thank you very much. The first question is from the line of Sanket Chheda from B&K Securities. Please go ahead.

Sanket Chheda: Good morning Sir. My question was that on AUM side, the AUM has been consolidating since last eight quarters so we see it halting here and may be growth in second half. That is my first question and the second was on credit rating downgrade that we have received in this quarter mainly on the data of nonpaying pool, which were there in July and August but in September our collections have been much stronger. We see that rating upgrade comeback. Those were the two questions.

Y. S. Chakravarti: On the AUM side see we have grown on the first two quarters what we are looking at for the end of the financial year would be, so probably we will make up for degrowth and at the end of March we should be either of flat or we should be growing about 2% to 3%. We are not looking at too much of a growth for the current financial year in view of the SME or being conservative on SME Portfolio. So with the two quarters if you look at quarter on quarter probably we will grow AUM and then if we would neutralize with growth in the first two quarters. On the downgrade, we had AA plus only from CARE and I do not think it is more of our I would not call it as a downgrade because to be very honest, it is not the right time for our rating exercise. This was done in the month of August events post COVID were also not looked that and September was not even closed. What I am saying here is we felt this is not fair because we cannot judge how your business is without seeing at least a quarter of performance post moratorium, but anyway if you look at my other ratings they are all none of them have shown any concern, so whether CRISIL or ICRA, they are all at the same level and we are also talking to CARE on this.

Sanket Chheda: My last question on the Shriram Housing bit, so in this business, I guess, we have disbursed the highest ever in this quarter. My question is that if you see the yields have also moved up quite sharply even on a sequential basis, which has reached to about 20%. They had reached 20% in two three quarters back also, but I just wanted to have some light who are your customers here and why are the yields so high in our existing business?

Y. S. Chakravarti: No, EL is actually one off this not the thing is because they have done an assignment of portfolio, and as soon as the income of the booked upfront the yield looks like that, but the average yields will be between 13.5% and 14%.

Sanket Chheda: Thanks and best of luck for the quarters ahead.

Moderator: Thank you. The next question is from the line of Aditya Singhania from Enam Holdings. Please go ahead.

Aditya Singhania: Thank you. Good morning to all. Sir, I wanted to check you mentioned that is it were not for the Supreme Court circular your gross NPAs would have actually been lower I could not understand.

- Y. S. Chakravarti:** What I was saying is if you have taken the Supreme Court guidance it would have been lower. I said the delinquency has reduced 6.67% as against 7.28% in quarter one it would have been lower at 5.98% if we had taken the guidance.
- Aditya Singhanian:** So you have not taken into account.
- Y. S. Chakravarti:** Not taken that. We have put has a part of the notes. We have not taken it in the books, but we have mentioned this number as part of our notes to the account. That is what the guidance is also.
- Aditya Singhanian:** This along with the improvement in stage III or gross NPAs despite actual decline in loan book, I mean of course there is moratorium which also has a role to play, but still it seems to be a substantial improvement in asset quality and along with the 95% collection in September. Could you give a sense of what you have changed in the business, which has led to the improvement and also some color on segment wise collection how they have been in the last two to three months?
- Y. S. Chakravarti:** See there is nothing in the business side that I think it is more of a focus from our entire team on collections including the business team was also focused on the collections and probably the outreach and I think one thing that has helped us it at our ticket sizes are so granular and most of our customers are involved in trading and services where their cash close have come back. They were able to restart their business as much faster and generate decent cash flows, I mean that and focus and I have been repeatedly in my interactions with your fraternity, I was mentioning that in a business that is so granular, it is not disbursements that is important it is the collection business and not a lending business. That is what I have been talking about last few years, the granular business which is so granular. Your backend has to be very strong and I think that has helped us in this situation.
- Aditya Singhanian:** And some color on the segment wise collection if you could?
- Y. S. Chakravarti:** Segment wise if you ask me SME, we have moved from 57% to 65% in August and 93% in September and the two-wheeler we have moved from August was at 93% and September also was at 93%. These are the main two products, which contributed to about 80% of our portfolio.
- Aditya Singhanian:** If I can just squeeze in one more questions despite the very strong improvement in SME business or the SAF business disbursement continues to be very poor, so I mean what is your outlook on this segment?

