



“Shriram City Union Finance Limited Q2 FY-22 Earnings Conference Call”

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MANAGEMENT: **MR. YS CHAKRAVARTI – MD & CEO.**
MR. R CHANDRASEKAR – ED & CFO.
MR. RAVI SUBRAMANIAN – MD & CEO, SHRIRAM HOUSING FINANCE LTD.
MR. GS AGARWAL – CFO, SHRIRAM HOUSING FINANCE LTD.
MR. JAISINGH PONDE – HEAD INVESTOR RELATIONS.

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

Moderator: Ladies and gentlemen, good day and welcome to the Shriram City Union Finance Limited Q2 FY22 Earnings 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: Thank you Faizaan. Good afternoon everyone and welcome to the quarter two FY22 Earnings Call of Shriram City Union Finance. To discuss the results, we have with us Mr. YS Chakravarti – MD and CEO, Mr. R Chandrasekar – CFO, Mr. Ravi Subramanian – MD and CEO, Shriram Housing Finance, and Mr. GS Agarwal – CFO, Shriram Housing Finance along with Mr. Jaisingh Ponde – Head Investor Relations.

I would now like to hand over the call to Mr. Chakravarti for his opening remarks. Over to you, sir.

YS Chakravarti: Thank you. Good morning to all and welcome to the earnings call of Shriram City Union Finance Limited for the second quarter, and the first half of the financial year 2022. We have declared our results for the period last evening and also uploaded our investor presentation to the website of the stock exchanges. And I hope you have had the opportunity to go through the same. The details are also available on the company website.

It gives me pleasure to report to you that after a challenging period of almost 18 months since the start of the COVID pandemic, September 2021 quarter has seen a normalization of business activities for Shriram City and also Shriram Housing. The consolidated disbursement numbers at 7056 crores are up 97.2% year-on-year and 47.6% quarter-on-quarter. Consolidated AUM at 34,680 crores is higher 14.4% year-on-year and by 3.5% Q-o-Q. Consolidated income from operations at 1714 crores is up by 13.4% year-on-year. Consolidated net profit at 301 crores is higher by 36.8% Q-on-Q and 9.4% year-on-year. So, overall, we have had a good quarter and we hope to keep up the momentum as we go into the festival season.

Coming to Shriram City, on a standalone basis we have disbursed 6423 crores in the quarter which is a number we had reached in pre COVID times. So basically, we are reaching a normalization pretty fast and the quarter is almost normal. So hopefully in the coming two quarters we should be able to do business at the pre COVID level.

Disbursement was higher by around 109.8% year-on-year and by 40.8% Q-o-Q, AUM at 30,425 crores grew at 10.5% year-on-year and 2.8% Q-o-Q. Profit after tax at 282 crores registered a growth of 36.8% quarter-on-quarter and 9% year-on-year. Our collection efficiency for SCUF was at 100% in July and August and further improved the 102% in September.

As a result, our gross Stage-3 delinquencies were steady or slightly lower at 6.86%, credit costs too improved to 2.7% in line with the guidance we have given on our last earnings call. We have expanded our branch network in the quarter and now have 971 branches plus approximately another 500 feeder locations across the country. In line with enhanced business operations we already have added to our manpower count and now have 25308 employees. One-time restructuring demand continues to be quite muted among our customers and we have restructured loans worth about 162 crores in the first half of FY22 representing 0.53% of our AUM. The total restructured portfolio is around 300 odd crores which is about 1% or thereabouts of the AUM.

We continued to post strong yields and accordingly net interest margin was also robust. Loan yield has improved to over 21% on account of changes in the AUM mix and also on account of efficient back loan recovery. Net interest margin further improved to 12.91%. Pre provision profits at 579 crores was the highest in 12 quarter. Over recent investment interactions I have been highlighting our efforts at digitizing more components of our business and it gives me pleasure to share some of those developments with you today.

In August we have launched Express Two Wheeler loans which is an AI-enabled contactless lending initiative. We have also gone live with an online, do-it-yourself personal loan product. Our revamped app called My Shri City has been launched and we are currently working on an online gold loan product which we should be able to introduce to coincide with the probably upcoming festival season. I would like to emphasize here that all these developments on the digital front did not happen overnight - our in-house tech team has been working on this for quite some time now. In fact, our customer facing digital initiatives gained traction more than a year ago. In July 2020 we promoted our online fixed deposit program with a completely DIY journey for FD booking. To give you a number we have done about 146 crores of online fixed deposit so far. So, from July to today, basically in about a year or year and half we are getting about 10 to 12 crores per month on an average online fixed deposits.

