



**“Shriram City Union Finance Q3 FY2017 Results
Conference Call”
January 31, 2017**



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Moderator: Ladies and gentlemen good day and welcome to the Shriram City Union Finance Q3 FY2017 Results Conference Call. 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Singh from JM Financial Institutions. Thank you and over to you Sir! Mr. Karan Singh over to you now.

Karan Singh: Thank you and welcome to Shriram City Union’s earnings call to discuss the third quarter results. To discuss the results we have on the call Mr. Ramasubramanian Chandrasekar, who is the CFO and senior management team of Shriram City Union Finance. May I request Mr. Chandrasekar to take us through the financial highlights, subsequent to which we can open the floor for Q&A session. Over to you Sir!

R. Chandrasekar: I am Chandrasekar here. Before I go into the financials I will ask Mr. Chakravarti to go through the business details then I will give the financials and also I have Krithika who is also here for this conference. Over to Chakravarti! Thanks.

Y. S. Chakravarti: Good morning and happy New Year all of you. I am sorry I am down with a flu so if my voice is bad, please excuse me, if I am not clear you can stop me and let us start again. I am a part of the Shriram City for more than 12 years, I am the Chief Operating Officer of the company and I have interacted with many of you for the past couple of years during conferences and investor meetings. Before moving into Shriram City, I have been with the group for about 14 years, so all in all about 25 years of working with Shriram Group. I was handling the Chit Fund operations earlier, from there I moved to the Shriram City Union Finance business side. Once again welcome to all of you for the earnings call of Shriram City for the quarter ended December 2016. For us here at Shriram City and of course like many people in the country this quarter was very interesting, very challenging. 85% of currency moving out of circulation has actually created chaos as all you know in the past four, five weeks. What we feel is that the full impact of the demonetization is yet to unfurl. Our business is primarily where we cater to the self-employed segment, SMEs and other small businesses, which transact primarily in cash. In all these businesses we have experienced near term delays in payments as the businesses have come down, cash has been out of circulation, the turnovers have come down. Their priorities have shifted from paying the financier to handling the personal financial needs and then also handling their suppliers. The impact has been both on collections as well as disbursement, though we have witnessed a marginal improvement in the month of December, we feel that it may not create a permanent damage, but in the medium term we feel that it will have an impact. The business growth is yet to pickup, collections were down for the quarter ended December

2016 by 9.9% compared to September quarter. Disbursements were down by 7.6% for the quarter. Two wheeler disbursements in the month of October as you know the festival month has been a record high. Fortunately for us since Diwali has come on the 30th of last year in October there is a huge spillover in the month of November also, so on the two-wheeler business we have not seen much of an impact because of the huge numbers in October and November. December there was an impact. Virtually in most dealer point sales were down by 40% to 60%, so overall for the quarter we are able to manage the numbers because of the numbers in October and spillover in November. Loan against gold and Small Enterprise Finance have been the most affected for us and there is a 30% dip in these businesses and during the quarter we have seen an 18.6% growth in AUM on a year-on-year basis and now the AUM is at Rs.22544 Crores. Non-gold AUM recorded 23.5% growth.

For the quarter AUM grew by 5.4% and non-gold portfolio grew by 4.6%. Product wise mix of AUM continues to be dominated by SME, which is now 55% in the book, two-wheeler is 18%, gold is 15%, auto and personal loans are at 6% each. The disbursements have seen a growth of 10.3% on a year-on-year basis, on a quarter-on-quarter basis SME is down by 7.6%. Disbursements for the quarter ended December 2016 are at Rs.5146 Crores, out of which SME disbursement is 38%, this is as far as the business side is concerned. I would like to hand it over to Chandrasekar for the financial details and I would be happy to take any questions once Chandrasekar and Krithika brief you on the financials.