- Y. S. Chakravarti:** Last quarter we did about 20 Crores of disbursement from there for us to disburse close to 360 Crores we did about 360 Crores during this quarter, which will actually probably grow by another 50%-60% in the next quarter. See here one reason why and we are also cautious while lending, so there are lot more rejections. So, there is enough in the pipeline, but we have been little cautious on development, which we will continue to be cautious even in the next couple of quarters, but it will grow. We are slowly opening up all the branches, so I think this quarter we should see at least 50% improvement in the disbursement.
- R. Chandrasekar:** SME 364 Crores during last quarter for the month of October we have done 250 Crores. October we have done 250 Crores of disbursement.
- Aditya Singhanian:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Umang Shah HSBC Securities. Please go ahead.
- Umang Shah:** Good morning. Congratulations for the quarter and thanks for the opportunity. Sir, I have got a couple of questions. One is if you could give up some color on your preowned two-wheeler business in the terms of the customer segmentation, the average ticket sizes and how different would the customer segment compared to our new two-wheeler lone customer segment.
- Y. S. Chakravarti:** On a preowned two-wheeler again customer segment is not too different. It is about 60%-70% of customer are still self-employed people. The average ticket sizes will be between 30000 and 40000 depending on the kind of a vehicle that you are funding. Typically we are funding vehicles that are up to three year old. This is done through branch network, to existing customers, and also there are dealers who sell preowned two wheelers. We are working through the preowned two wheeler dealers.
- Umang Shah:** Sir, just a question are the size 30000-40000 for three-year-old two wheeler does it kind of really employ of the higher loan value or a relatively higher risk profile for that particular customer that we are taking up or how should we look at those and how big this business become over the next two to three year period?
- Y. S. Chakravarti:** On the first question, see if am funding a 3-year-old Royal Enfield, the purchase price would be around 60000. If it Aactiva, again it is around 40000 to 50000. So basically today that I said between 30000 to 40000 depending on the vehicle, which vehicle customer is buying and the conditions of the vehicle. So it is in line with the market particularly Tier II, Tier III towns it is in line with the market. So we do not have much of the business in the Tier I towns, one. Two is how big is the market? I do not know probably conservatively we

are looking at between 3000 Crores to 4000 Crores disbursement a year in this segment going forward at least for the next one year.

Umang Shah: How difference would be the yield compared to the new two wheeler business?

Y. S. Chakravarti: It will be around anywhere from 3% to 4% higher.

Umang Shah: Sir my second question is related to what will be our cumulative sanctions and disbursements under ESLGSP?

Y. S. Chakravarti: See, so far I think we are done from 40 Crores to 50 Crores. The total would be around about 150 Crores. In the time September will be around 30 Crores to 40 Crores.

Umang Shah: You mean the total sanctions would be about 150 Crores.

Y. S. Chakravarti: 150 Crores.

Umang Shah: My last ask question is Sir how could we look at potential restructuring in the coming quarter of which segments would drive that and on the overall book basis what will be the maximum potential restructuring that we could expect?

Y. S. Chakravarti: I have already answered that in the opening month, but as I said I think it will not be more than 1% of book and potential factors as I already mentioned would be residential hotels, schools, standalone hospital and probably of 4, 5 customers who are involved in real estate.

Umang Shah: These were my questions. Thank you so much sir and wish you all the best.

Y. S. Chakravarti: Thank you.

Moderator: Thank you. The next question is from the line of Ashwin Kumar Balasubramanian from HSBC Asset Management. Please go ahead.

Ashwin Kumar B: Sir basically on the gold loan side, I just wanted to kind of understand that your AUM has increased about 3%-4% year-on-year but if you compare it to some of the gold loan firms, the increases is lower now what I understand lot of disbursements tend to get renewed at a higher rate normally. So I just want to understand that you are segment is slightly different on the tenure, is it different or if the proportion of renewals normally slightly different for you?