September 2020 saw us initiating the online application of loans along with an integrated CRM for our branches. In November 2020 we started the digital promotion of our product suite from social media channels and search engine optimization activities. We also launched our online recurring deposit program in February 2021. And we have started mapping website visitors from the parameters of age distribution and product type giving us greater insights into how our product offerings may be tweaked on a progressive basis.

On the liquidity front the situation continues to be very comfortable. We have carried a liquidity backup of 4178 crores at the end of the quarter and had an undrawn credit line of Rs1717 crores. This reservoir of fund should help us ramp up disbursements in the festival season quarter assisted by strong collections, bank loans and retail fixed deposits. We have mobilize 3946 crores of fresh funds in the quarter, with an average growth rate of maturity of 42 months and at lower rates of interest than before. Included in the fundraising was close to 919 crores of fixed

deposits, our highest ever quarterly fixed deposit mobilization. Our FD corpus at 6351 crores has grown almost 32% year-on-year.

We have further increased our stakes in our housing finance subsidiary Shriram Housing Finance Limited in October. We have infused 300 crores in the subsidiary which following the infusion of Rs.200 earlier in May has raised our stake in Shriram Housing to 85.02%. Shriram Housing continues to take rapid strides in the HFC space and registered a disbursement growth of 187.2% sequentially in Q2 and of 22.3% year-on-year. The SHFL AUM too grew by 53.1% year-on-year and now stands at 4255 crores. Asset quality improved as well and Stage-3 delinquencies stood at 1.9% at the end of Q2. The Griha Poorti program which I had mentioned on my last call is doing remarkably well. To recap, this program involves leveraging the existing network of Shriram City Union Finance branches in Tamil Nadu, Andhra and Telangana. These locations present substantial cross selling opportunities for Shriram Housing. Mr. Ravi Subramanian, who heads Shriram Housing will give details about this in the Q&A session.

Ladies and gentlemen with this I conclude my opening remarks and we can now take questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: I just wanted to understand that the kind of disbursement momentum that we have seen in the last four quarters and barring 1Q, which was affected by the first COVID wave, I feel that the SCUF franchise is now at an inflection point where we are not just doing pre COVID levels of disbursements, we are actually doing pre ILFS levels of disbursements. So just wanted to understand given that, let's say the liability challenges that you were facing post ILFS have now kind of receded into the sidelines after the COVID struck us. Are these levels of let's say 6000 to 7000 crores of quarterly disbursements sustainable? So that's my first question.

YS Chakravarti: Good afternoon. So, to give you a very short answer, yes, they're sustainable. In fact, we do hope to do, September we have ended up with about 6400 crores, 6423 to be precise. And we are pretty sure that both the December and March should see as you said anywhere between 6500, 7000 crore comfortably.

Abhijit Tibrewal: Sure, sir. Sir the next question that I had was, what is the kind of demand given that, and at least the auto analysts keep talking about still a subdued demand in two wheelers, but despite that we did very well in the last festive season, we've done about 1450 crores in 2Q, how are you looking at the festive demand this year?

YS Chakravarti: Let me be honest, I don't anticipate to actually exceed last year's number to be honest with you. Main reason is today, there is also a shortage of vehicles in the market for all the vehicles above 150cc. Because of the chip shortage there is also problems in inventory, number one. Number two, yes demand is also a little subdued compared to last year this year. On the two wheeler side

probably we may end up around say 13 - 1400 crores of business. So, there we may not see a uptick compared to last year, but probably we should be able to hold it there. But the other demand is we anticipate demand for SME, actually there is good demand coming in the segment that SME of course, and of course loan against property, loan against gold all these segments should do well.

Abhijit Tibrewal:

Sure sir. And sir if I can squeeze in just one last question here, which is on your personal loans and gold loans. So personal loans, you have even shared in your presentation, you've started leveraging your digital platform for disbursing personal loans specially to salaried individuals. So, at least the disbursement momentum looks very, very good, but the question here was, what is our confidence on an improvement in asset quality, given that I'm assuming that personal loans are still a across sell product and you have not gone out and doing open sourcing of customers. Lastly, on gold loans, just wanted to understand, if I look at the last two quarters, disbursement run rates have been around that 1450, to about 1500 crores. What I'm worried about is if the same run rate continues in gold loans, then your gold loan book might actually run off very fast, so what is the typical tenure of your gold loans that you do and the related question here is, are you seeing that the other gold financiers that are there and specifically gold loan NBFCs, are they aggressively cutting rates to poach your customers?