R. Chandrasekar:

Good morning everyone. Before I present the financials Chakravarti has told you the impact of the demonetization this quarter and RBI also has permitted a special dispensation for the recognition of NPA for the quarter ended December 2016. At Shriram City we have considered the dispensation, and the financials are as follows. On a standalone basis Shriram City for the quarter ended December 2016 has recorded 15.5% growth in income from which operations, which is at Rs.1156 Crores, on a quarter-on-quarter basis it translate to 3.6% growth. Net income for a quarter stood at Rs.762 Crores from Rs.648 Crores during the same period last year thereby recording 17.7% growth on an annual basis. On quarterly basis it translates to 3.7% growth. Pre-provision profit stood at Rs.465 Crores up 19.5% on year-to-year basis. NPAs are continued to be recognized at 150 days past due and during the quarter we have availed the dispensation as provided by the RBI and gross NPA for December 2016 is at 4.49%. Continuing the conservative approach we have increased the coverage ratio and net NPA and as of December 2016 it is 0.57% after maintaining a coverage ratio of 87%. Write off during the quarter were to the extent of Rs.105 Crores as against Rs.115 Crores during the previous quarter. Profit before tax for the quarter ended December 2016 stood at Rs.241 Crores, a dip of 8.6% as compared to the same period previous year that is December 2015. Profit after tax for quarter is at Rs.157.74 Crores, a dip of 9% as compared to quarter ended December 2015. On a nine months period we have had a PAT of Rs.144.02 Crores translating to year-to-year growth of 14.7%. There has been

no significant change in the number of branches or head count during this quarter. We are currently operating out of 998 branches and employee count is 26,173.

On our subsidiary Shriram Housing Finance on account of demonetization the Company has also reduced disbursement during this quarter. Total disbursement during the quarter for the housing finance company is at Rs.183.1 Crores against Rs.332 Crores in the previous quarter translating to a dip of 36%, however, the fall is steep in a non-retail disbursement, which fell by 80% on a quarter-to-quarter basis. Asset under Management as on December 2016 is at Rs.1835 Crores, a growth of 4.6% on a quarter-to-quarter basis. On a year-to-year comparison, there is an increase of 69%, AUM in December 2016 stood at Rs.1082 Crores, the total asset under management Rs.1833 Crores, and Rs.251 Crores is a non-retail book. Average lending rate continues to be at 16% and a significant percentage of book is from affordable housing market business, it is a pan India outlook. The company is currently operating out of 85 branches.

Gross NPA is at 3.65% as compared to 3.48% in the previous quarter and this is after considering a dispensation benefit as permitted by RBI. NPA benefited on account of dispensation is Rs.22.31 Crores and GNPA without a dispensation would have been at 4.87%. The company has marginally increased the provision coverage from 27% to 30% during this quarter and the same is well over the minimum regulatory requirement. Profit after tax for quarter is at Rs.8.4 Crores as against Rs.10.1 Crores in the previous quarter, so these are the financial results for both Shriram City as well as housing finance. Now I hand over to my colleague, Ms. Krithika for other ratios, borrowing profiles and the impact of dispensation on the financial and I am handing over to Krithika.

Krithika Doraiswamy: Thank you Sir! Good morning to all. First I will take you through the impact on the financials, the results of Shriram City Union Finance Limited on account of the dispensation. Loans worth around Rs.202 Crores have not been considered as NPA on account of the dispensation benefits as permitted by the regulator. At these assets being considered impact, the gross NPA level would have been at 5.4%. On these accounts we have had a benefit of lower income reversal to an extent of Rs.22 Crores. On the borrowings as on December 2016 we have had Rs.16452 Crores of total borrowings, out of which the bank borrowing constitutes 55%, market borrowings comprising of NCDs and sub-debts are placed with institutions and commercial paper constitute 18%, and the retail borrowings including the outstanding of public issue of NCD is at 27%. Cost of borrowing for the quarter ended December 2016 stood at 9.86% as against 10.06% in the previous quarter and the same was at 10.34% the same period the previous year that was the quarter ended December 2015. 47% of our borrowings are at fixed rate of interest, our 20% of borrowings were semi-fixed rate that was the rate linked to the MCLR of the bank and 43% of the borrowings are the floating rate of interest. The weighted average tenure of our

borrowing is about 19 months as on December 2016. Yield on assets for the quarter ended December 2016 stood at 21.05% as compared to 21.53% in December 2015 quarter. The net interest income for the quarter was at 13.88% as against 13.94% in December 2015 quarter. We are happy to take more questions.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: Thanks for the opportunity Sir! Firstly I just wanted one data point question, which was, what is the segmental disbursement breakup for the quarter?