Y. S. Chakravarti: Most of my gold loan is customer are the customers who is here number one is that we are funding gold loan majorly in five states only as if now. We have gone across India, pan

India. We have opened up for about 20 branches in the north the last, so it is basically confined to South and Maharashtra is where we are doing this business, out again excluding Kerala. So that is AP Telangana, Tamil Nadu, Karnataka and Maharashtra is where we have this business number one. Number two, this is started with basically because when we were collocating with our chit fund businesses, we have started this gold loan whether there was demand from existing customers. So most of the customers in our gold loan business are customers who have either an exposure with us or who had the dealing with us. So we do not advertise so we do not have too much of a walk-in segment of customers in this business, so our yields are slightly lower than the market. Because this is basically most of them are recurring customers who keep on coming to you for their gold loan needs and it is normally about between 150 to 180 days tenure. As far as incremental is concerned if you do not lend as per the market obviously customer will go to your competitor, but I would say on the total book our LTVs will be sometime around 60% of today's rate. The incremental lending that we are doing is around 70% of the LTV.

Ashwin Kumar B: Thank you and one question is from the collection efficiency, I mean this would also include some of the previous month collection to September or November which you mentioned, but if would be just to look at the number of customers who were not paid like even if easily EMI also for this six months period how much would that be?

Y. S. Chakravarti: I already mentioned here was about 182,000 customers have not paid a single instalment during the moratorium period out of which close to 122,000 customers have come back and paid in the month of September. So about 58,000 customers have not paid a single installment who have not paid single installment during the moratorium period have not paid in September also, but again majority of them have come back and paid in October.

Ashwin Kumar B: And how much this thing AUM terms?

R. Chandrasekar: 1.5%.

Ashwin Kumar B: Okay.

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

Riken Shah: Thank you for the opportunity. Just data keeping question firstly I just wanted to understand what would be the stage II loans as a percentage of overall for the current quarter, previous quarter and a year ago. Second one I just wanted to check the collections that were made any during the moratorium was adjusted against the principle due or against the DPD as of February 29, and the third question was Sir, you mentioned the collection efficiency across

SME and two-wheeler. What would be the normal collection efficiency or pre-COVID in two segments? Thank you.

Y. S. Chakravarti: I will ask my colleague to answer this.

R. Chandrasekar: With reference 2 stage collections we compared to June and September are all with stage 2 there are 4%-5%. What is the second question? Can you speak about?

Riken Shah: Sir, the second question was regarding the collections that were made during the moratorium, so were they adjusted against? So what were those collections adjusted against the principle remaining for the customer or any past 30 years that was pending as of 29, February?

R. Chandrasekar: Yes, what we do is the collection is on the basis of what the customer was not January, February or June, then we have to adjusted from the earlier installment about 2020, 2021, 2022, yearly installment is first adjusted and subsequent installment will be adjusted. What is the third question?

Riken Shah: Sir, the third question was regarding the normal collection efficiency in SME and two wheeler which was 93% as of September so what was the normal level?

R. Chandrasekar: The pre-COVID forward level collection efficiency was 95% now it is close to 93%, it is just of 2%, there is a gap of 2% compared to the pre-COVID.

Riken Shah: On the second question if I understood it correctly you mentioned that they were adjusted against the current EMI that were raised during moratorium because there were no billing would be able to repeat again?

Y. S. Chakravarti: What he was saying is account has an arrear pre-February 29 it is adjusted to the arrear.

Riken Shah: Got it.

Y. S. Chakravarti: If the payments made during the morat period if there was an arrear as of February 29, it was adjusted to that DPD.

Riken Shah: Thank you.