YS Chakravarti:

So, the last question No, they're not cutting rates aggressively to poach my customers, that is not, because if we look at the yields in gold individually, our yields are a little lower than both these companies. So, that's not the point, one is they have the reach, the kind of reach that they have for gold loan I don't have number one, number two is they are pure play gold loan companies, so, the way they market their product, and the way they sell gold loans is different from what we do, but coming back to the point is, I have explained in my last call also probably in the next one year I should be present across the country. Across the country, multiple locations, all the 971 locations we should be present in the next one year. And the point of presence itself should add to the AUM. Apart from that we are also focusing on the existing branches and how do we increase the AUM there.

Abhijit Tibrewal:

Right Sir, which is to suggest the momentum in gold loans, at least the disbursement run rate that we are seeing right now, 1400 to 1500 crores that should increase right?

YS Chakravarti:

If you look at June and September it is around 1450, 1482, right? So probably I need to, every quarter probably the AUM has to, disbursement itself has to grow up by at least 5%, 10% to make sure that AUM doesn't run off, you are right. Which I think will happen we will switch it.

Abhijit Tibrewal:

If you can just touch upon the question that I had on personal loans, while the momentum is very, very strong, How are you leveraging your digital platform and what confidence do you have on this platform churning out good asset quality given that this is still a cross sell product?

YS Chakravarti:

Right now we are doing only on experimentation with our existing customer base on the digital side, where an existing customer can come onto the app and do an end-to-end paperless

transaction for personal loans, which we have not yet taken to the market. But probably in another six months or so, we will take it to the market for salaried class, specifically who are not our customers, but as of today, it continues to be across the, probably in the next 12 to 18 months our existing portfolio which we have done in the market will run off. It should also, the new business and the run off should see a rebalancing of the percentage of delinquency that we see on the balance sheet.

Moderator: Thank you. The next question is from the line of Chirag Sureka from DSP mutual fund. Please go ahead.

Vivek Ramakrishnan: This is Vivek Ramakrishnan, I had two questions, the confidence in your business, and in the business mix is also reflected in the collection efficiency numbers, so do you expect that you will do more secret securitization coming forward, because even the banks and so on would be more confident, that was the first question. And the second question was on Stage-2 sir, if you can give us a Stage-2 numbers, that will be very useful. I didn't see the gross Stage-2 numbers.

YS Chakravarti: Yes, on the securitization side yes, we definitely are exploring opportunity and we'll continue to explore opportunities and we will continue to do securitization. So that's not a constraint or any problem.

Vivek Ramakrishnan: Do you see demand sir, are banks talking to you actively for it, because the collection efficiencies are not as important things for securitization to go through?

YS Chakravarti: Yes, there is a robust demand for non PSL also now, not just the PSL, even the non PSL there is a robust demand. So that's not an issue. Now, on Stage-2 we were at 11.68 in June and we are 11.96 now.

R Chandrasekar: Yes, but if you see the Stage-2, 61 to 90 has dropped from 5.04 to 3.75. So, 60 to 90 has come down and it has improved.

YS Chakravarti: So, it's actually moved 30 to 60 slightly increased whereas 60 to 90 has dropped.

Moderator: Thank you. The next question is from the line of Prashant Sridhar from SBI Mutual Fund. Please go ahead.

Prashant Sridhar: Can you give us some color on the SME side, how is the underlying customers' capacity utilization versus pre COVID and what is the feedback from them and on the two wheeler side sir, so we have achieved a quarter-on-quarter disbursement growth of somewhere more than 40% but a lot of OEMs are talking about chip shortages, et cetera. So, we can throw some light on how you achieved that as well?

YS Chakravarti: Yes, I will take the two wheeler question first. On the two wheeler side, 90% of my disbursement is towards the commuter segment, that is basically vehicles between 100 to 150 cc. So today,

the chip shortage has affected more of the bigger vehicle, the vehicles there are more than 150 cc. So 100 cc and vehicles within 100 to 150 cc, adequate stock is available in the market. So that 90% of my business we are able to handle but as I also said that the demand is also a little subdued, because Dussehra has turned out to be not a great festival season. Typically between Dussehra and Dhanteras is when we actually do close to 60% to 70% of our business for the two months combined. So we may probably end up with about 100,000 vehicles this month, as against last year about 125,000 vehicles. So we are keeping our fingers crossed for the booking for Dhanteras and Diwali. Typically bookings happen on these days because most of the markets outside South post Diwali the dealer showrooms themselves are closed anywhere from four to seven days. So, bookings, deliveries, everything happens by Diwali. So on the SME side the capacity utilization, I would say the best example or the best indicator would be how is my collection performing in SME, to understand what is the capacity utilization, because that's an indicator of their cash flows and payment. In fact, SME has been doing well. We were at 99% in July, August at 100% and September at 102%, where the total of about 101% which if you compare with Q1, which is at 90%. So cash flows are improving, people are positive so, I take my collection as a barometer for how our business is performing.