Krithika: We have had two-wheeler disbursements of Rs.1208 Crores, home enterprise finance of Rs.1934 Crores, loan against gold of Rs.1430, personal loans at Rs.380 and auto loans at Rs.256, the total disbursements are being Rs.5146 Crores.

Dhaval Gada: Sorry how much was auto?

Krithika: Auto was Rs.256 Crores.

Dhaval Gada: Taking that forward in terms of disbursements, if I see the SME disbursements I think they were down on Y-o-Y, so how do you see situation on that front and secondly on the gold loan disbursements, you mentioned in your comment that you saw some slowdown, but when I look at the sort of Y-o-Y performance from 1430 this quarter same period was about 1046 last year, so I just wanted to understand if the demonetization would not have happened what would have been sort of the growth trajectory in the gold loan portfolio?

Y. S. Chakravarti: As far as SME is concerned, I think one is after the demonetization we have also taken a conscious decision to go slow, evaluate much more closely and also real estate sector is going to be affected, we actually try to minimize exposure in the real estate sector and also since we are not clear on what kind of an impact demonetization will have on the cash flow as well as SMEs we will go slow, so that is also one reason why the business has slowed down and also in certain recommended cases, approved customers have held back taking a loan. These customers actually transact in cash and they are not able to withdraw the cash, even though it is sitting in the bank.

Dhaval Gada: So how do you see the trend in January Sir, I mean how is the trend be?

Y. S. Chakravarti: January is slightly better than December, but I still do not see a great improvement.

- Dhaval Gada:** And in terms of SME just on SME when do you sort of expect to reach pre-demo level given as we have seen relaxation on withdrawal on current accounts, etc., so when do you sort of expect your borrowers to return to normalcy in that segment Sir?
- Y. S. Chakravarti:** Actually for us normally Q3 is big so I do not know, honestly probably another two quarters.
- Dhaval Gada:** And on gold loan Sir, given the strong growth you have seen, I mean, how do you see the trajectory in that portfolio?
- Y. S. Chakravarti:** In Gold loan, we have held our position. As far as our cash collection from other product segment like two-wheeler, SME, auto, personal loan is concerned, we were able to utilize whatever collection we had in this product, we did not have to go to bank for withdrawal, so that is the reason you see a better performance in month of December for gold. Right now we are at a stage where the cash we were collecting is more than the demand for gold loan, so probably the disbursement will grow by about 25% to 30% is what we are expecting.
- Dhaval Gada:** On asset quality Sir, just some colour in terms of January collection and how do you see the overall asset quality situation panning on the fourth quarter excluding the transitory movement in that quarter, which was just to underline trend on that part and then how do you see the overall guidance on your GNPA on 120 DPD at the end of the fourth quarter?
- Y. S. Chakravarti:** As far as collections for January are concerned, it is slightly better than December, I would not say great improvement, but it is slightly better in January. We are hoping that we will come back to normal probably next two to three months and so as of yesterday it was up by 50 basis points compared to December, so we hope that February, March would be the litmus test for us to see we can reach the pre-demonetization levels and since the last two months all the team is focusing on the collection side and we are trying to make the customer pay through mobile apps, mobile POS machine, and we are trying a lot of things. Hopefully by end of Q4 we should see a substantial improvement.
- Dhaval Gada:** Any change in the guidance of the GNPA number?
- Y. S. Chakravarti:** On a 120-day equity basis it will be 7%, 7.5%.
- Dhaval Gada:** And just last thing Sir from me, have you made any changes on the operational front, in terms of your changing LTVs on product or ticket size changes, etc., which is material?
- Y. S. Chakravarti:** Only for SME where we also take property collateral, the LTVs and collateral values have been lower. For gold and two wheeler no changes.