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

- Nidhesh Jain:** Thanks for the opportunity Sir. Firstly on the growth in SME, the collections trends are very encouraging what are the reasons for being cautious in SME1 in coming quarters?
- Y. S. Chakravarti:** For the quarter as we have already mentioned we did about 364 Crores of disbursement. Out of which close to 200 Crores were disbursed only in the month of September. The October 250 Crores on the current month around October we have already done about 250 crores and they did 365 Crores of entire quarter was 250 Crores so as I said we are not shying away from the business, but we are being cautious. For us to reach the pre-COVID level probably it will take us one or two more quarters.
- Nidhesh Jain:** How should you see an AUM growth panning out in FY2022?
- Y. S. Chakravarti:** I think let us talk FY2022 in Q4.
- Nidhesh Jain:** In terms of collection, can you save the percentage of AUM you have to see only the EMI or less as of end of October, but on percentage of the EMI would have to see less than EMI or less as of end of October in last eight months?
- Y. S. Chakravarti:** Can you repeat the question again?
- Nidhesh Jain:** Sir, can you share the percentage of AUM where we have received one EMI or less in last eight months.
- Y. S. Chakravarti:** CFO has already mentioned 1.5%. 1.5% is the customer where you have not received anything but there would be customers who have paid the one EMI or partial EMI.
- R. Chandrasekar:** 1.5% is the total customer who have not paid even a single installment during the morat.
- Nidhesh Jain:** Including September right?
- Y. S. Chakravarti:** September about 120,000 of them have come back and paid in September that is what I told. 1.5% of the customer received 1.82 lakhs and which is equivalent to about 1.5% of the AM. About 1.2 lakhs of them have come back and paid.
- R. Chandrasekar:** To answer your question totally around 125600 customers had taken moratorium, out of that only 58000 customers have come back.
- Nidhesh Jain:** What would be the number of customer who had paid partial EMI less than EMI? Or you have corrected any partial EMI?

- Y. S. Chakravarti:** EMI normally we do not collect partial EMI, so there are too many customers. EMI is small.
- Nidhesh Jain:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line Chirag Sureka from DSP Mutual Fund. Please go ahead.
- Chirag Sureka:** Sir, good morning. I wanted to ask for securitization. Whenever confidence in collection efficiencies goes up securitization also goes up. So are you seeing any trend in demand for securitization and in the related question are you looking at co-examination or any kind of model which may be useful for increasing the rate of growth because that is what many NBFCs are expert in?
- Y. S. Chakravarti:** With reference to securitization I think we have done last quarter. I think this month of October also we have done one securitization and we may do around 1200 Crores of securitization. So securitization there is lot of demand especially on the two wheeler product and on SME product we have on function we have, so securitization is coming back. We will continue to do every quarter couple of two or three securitization may be around 40000 Crores going forward. That is interest to the market both for the full year and SME or both the products. So we are discussing with a couple of people and we will come back.
- Chirag Sureka:** Speaking one question on the broader economy trend. Are you seeing a lot of demand for new two wheelers, is the dealer inventory very high and is your financing as usual or is it lower than usual?
- Y. S. Chakravarti:** October has been as usual. We have funded more than 100,000 vehicles for the month of October. We will have to see how this pans out in November during the Diwali season. Typically these two months are bumper months for both the manufacturer, dealer and the financier.
- Chirag Sureka:** South is during the Pongal Sankranti time?
- Y. S. Chakravarti:** Basically Tamil Nadu and Andhra Pradesh it is during the Pongal time. Sankranti it is Dasara and Diwali.
- Chirag Sureka:** The 1 lakh number you said was new vehicles?
- Y. S. Chakravarti:** New two wheelers.