Prashant Sridhar: Fair point sir. I'm sorry, if I missed it previously, but could you just give us the Stage-2 and ECLGS numbers for the NBFC and the stage one restructuring in the HFC?

YS Chakravarti: Sorry, I didn't get you can you repeat that please, your voice was a little indistinct

Prashant Sridhar: Sure. Sir, I asked for the Stage-2 and total ECLGS disbursements in SCUF and Stage-2 and restructuring in the Housing Finance entity.

YS Chakravarti: Stage-2 as I have said it about 11.96% which has moved up from 11.68. 11.68 to 11.96 is what Stage 2 has moved up. But as we have mentioned within the Stage-2, 61 to 90 has reduced, whereas the 30 to 60 has gone up.

R. Chandrasekar: So, it's a positive sign because from 5.04 it has dropped to 3.75 in 61 to 89 bucket, but 31 to 60 bucket, 6.64 to 8.01. Overall, 61 to 90 has moved 1.29% to 31 and 60.

YS Chakravarti: So, on the ECLGS it is about 88 crores, the disbursements as on May.

Prashant Sridhar: And how about the Stage-2 and restructuring in HFC?

Ravi Subramanian: For the HFC the stage one is 94%, Stage-2 is 4%, Stage-3 is 2% roughly, give or take some 5-10 basis points. And restructuring is 145 crores out of which till last quarter was about 131 crores and 11 crores was in this quarter. That adds to roughly 3.3% of the total book and out of this 3.3% roughly about 1% was in the zero bucket when the restructuring was done.

Moderator: Thank you. The next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: So, my question is on collection efficiency. So, when we look at it at the company level, it has moved towards 100% odd, but if you can just throw some light in terms of various product segments, there was an improvement in Stage-3 particularly for the small business loans. So, how has been the collection efficiency in small business loans and across other product segments as well?

YS Chakravarti: I will have Mr. Chandrasekar answer that.

R. Chandrasekar: The collection efficiency in LAP is 106, gold is 100%, PL is also 100%, pre-owned 101%, auto loans 101, two wheelers 101, and trade finance, that is SME also 101, so overall non-gold is 101 and gold also is 100%. So, all the product is around 100% to 102%.

Kunal Shah: Sir, so on enterprise loans you mentioned, how much was the collection efficiency?

R. Chandrasekar: 101 during this quarter.

YS Chakravarti: 101 for the quarter, Kunal, versus 90% last quarter.

Kunal Shah: Yes, so that had derailed, but now, it's almost back to +100%.

YS Chakravarti: Yes.

Kunal Shah: And secondly, in terms of the restructured so, what is mentioned out there is largely in terms of under OTR-2, and beyond that also whatever is there in OTR-1. So cumulative pull will be 1% odd, I'm not sure if you have covered it in the earlier remarks, but I missed that.

YS Chakravarti: Total is about 315 crores which is about 1% of the book.

Kunal Shah: Okay. So cumulative will be 315, perfect, got that. So, overall maybe in terms of the enterprise loans and personal loans again to just see like personal loans have been the highest ever disbursement I would say over last many years and given +100% collection efficiency on the business loan side, how could be the kind of buildup we could see in this two portfolio in particular?

YS Chakravarti: If you look at SME disbursements, so quarter-on-quarter if you look at it, it was 1100 crore in June and 1800 crores in September, which is about 600 crores per month against our average of 700 to 750 crores per month, but we should be there from October onwards because if you look at it, September we did 700, August we did 600 And July we did 500 Kunal, so, we are steadily pushing.

Kunal Shah: Okay. And should we see it getting towards like 3000, 3500 crores which have been there earlier, prior to COVID or maybe we have made the norm bit stringent where in maybe or maybe in terms of the costlier stance getting towards that number would be still some time away?

YS Chakravarti: No, Kunal we've never done 3000 crores in SME in a quarter. It was always hovering around 2000 to 2300 crores. There is only one quarter where we did, probably two, three quarters where we did that is about two years back.