- Dhaval Gada:** Fine Sir! Thanks. All the best.
- Moderator:** Thank you. We take the next question from the line of Digant Haria from Antique Stock Broking. Please go ahead.
- Digant Haria:** My first question is that, out of the Rs.220 Crores of provisions that we did, how much of it were on account of the accounts that if we had not used in dispensation would have become NPAs?
- Krithika:** On the provisions we have taken the NPA, so Rs.224 Crores compared to Rs.115 Crores of provision for NPA and another Rs.105 Crores on account of write off, so these are the provisions, which are made on the account wherein we have taken the dispensation and have done these provisions, we have increased the coverage.
- Digant Haria:** So you mean to say that Rs.202 Crores of loans, which you did not recognize as NPA because of the RBI dispensation, on that also you have taken the provision in this quarter itself right?
- Krithika:** We have not taken provisions for those accounts.
- Digant Haria:** Fine, so now on my second question is mainly on this two-wheeler financing, so I heard in the opening commentary that two wheeler sales at the dealer point in December were down by 40% to 60%, so I just wanted to check that we could still do better it was not only because of the October effect or there was some shift in the preference of people, more people opting for finance now versus in the past?
- Y. S. Chakravarti:** No Digant, it is not so, actually Dussehra and Diwali falling in October and Diwali at the end of the October meant that, as usual, immediately after Diwali all the showrooms closed for a week and then they started delivering, so all Diwali deliveries happened in November, so we crossed huge numbers in both October and November. In December, you know people actually are postponing buying decision, forget about buying it in cash they did not have money for down payments and money.
- Digant Haria:** Sir of all your business segments like, which of them do you expect to bounce back the fastest, like will it be to two-wheeler or will it be gold or any judgement on that?
- Y. S. Chakravarti:** SME and gold.
- Digant Haria:** Alright Sir!
- Y. S. Chakravarti:** In fact, gold loans have also picked up but it is a small segment as portfolio.

- Digant Haria:** Alright Sir. Thank you for now and all the best. I will come back in the queue if I have more questions.
- Moderator:** Thank you. We take the next question from the line of Nakul Manaktala from Samaira Investment. Please go ahead.
- Nakul Manaktala:** Good morning Sir two questions, first in regards to SME, I mean, what you are seeing on the ground, are you doing anything proactively to kind of work with SMEs to better manage the cash flow potentially providing them with a moratorium period, what is happening on the ground. If you could answer that question?
- Y. S. Chakravarti:** As far as moratorium is concerned RBI itself has provided a moratorium for the comfort. On the lending policy we have not done any changes except for lowering the LTV and collateral, other than that there are no changes in the lending policy.
- Nakul Manaktala:** Second question was regarding the GST, which is, I think expecting it July 1, how is that going to change your business, do you see any sort of impact on your business, your collections, disbursement, any sort of impact?
- Y. S. Chakravarti:** As far as GST is concerned, I do not have a clear-cut answer, so that as of now discussions are still going on looking at how it is going to impact my end customer. Probably at a normal rate, whatever impact we can handle, we are looking at what impact it will have on SMEs, particularly who will deal with lot of cash is what we are going through a study so I would not be able to give you a credible answer now.
- Nakul Manaktala:** One last question, in regard to next quarter obviously when it goes to 120 days recognition norms, so clearly you are going to add to your provisioning given that gross NPAs would probably go to 7%, 7.5% is what you mentioned earlier in the call, so what sort of coverage ratio, which you will be comfortable, is it going to be low 70s, high 70s, what coverage ratio you are looking at?
- Krithika Doraiswamy:** Given the lack of clarity in the macro economic situation on whether the demonetization impact for which we have got a benefit by way of dispensation – whether these are going to continue for the March quarter is something we do not have clarity about at the moment, so given this situation we may consider coverage ratio of around 65%-70%.
- R. Chandrasekar:** We have to wait and watch and see, but at present is 87%, so depending upon RBI actions we have to wait for some more time and decide, may be in the first week or second week of February we will see if any RBI guidelines are going to come into force.