- Chirag Sureka:** Congratulations and wish you all the best.
- Moderator:** Thank you. The next question is from the line of Sagar Gopani an individual investor. Please go ahead.
- Sagar Gopani:** Good morning Sir. I just wanted to understand the ROEs in the housing finances has ranged from 4% to 16% in the last four quarters, so what should be the steady state ROE for this business?
- Y. S. Chakravarti:** I think it should be around 3.5% and 4%.
- Sagar Gopani:** Sir, this is ROE and not the ROA, return on equity is what I am asking?
- Y. S. Chakravarti:** I think I should be around the 15%-16%.
- Sagar Gopani:** 15%-16% is a steady state. I think the branch network is also growing, so is there anywhere where we can leverage the existing branches of the others, the low housing business or even these has to be kept separately?
- Y. S. Chakravarti:** Some of them are operating and they operate in a few locations already coexisting branches so that new branches that we have talked about will also be collocated. There will not be standalone branches unless the branch reaches a volume justified they will continue to collocate with either Sriram City branches or Sriram Transport branches.
- Sagar Gopani:** Sir when the question is what stops you from you know like non-housing finance business lot more branches in housing finance business so what stops you for actually utilizing those branches and you said about adding two three people right?
- Y. S. Chakravarti:** No it is not just that. You need to have a total monitoring mechanism and also a collection mechanism there. It is not just putting two people there and selling. We are not selling FMCG product. We are selling loans. So we need to have a total. We need to have your credit team. We need to have your business team, collections team and ops team and also the potential. So they will grow. There is no point in spreading yourself two things. In fact last year also I have mentioned in the call that we are now focusing on just eight states and we want to go deep in these seven eight states. Once we achieve substantial volume in these states, then only we will look at expanding and moving out of these states.
- Sagar Gopani:** Sir what is the level of business that you can do from the eight states? Is there some ballpark number that you can share?
- Y. S. Chakravarti:** Potentially we can do 20,000 Crores a minimum.

- Sagar Gopani:** For your potential for Sriram Housing Finance.
- Y. S. Chakravarti:** Yes.
- Sagar Gopani:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Sanket Chheda from B&K Securities. Please go ahead.
- Sanket Chheda:** My question was answered. Thanks.
- Moderator:** Thank you. The next question is from the line of Kunal Shah from ICICI securities. Please go ahead.
- Kunal Shah:** In terms of provisioning given that we already have the contingents to upwards of 700 Crores and even when we look at stage 1, stage 2 and stage 3 on stage 1 and 2, we are covered up to almost 4.4 and even like stage 3 at 50%, what would be the requirement going forward in terms of the provisioning because overall we are still seeing that there are hardly 1.5% customers not more than 1% restructuring, so how should we look at the overall credit cost?
- R. Chandrasekar:** The collection in the month of in October is respectable, 98% and even the month of October, we are having a good collection around close of 95%. Going forward we expect the provision we may not require any extra provisioning is what we think at this point of time and the credit cost we expect to stabilize between 2.8% and 3% for the next one of the quarters.
- Kunal Shah:** So overall basis 2.8% to 3% kind of a credit cost over two quarters? That really helps us. So that really if we are to look at in terms of the flow from stage II in general, so you have highlighted stage 2 have 4%-5% so what is generally the flow in any NPLs from this and post may be September should we see spike in GNPLs in Q3 and would that be large enough may be that suggest that it will not significant number?
- Y. S. Chakravarti:** We expect our gross NPA to be at the same level because of the collection in the month of October also is very encouraging and with festival season and now even the SME book the collection percentage has gone up. So all the products we are able to collect between 90%-95% overall we are able to do 99%, so we expect there would not be much movement from stage II to stage III is what we see at this point of time.

Kunal Shah: In terms of mix if we have look at you clearly said on the business side, business lower lending side we are not shying from the opportunity is just being cautious, but overall we had seen earlier business loans and personal loan used to drive it and now there are going slow. Sir at what moment or what would be the indicators to suggest that these are the segments were in we will start going and now may be does skew which is towards the two-wheelers, gold loan or now may be the preowned two wheelers that is more structural and this is what we should expect in terms of our overall AUM mix?