Kunal Shah: Yes, I am referring to pre COVID FY19, so all through in FY19 all four quarters of FY19.

YS Chakravarti: FY19 and probably FY18. Yes, FY18 also.

Kunal Shah: Yes, FY18 and FY19 it was 2800 to 3000 odd crore, no doubt post that things were impacted. But if I have to look at those maybe kind of a run rate, are we prepared for that and could we see it in the near term or it is still some time away?

YS Chakravarti: 28 to 3000 cores I would aim for that in the next financial year and not this two quarters, because I would still like to go, probably I will aim at about say 2200, 2300 crores in these two quarters, and then push the pedal for the next year.

Kunal Shah: Sure. And on personal loans, so Abhijit also asked what maybe this quarter?

YS Chakravarti: Personal loan is something which we have not putting any brakes on because it's all internal, the only limiting factor is how do I reach my customers. Digital, so many people are coming onto digital platforms. Otherwise, a lot of customers, the branches actually reach out to the customer, customer walks into the branch or a person from the branch goes and get the documentation done. So that is what is the limiting factor for PL. We have not put a restriction there. So, the ability of the team to reach out, spend time with the customer is the only thing that limits it. But we are pushing it and basically, we are not holding anything back there.

Kunal Shah: Sure, okay. And on our housing so again, we are back in this quarter, disbursements have always been similar to what we did in FY21. So in terms of the approach or strategy, what we highlighted last time, is it now giving more confidence given the overall improving sentiments that we can scale it up at a much faster pace?

Ravi Subramanian: Kunal, yes, we are very comfortable of scaling it to the plan levels, we had actually gone on record stating that by FY24, we want to get to a 10,000 crore AUM with reasonable ROA and profitability and granularity as well. So, I think we are well on track for that, we should, given the current trajectory and what we plan to do in quarter three and quarter four, we should be closing the year close to about 5500 crores of AUM. And we have two years after that to get to 10,000 crores. Touchwood, the portfolio quality is holding up very well and if you look at the way the Stage-2 and Stage-3 have come off from the highs of the second wave of COVID, I think it gives us a fair bit of confidence that we have the bandwidth, we have the team, we have the collection ability, and we have the parent support to get to that level. Our investments in a few initiatives like Griha Poorti, particularly in the South of the country, will help us further improve our granularity and enable us to get loans at a slightly higher yield and in a territory where the group is very, very strong, and I think that should also add to our growth plans. And

initial indications are that the initiative is very successful. And if we continue at this investment and be at it for the next two quarters, I think we have a winner on our hands.

Moderator: Thank you. The next question is from the line of Shubhramshu Mishra from Systematix. Please go ahead.

Shubhramshu Mishra: Sir two questions, one is for you and one is for Ravi sir. The first one is if you can dwell upon the SME customer, what is the geographical split, what kind of turnovers do these guys have and how do we underwrite them basis cash flow or basis ITR or we take a mix of both and what is the split between trading, and how many customers are dependent on manufacturing, that's the first. Secondary is for Ravi sir, if you can dwell upon the customer segment for the HFC which is salaried, what kind of salaried are we doing, is it PSU, private, government employees, what kind of income levels do the borrowers have and what is the family income level and in terms of self-employed what kind of soft liens are we taking, are we taking some kind of soft lien on the commercial property, what kind of self-employed guys are these, how many in trading, how many in manufacturing, those are the two questions sir. Thank you.

YS Chakravarti: On the SCUF side, 80% of the customers are people who are in services or trading. Manufacturing is less than 20% and most of those manufacturing units would be units which are ancillaries to the larger manufacturers. Also, there we have, it's like the manufacturing encompasses businesses like your brick manufacturing, brick kiln and all this thing and we have also funded a lot of small manufacturing units which makes these agricultural implements. So that's the kind of customer base that we have.

Shubhramshu Mishra: The geographical split sir?

YS Chakravarti: Geographical split on the SME would be today 60% would be from South and 40% from Non-South.

Shubhramshu Mishra: And cash flow versus ITR underwriting?

YS Chakravarti: If you're asking me to tell you how do I lend, sorry, that's something which I can't, but basically it is cash flow.