- Nakul Manaktala:** Understood. Alright. Thank you so much.
- Moderator:** Thank you. We take the next question from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.
- Karthik Chellappa:** Thank you very much for the opportunity. Just a few questions. Firstly if I look at the NPL even without considering the RBI dispensation of 5.4% our coverage ratio works out to be about 72, 73, which was what we had last quarter, so what benefit did we exactly derive by going in for the dispensation because we are still maintaining a high provision coverage ratio?
- Krithika Doraiswamy:** Are you going to add more questions or can I take this Karthik?
- Karthik Chellappa:** My second question then in that case would be if I were to look at the SME portfolio in the backdrop of demonetization and GST and if I were to split it into two kinds of risks, number one the SMEs structurally making a lower margin because they have to pay higher taxes or some of the mid private sector banks now being able to assess that credit better because there is a lot more transparency, which of the risks are you more worried about, that is my second question, and my last question would be on the CFO change could you give us some colour on what prompted the resignation of Ms. Subhasri and is she going to be involved in some capacity with Shriram Group or she leaving the group entirely. Thank you very much.
- Krithika Doraiswamy:** Karthik on taking your question on the coverage ratio on account of dispensation itself, we will have to see it in two points, so one is the dispensation, which we have taken is benefited around 202 Crores of assets, which have got the benefit under the dispensation and on account of these we have had a lower income reversal of around 22 Crores. Taking your second point on the coverage ratio, the gross NPA assets, which have been recognized as NPA after dispensation is 993 Crores will be on a comparable basis with what we had in September was 1034 Crores of NPA. So as per the dispensation provided that was not only the assets which were priced on a zero delinquency so they have just defined it as the assets which were standard as of 31st October 2016, though we have even got the benefit of the dispensation as per the policy you have the assets, which you would have in normal course slipped into the NPA. To neutralize the benefit of the dispensation we have increased the coverage ratio and if talking about the numbers, which we have got benefited is the 22 Crores, which is on account of a lower income reversal.
- Karthik Chellappa:** Got it, thanks.
- Y. S. Chakravarti:** Karthik as far as your question on SME is concerned, we do not see too much of a risk. We have talked to most of our Small Enterprise Finance customers, in fact. Half the time they

try to avoid paying tax not because of the depth of margin, but because they do not want to get into the harassment more with the tax paid. The businesses are so small where they do not see increasing portion of the taxation burden on to the customers. As far as private bank is concerned, I am not really worried because the market is so huge and so under-served. With more players, the market will mature much faster and that is the advantage of this. They will make the market more open we would welcome them to come in and compete with us. So I feel that wherever we are fighting alone, we are trying to sell the products alone, we are struggling and where we have a competition, the situation is better. As far as Subhasri is concerned for the past two to two-and-a-half years she has been requesting the group for a change in responsibility and we were all resisting this request,. Now she is not going out of the group, she will be in the group, and will be moving into a software company, so she is available for the group and Karthik in case you want to meet her you can always do so.

Karthik Chellappa: That would be great. Sir just one followup from your responses taking advantage of the RBI dispensation we are at 4.49 excluding that we are at a 5.4% NPL, which is like a 90 basis points delta, which segment is seeing the maximum rise in NPL because of this dispensation is it two wheeler or is it SME?

Krithika Doraiswamy: The two-wheeler, which is at 3.95% after considering the dispensation, it is around 5.1 without considering the dispensation, so there is no skews to any product. It has been almost at the same level across the product category.

Karthik Chellappa: Got it and just one followup to what Mr. Chakravarti said earlier that their SME customers do not want to pay tax because they want to avoid harassment by the tax authority, but in the new normal with GST coming in and this turnover becoming more transparent is not there an element of inevitability about it that they now have to file their tax returns and in that scenario?

Y. S. Chakravarti: I will give you anecdote on the demonetization effect. There was this customer who runs about four sweet stalls in Hyderabad and post demonetization his sales have increased by 700%. That is basically he has no other go but to swipe and in the month of January he got raided, so what I am saying is our SME customer is a small business owner so the small entrepreneur has a big problem to handle bureaucracy. Now it is inevitable, there is no other go, but again, small manufactures and traders are saying that their life will become simpler with GST, although probably the cost will go up.

Karthik Chellappa: Thank you Sir, thank you very much for your time and wish you all the best.