Y. S. Chakravarti: The AUM mix will not alter substantially. It could be around 1% to 2% at best could be 1% to 2% change and as I have already mentioned what we are looking at some the data that we are seeing in the GST collections and whatever is happening in the market would probably drive going forward. Second is there are certain sectors we are still shying away and under we see a substantial improvement in the substance we will not go and lend in the sector, specifically anything to do any businesses that are dependent on construction industry, we are still going slow, probably we will wait for a couple of more quarters before we actually take a call. We would like to see data for a couple of more quarters before we go and fund those businesses that are dependent on the construction industry. Otherwise as of now we are lending to most of the customer segment that we used to do pre-COVID, so as I have mentioned October has been really encouraging. We have done almost close to 70% of the second quarter disbursement in the month of October. I may not touch those numbers, but it would not be too far off. We would be touching about 70%-80% plus of a pre-COVID level in this quarter from where we will pass quarter by quarter.

Kunal Shah: Just one last question on in terms of the liability side, so compared to where it was 6 to 12 months back in terms of the tightness, which was there, how would you rate now wherein terms of the various subsegments if we had to look at in terms of the loans or there in terms of raising of NCDs or off balance sheet transactions. Has it eased a lot of us of where we are, what is the comfort level and when would say that okay on the liquidity is no more or may be the liability mobilization is not an issue and it has more or less got addressed?

Y. S. Chakravarti: Actually if you see our liability side we have virtually moved from the short term borrowings to the long-term borrowings. This is point number one and we are quite comfortable even in this quarter we are able to mobilize 3000 Crores and the liability buffer we have more than 3000 Crores of liquidity with us and we have SLR investments of 700 Crores. So, liquidity, we are very comfortable and we will be able to raise money to securitization, term loans bank term loans are coming and we are also getting at lower cost that the increment borrowing from the last quarter was at a bare cost and we have a very good retail fixed deposits from our customers, we mobilized 850 Crores of retail deposits, which is above three years money, close to around 9%. So retail deposits, we are able to do couple of NCDs. Securitization we have done, term loans, so money is easily available in

the market at this point of time and even in the month of October, we have picked up a couple of, and we still have three four sanctions on hand. So liability side, we are totally in control. So, we do not have any challenges in the liability front to meet our liabilities or growth purpose.

Kunal Shah: Bank loan and NCDs at what rate that we would be able to raise it?

Y. S. Chakravarti: Borrowing cost is around 9% and NCDs we are doing with going little fast, but overall cost of borrowing during current quarter is around 9% and what we have done during compared to last year.

Kunal Shah: Thanks a lot.

Moderator: Thank you the next question is from the line of Karthikeyan from Suyash Advisors. Please go ahead.

Karthikeyan: Sir one question on your used two wheelers business. Can you talk the role of the OEMs in terms of refurbishing the dealers are being involved? How exactly that this or being worked some additional details would be interesting?

Y. S. Chakravarti: Can you repeat the question?

Karthikeyan: I was saying in the used two wheelers business, what is the role that the OEMs players are playing? Say for example in terms of refurbishment these vehicles and so on, providing some kind of guarantee to the customer and are the dealer network for example some additional details on that would be interesting and you said only up to 3 years old vehicles you said right?

Y. S. Chakravarti: See unlike cars OEMs are not too much involved in the refurbishing of the two wheelers and selling them only Honda and Hero did try some, but it is nothing much. Most of these vehicles are purchased by used two wheeler dealer. They generally refurbish it and sell, the TrueValue or your program from Honda or Hyundai you do not have these used car showrooms TrueValue and all, in two wheeler you do not have that kind of an organized setup.

Karthikeyan: Do you see an increasing trend, say for small instances across much more valued vehicles also, two-wheeler side. Therefore I am asking for this.

- Y. S. Chakravarti:** As the ticket sizes are going up in two-wheeler it makes sense for the manufacturers to do this, so that you know it also helps their brand. We are also talking to OEMs on this, we will have to see how it pans out.
- Karthikeyan:** Thank you so much Sir. Thank you so much.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Kunal Shah for closing comments.
- Kunal Shah:** Thanks Mr. Chakravarti and Mr. Chandrasekar for giving your insights and sharing the outlook and thanks all the participants for being there on the call. Have a good day. Thank you.
- Y. S. Chakravarti:** Thank you Kunal. Thank you so much.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of ICICI Securities Limited that concludes this conference call. Thank you for joining with us. You may now disconnect your lines.