Ravi Subramanian: So on the housing side, we primarily cater to the self-employed segment, we have 80% of our customers are self-employed, only about 20% are salaried. Our typical profile of my self-employed customer would be a trader, a shopkeeper, a small time SME owner, et cetera who primarily has an income of about 4 to 6, 7 lakhs per annum. On the salaried side, in the 20% salaried that we have about 20% of them would be cash salaried, people get the salaries in cash, and about 80% of them would actually be getting their salaries through the banking channels. And typical salaries would range from about 25,000, 30,000 per month to about roughly I would say about 8 lakhs per annum kind of a salary range. And when you're talking of soft lien, we do not insist on any soft lien, it's a hard lien on the property that he is purchasing, or in case it's a

LAP, which is only about 20% of our book. In that case, the property that he has. So essentially all loans are mortgaged by a specific collateral. And that's about it and we also have insurance coverage for these customers on most of the loans that we take.

Shubhanshu Mishra: Right sir, and the family income of the salaried ?

Ravi Subramanian: The income that I mentioned was family income.

Moderator: Thank you. The next question is from the line of Lokesh Mallya from SBI Funds Management. Please go ahead.

Lokesh Mallya: Thanks, my question has been answered. Thank you.

Moderator: Thank you. The next question is from the line of Ashwin Kumar Balasubramaniam from HSBC AMC. Please go ahead.

Ashwin Balasubramaniam: I just wanted to understand more about the personal loan segment in that what I understand what will be the typical nature of the customers and also what kind of overlap will be there with the small enterprise loan segment, what proportion of customers will have overlap and these customers what kind of additional filters will you have, let say before you extend a personal loan, that is one question and related question is, if I look at the NPAs in the personal loan segment, it remained at about 11% odd, despite the base, the AUM sort of more than doubling over the past year. So we just wanted to understand, is this the sort of 11% odd will be the normal run rate or would that decline going forward?

YS Chakravarti: Yes, to answer your last question first, we do look at this and it should actually come down quarter-on-quarter going forward. We have a handle on that now, and it should go down forward number one. Number two, on the overlap, SME customers are not allowed to borrow on a PL, if they need money, we will look at the cash flow, we'll look at the need and then give them a top of an SME loan, so no personal loan. So their IDs, the SME customer IDs are blocked for accessing personal loan in the system. So, let me put this way, there is a cross sell, and most of the cross sell happens to my two wheeler customers. And if somebody has availed a personal loan, two wheeler customer has availed a personal loan and if he's running a business, then I may look at his business cash flow and then do a SME loan, but in SME customer is not allowed to avail of a personal loan.

Ashwin Balasubramaniam: So, what proportion will then be cross sell versus like open sourcing from the market?

YS Chakravarti: No, so 100% cross sell as of today, we are not looking at going into a normal, for small ticket personal loan we are not looking at going to the open market at all, probably at some point of time. In the next six to nine months we may go for a prime personal loan customers.

- Moderator:** Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.
- Nischint Chawathe:** Just three questions from my side, one was on the housing side, looks like there was some increase in yields this quarter, over the last two, three quarters. So, is there any specific reason?
- Ravi Subramanian:** Ravi here. There are a couple of things here, one is our focus on Griha Poorti which has actually gone up from 1% of origination to 5% of origination at this point in time, has led to increase in yields, because that comes in at a slightly higher yield than rest of the business and that apart, I don't see any specific reason for the acquisition yield to have gone up, because our concentration of LAP and construction finance which are higher yielding products has not moved at all and that's kind of stayed down. And if you're looking at the yield as per the financial statement that's also gone up because compared to last quarter, because this quarter we started business, last quarter we did only about 200 crores of business, this quarter we did 680 crores so, the PF component of that came into our revenues this quarter, and that kind of increase the revenues when compared to the last quarter. So, these are only two reasons because of which yield would have gone up.
- Nischint Chawathe:** Sure. Just moving to SCUF, I was just checking if you have any guidance in terms of, when do you really see the Stage-2 loans coming down?
- YS Chakravarti:** Chakravarti here. We are on the job, in fact it will be our probably in the next two quarters, if the things hold good probably we should see something by the end of the year, we should see a better improvement in the Stage 2.
- Nischint Chawathe:** Sure. And any guidance on the merger that you could give with Shriram Transport?
- YS Chakravarti:** Same thing as last time what I said. They are still evaluating, nothing as of yet that's concrete.
- Nischint Chawathe:** My question actually was that, given the fact that you are evaluating a merger and probably you make a decision over the next couple of months, would you really at this point of time want to sort of scale up it to into new product lines, et cetera because in the merged entity these would be like really very tiny products.
- YS Chakravarti:** See, let me put it this way, I don't know if this is going to happen or not happen. I don't want to stop my business, because something may happen tomorrow, which is very uncertain, See, I am responsible for this company and this company's shareholders. So, my job is to make sure that this company keeps doing what it does well.
- Nischint Chawathe:** And then whenever the final decision on the merger is made you can kind of take a call at that point of time?