Moderator: Thank you. We take the next question from the line of Vishal Rampuria from HDFC Securities. Please go ahead.

Vishal Rampuria: Basically I wanted to understand your borrowing mix, so right now bank borrowing as you mentioned is 55% so how do you see this number moving down in next one or two years.

Krithika Doraiswamy: See on a borrowing mix definitely the opportunity to go to the market will be much larger so right now we have about 18% of our borrowing from the market and 24% by way of retail portfolio, which comprises of a fixed deposit program, which we run, so probably we will see in the next two years time the contribution of the market borrowing should increase substantially and the retail borrowing should be about 15% as against 26% right now.

Vishal Rampuria: One more question to ask you is that given the sharp drop in the yields we have seen in the last three to six months so how do you see your borrowing cost falling over the next one year assuming that the current yield sustains at the current level?

Krithika Doraiswamy: See the borrowing mix as far as the bank borrowings are concerned, for a section of the MCLR we do not get the benefit of the lower interest rate on the existing borrowing because these all become semi fixed or the rates are fixed till the time of next reset, which could range anywhere between six to twelve months from the date of borrowing. So the existing portfolio and definitely the newer borrowings will get the benefit of the lower rate and again as we have indicated the market borrowing will go up so we should be seeing the benefit. At this point of time where the market borrowing is definitely much lower than the bank borrowings, we should be able to derive the benefit on the newer borrowings.

Vishal Rampuria: So what could be the marginal borrowing rate from the market?

Krithika Doraiswamy: From market it is happening at around 8% on the longer tenure, on the shorter tenure it is anywhere between 6.5% and 7.5% in the shorter terms.

Vishal Rampuria: One last question to ask you at 90 days your DPD what would be your gross NPA numbers at this point of time?

Krithika Doraiswamy: At this point of time it was around 9.5%.

Vishal Rampuria: Thank you.

Moderator: Thank you. We take the next question from the line of Adesh Mehta from Ambit Capital. Please go ahead.

- Adesh Mehta:** Sir in terms of disbursement trends in January how are you seeing that panning out across your different product segments?
- Y. S. Chakravarti:** We have not seen any uptick in January also. January is something we are looking at a rate as something similar. We are hoping that SME should see some pickup. Two-wheeler and Auto, absolutely not much of a change from December to January. Gold was steady in December. SME is what we are banking on for an uptick.
- Adesh Mehta:** And on a Y-O-Y basis would it appear flattish or in a single digit growth?
- Y. S. Chakravarti:** Which one you are taking about the SME?
- Adesh Mehta:** Yes SME.
- Y. S. Chakravarti:** Probably it will be flat.
- Adesh Mehta:** So for January the numbers are still flat on a Y-O-Y basis and?
- Y. S. Chakravarti:** I also have a recent backlog to cover.
- Adesh Mehta:** And in two wheelers the number could be like what kind of growth?
- Y. S. Chakravarti:** It will be around 4%-5%.
- Adesh Mehta:** So basically if things do not improve in the next two months we might as well report a single digit kind of disbursement growth for the next quarter as well?
- Y. S. Chakravarti:** Yes.
- Adesh Mehta:** We have also mentioned in a presentation that the collection efficiencies are down by around 10% on a quarter-on-quarter basis so in the month of January has that improved or it is broadly the same?
- Y. S. Chakravarti:** Actually January is better, because we had a lot of impact in November. December actually we have recovered and this quarter would be better on a quarter-on-quarter basis. Trend is looking upward so we are hoping that we will close the quarter better.
- Adesh Mehta:** Any numbers to that?
- Y. S. Chakravarti:** No, I will forward a guidance.