- YS Chakravarti:** Yes. So, when I said evaluation is happening, not at my level. People are thinking whether it should happen or not.
- Moderator:** Thank you. The next question is from the line of Krishnendu Saha from Quantum AMC. Please go ahead.
- Krishnendu Saha:** Couple of questions, so the cost income ratio increased. So how do we look at that going ahead, what is the thought there and on the COVID provision we, COVID provision is down from 712 to 624 crores. How is that book playing out, the COVID related book, some thoughts on that please.
- YS Chakravarti:** I will have Chandru answer that.
- R. Chandrasekar:** So with reference to cost income ratio, the disbursement has gone up substantially during this quarter and the variable costs in dealer payouts and the incentives for employees and collection also is very good. So consequently, the good collections and good disbursements and bigger payouts is the reason why the cost income ratio has gone up. With reference to the COVID provisioning, we are evaluating closely and according to the collection we look for the next six to eight quarters, how the collections will look into and accordingly we will bring down the COVID provisioning depending upon the collections and the movement of the graph and fees. As of now we are quite comfortable with the provision which we feel will take care for the next six to eight quarters.
- YS Chakravarti:** Does that answer your question?
- Krishnendu Saha:** Yes, there are some provisions, could it be written-back of some provisions in the COVID provisions?
- R. Chandrasekar:** Can you repeat the question?
- Krishnendu Saha:** Just wondering, if there could be any more write-backs in the provision in the coming quarters?
- R. Chandrasekar:** Yes, this quarter also we have done actually. Going forward, we will do depending upon the collections and depending upon the movement of the gross NPAs, and depending on the internal stress test, we have a stress test how the PD, LGD all these things behave. So accordingly we'll take a call.
- Moderator:** We'll take the next question from the line of Chandrasekhar Sridhar from Fidelity International. Please go ahead.
- Chandrasekhar Sridhar:** I had a few questions. One, just on the SME book right now, how much is the secured and if you could just give the breakup of the collateral by SORP or any other way, that's question number one. Second is, why is it the repayment in the SME so high? My understanding is this is a 36,

three to five tenure product. Your repayment rates are so huge so just trying to understand that will be better. The third is, used two wheeler business now you've completed almost more than two years in the business now and you did say you will see slightly higher NPLs as unique to the product, you have a few more years into the product, if you could just tell us where we are from your experience on asset quality over the last couple of years. And then just lastly, just on cost of funds, do we expect these to go lower any further because our borrowing cost still continue to be remaining, little higher than those entities which still have even lower ratings than us and still have slightly lower cost of fund than us, so four different questions.

YS Chakravarti: On the SMEs it's about +80% is secured. If you're talking about, if you want to break it in the SORP, commercial, or a piece of property, most of these customers, what you need to understand is my average ticket sizes are about 10 – 12 lakhs. So majority of these customers who own one property, it could be an SORP, it could be a shop he owns or a piece of land he owns. So that's the kind of collateral that we normally take. So SORP would be about 25%, 30% of the customers. Rest of the customers could be the business premises or a piece of property that he owns. That's as far as SME is concerned.

R. Chandrasekar: With reference to the borrowing costs, in fact if you see the current quarter borrowing cost was 8.54%, that last quarter was 8.9%. So steadily the borrowing cost is coming down.

YS Chakravarti: And I don't see any, I mean, I am not aware of any lower rated organizations being able to manage. Anyway. So the incremental cost of borrowing is about 8.54 for the quarter. Which is about 40 basis points lower compared to last quarter.

Chandrasekhar Sridhar: Do we expect this to go down any further?

YS Chakravarti: Yes, we hope so. We actually think so, at least for the next two quarters.

Chandrasekhar Sridhar: The question is also that, during this period of slightly tougher funding environment, you all have shifted to much longer tenure borrowing. Is there a thought that now with funding getting a little more comfortable that you needn't have that, you don't need to play that much of the longer tenors?

YS Chakravarti: See somehow we have always been conservative as far as the fundraising is concerned. So we would continue to be conservative, we would not do too much of a short term borrowings, we would prefer to have a majority of our borrowings within three to five years. So, though it may cost us a little more, somehow we are not comfortable doing a lot of, even in the hey days of CP, we did not have much of an exposure to CP. The Board and the management both are somehow not personally comfortable in getting into that. So, we will continue to raise money within three to five years, probably we may look at the CP market, small quantum of CP market going forward.

R. Chandrasekar: During this quarter also 8.54 is in 42 months tenure so historically, we will do around 36 to 38 months, now this quarter the rate at 8.54 at 42 months tenure. So we'll keep the tenure around 36 to 40.

YS Chakravarti: To answer your other question on the pre-owned the two-wheeler. We are coming to the end of the cycles for the initial business that we have done and we are sure that we will stabilize around same thing as our two-wheeler, probably around between 6 to 6.4%. It should stabilize at the same delinquency rate as in the normal two-wheeler.

Chandrasekhar Sridhar: Right. And just the repayment in the SME, I would have presumed that the repayments would be a little lower given the tenure, I am just trying to understand that a little better.

YS Chakravarti: See, my average tenor of SME is about 36 months. Monthly amortized product.

Chandrasekhar Sridhar: Yes, but even then the repayment rate seems pretty high?

YS Chakravarti: No, it's normal, I can ask Jai Singh to give you the data if you need it

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

Sanket Chheda: Congrats on a good set of numbers at least on the growth front. Just wanted to understand a bit on asset quality, we have managed asset quality very well in both the waves, but particularly in this quarter, one: our write offs have not reduced, it was still elevated at 200 crores or so and despite that, we are not seeing any reduction in Stage-3 and Stage-2 has rather moved up 20, 30 bps. So that seems very counterintuitive with the fact that, collection efficiencies have also improved to 100%. So how do we read that and the other thing is, as far as provisioning is concerned we have total ECL provisioning of 7% of the book as of now. So 50% on Stage-3 and other on stage one and Stage-2. And if we assigned the total provisioning on standard asset just on the Stage-2, then the PCR on Stage-2 comes to 32%. So we are very adequately more than enough provided, just wanted to understand will there be any write backs going ahead if we see the asset quality tail winds coming in meaningfully in second half of this year, or how soon will it be, and the write offs of this run rate would continue or it would cool off going ahead?

R. Chandrasekar: Actually, going back the COVID provisioning write back will be there even in this quarter. You would have seen that COVID provisioning has come down. So every quarter-on-quarter we will look into the product wise collections and other things. And we hope, in fact even if you look one year, two year back, the gross NPA was around in fact when IND-AS was introduced was around 9.4 then it reduced . So we believe gross NPA is coming down, net NPA is coming down. And, this trend will continue, the improvement in collection efficiency during this quarter also has reached 100%. With reference to write off, if you have seen historically also, in fact, last year was around 840, 850 crores, around 210 to 215 crores per quarter but this might be actually lesser than that. So even during this tough time, we have good recoveries also, bad debt

recoveries also which is coming on the income side of the balance sheet. So we are quite, the collections is improving. So write back will happen, which we can hope this trend will continue and things will improve in the coming quarters.

Sanket Chheda: So, just the question was why the maybe stock of Stage-3 or Stage-2 has not come down in this quarter or rather just moved up marginally. So how to read that, will that begin to reverse from next quarter or how?

R. Chandrasekar: Stage-2 consists of two components, one is 31 to 60, 61 to 89. But the 11.68 has gone to 11.96 but the 61 to 89 has come down from 5.04 to 3.75, so it's very clear that the 61 to 89 bucket is moving to the 31 to 60 bucket. So that's a clear improvement in the staging.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to Mr. Pradeep Agrawal for closing comments.

YS Chakravarti: Pradeep before you give your closing comments, I would like to share a small news with all the friends on the call, may I?

Pradeep Agrawal: Yes, sure. Please go ahead sir.

YS Chakravarti: Gentlemen and ladies, so I am happy to tell you that as of yesterday in Shriram City Union Finance, we have funded 99 lakh two wheelers so far and we are likely to reach the historical mark of one crore two wheeler funded in November. So, I just want to leave the thought with you, one crore happy families from Shriram and it took us, when we started this two wheeler journey it was in 2002. So, it took us close to 13, 14 years to do the first 50 lakh two wheelers and 2016 is when we have reached 50 lakh two wheelers. And in November we will be reaching the one crore historical mark. Just want to leave that though with you. And the other thing is that we still have the first customer who we have funded the two wheeler with us as a customer.

Pradeep Agrawal: Many, many congratulations sir, on that milestone.

YS Chakravarti: Thank you and that's it from my side.

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

Management: Thank you very much. Thanks, Pradeep

Moderator: Thank you. Ladies and gentlemen on behalf of PhillipCapital (India) Private Limited that concludes the press conference call. Thank you for joining us and you may now disconnect your lines.