- Adesh Mehta:** Thank you Sir! That is it from my side Sir! Wish you all the best.
- Moderator:** Thank you. We take the next question from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.
- Pavan Ahluwalia:** Two questions, first is you have been putting in place a number of operational improvements in terms of collection efficiencies maybe some cost efficiencies, etc., you have been working with external consultants, the Piramal Organization has also been involved, can you give us we have heard a high level characterization of what is happening as a result of this process, but can you give us some concrete examples of how this has changed the way you do business in terms of enabling you to grow faster, for example when you talk about standardizing credit processes what exactly is being done differently now that will help the organization scale better that has scaled previously? The second question I had is the higher ticket SME loans that you have been exploring you talk previously about doing SME loans in the 10, 20 lakhs range is that starting to get into the space where banks lend so would we be competing with the City Union Bank or someone like that in that segment or is that still a segment where you do not see a lot of banks?
- Y. S. Chakravarti:** I am handling it over to Lakshmi Narasimhan my colleague who is directly involved in all these projects. Lakshmi.
- Lakshmi Narasimhan:** Good morning, this is Lakshmi here. Just to give you a perspective on what this project is about. Essentially what we are doing is we do have a strong presence in some parts of the country essentially for south and some parts of Maharashtra as well. So the idea is to pickup what is happening terrifically good in these places, add to what are the realities in the markets in which we are not present in presently and create some sort of a credit engine, so just to be concrete with you we have kind of designed the credit engine through which we put through all customers that come through at this point in time. As we speak about 80% of the business gets covered through that credit engine effective January 2017.
- Pavan Ahluwalia:** And this credit engine what is it, is it a software program so if a customer comes and someone puts the details in your tablet and your credit engine spells out a score and a recommended credit decision or what exactly is it?
- Lakshmi Narasimhan:** Well there are specific questions that we asked to the customer and those questions for different territories has different weightages in terms of a number that comes out ultimately, so the engine requires certain questions to be asked to the customer and that is what we do.
- Pavan Ahluwalia:** And then does the engine tell the officer whether to disburse the loan or not or does it give a score what is it do?

Lakshmi Narasimhan: It gives an advice as far as the loan is doable or not, but there is no substitute to the personal interaction with the customer and finding out further about the customer, so at this point in time even if the engine tells me do not do it, if I do have a strong logic to go ahead and do it we will continue to do it because the experience that we have in these territories is far more intense to dial the score that we are making at this point in time. So the engine is advisory at this point in time as the kind of gain further experience and as we kind of do further analysis of the output that we get out of the engine we would kind of look to making it mandatory in different parts of the country.

Pavan Ahluwalia: But the commitment is very much that you want to start building that database so that effectively what you are trying to do is you are taking the traditional Shriram approach, which is judgement base you are running a horse race of that versus the credit engine and if over a one, two year horizon you find that the engine is actually able to do better than the judgement or there may be judgement plus engine work better than judgement alone you will be able to come up with the optimal combination of judgement plus engine.

Lakshmi Narasimhan: That is right.

Pavan Ahluwalia: Got it, and the more that you can rely on an engine though from the point of you scaling see any judgement braced credit decision process there is a barrier to scaling because you need to produce people that have that judgement and that you trust, etc. The more the process is engine reliant the easier it has to go and set up shop in other parts of the country and penetrate the product. Given the fact that you are not willing to fully rely on the engine yet is it safe to assume that at least for the next couple of years this engine that you are putting in place will not actually meaningfully improve our ability to grow?

Lakshmi Narasimhan: No, I think that is a wild position to take when I said engine is kind of advisory at this point in time in places where I do have a presence for time immemorial say about 15 years have been present in the SME business in the south there it is kind of advisory, but for new territories it is definitely kind of lets me scale up volumes. So in our experience in the last one year of implementation of this project we have seen close to 35%, 36% growth in the non chit territories as a consequence of this engine coming into existence, it does two things one is it reduces the cost because we do not need to kind of extrapolate the credit people across the country and two is the price that with these customers come has not reduced so my traditional IRR is maintained and the cost is reduced meaning thereby the credit is far better in those territories at this point in time.

Pavan Ahluwalia: But even in those territories the engine is not mandatory right even a non chit territory where I do not know the customer it is still advisory?

Lakshmi Narasimhan: I think we should catch up one offline on this topic, but just to kind of let you rest at that, the engine is not mandatory at this point in time, in some parts of the country it is mandatory which is the north and some parts of west. As far as the south is concerned it is not mandatory, and if you kind of have something further you should catch up offline.

Pavan Ahluwalia: Thanks, I will e-mail you.

Moderator: Thank you. We take the next question from the line of Rahul Ranade from Goldman Sachs. Please go ahead.

Rahul Ranade: Thanks for the opportunity. Just one clarification over here regarding the dispensation. So have we use the dispensation like all across the board or is there some subjectivity or some kind of a subjective call over there?

Lakshmi Narasimhan: We used it now as per the dispensation as per RBI guidance. We are using it across all products.

Rahul Ranade: So there is no discretion yield over there?

Lakshmi Narasimhan: Yes.

Rahul Ranade: And just one more question basically just the kind of get a sense of going back to 8th November where the demonetization took place we were all kind of in a fix as to whether it is just a liquidity problem or is it a structural problem in that nature. Now at this point in time what do you see on the ground with regard to the SME business especially where it is concerned is it more, are there any structural implications going ahead for the business?

Y. S. Chakravarti: Sorry what do you mean by structural?

Rahul Ranade: Structural in a sense there were some earlier questions where along with the GST and some totally cash economy now you know kind of getting digitized and getting into the official net so that way are we seeing any changes in the business that we need to kind of adopt for in the future for our business model?

Y. S. Chakravarti: No I do not see any of that. Right now it is more of a liquidity crunch in the customer point rather than anything else. This digitization payment through digital apps and all that I still feel it is a long way or I am not really worried about that aspect.

Rahul Ranade: Alright Sir! Thank you.

Moderator: Thank you. We take the next question from the line of Harshad Toshniwal from ICICI Securities. Please go ahead.

Harshad Toshniwal: Good morning Sir! Just wanted to know that for your SME finance without the forbearance what could have been the gross NPA?

Krithika Doraiswamy: It will be about 5.9%.

Harshad Toshniwal: And for two-wheeler?

Krithika Doraiswamy: That will be about 5.1%.

Harshad Toshniwal: Thanks a lot.

Moderator: Thank you. We take the next question from the line of Kunal Shah from Edelweiss Securities. Please go ahead. There is no response from the current participant we will move onto the next. The next is from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: Just one data point Sir! What is the GNPA currently on 120-day basis?

Krithika Doraiswamy: About 7.5%.

Dhaval Gada: So you are expecting it to be stable by the end of March as well basically?

Krithika Doraiswamy: We do not have it at this current point of situation. We do not know what is going to be the positive changes, which are going to come in this quarter.

Dhaval Gada: Fine thanks.

Moderator: Thank you. We take the next question from the line of Roshan Chutekey from ICICI Prudential. Please go ahead. Looks like we have lost the line for the current participant. We take the next question from the line of Adesh Mehta from Ambit Capital. Please go ahead.

Adesh Mehta: Sir what I am seeing is that actually repayment rates have come off meaningfully, so are we seeing a behavioral change where the customer of say an SME customer is now churning less the customer attrition has basically gone down?

Y. S. Chakravarti: Sorry I did not get it.

- Adesh Mehta:** What we are seeing is that our disbursements have grown by only 10% Y-O-Y, but still the run rate of our AUM growth has increased so we are doing 17%, 18% last two quarters and this quarter it is 19% Y-O-Y AUM growth, which means that actually your repayments have come down.
- Y. S. Chakravarti:** No actually basically this quarter the redemption of gold is much less and because we have taken the advantage of the RBI dispensation so except this there is no other. It is basically because of the gold not because of anything that you see a growth in the AUM. Gold tenure has increased.
- Adesh Mehta:** And do you see that sustaining?
- Company Speaker:** No, the cash becomes easier then things will change.
- Adesh Mehta:** Thank you Sir!
- Moderator:** Thank you. We take the next question from the line of Pretti S from UTI Mutual Fund. Please go ahead.
- Pretti S:** Good morning Sir! Sir you have mentioned that your 120 DPD GNPA 7.5% that would be 120 right 7.5%?
- Y. S. Chakravarti:** Yes.
- Pretti S:** Sir when you move to 120 DPD next quarter what kind of PCR you would be looking at?
- Krithika Doraiswamy:** Now at this current point of time we are looking at a coverage ratio of about 60% - 70% given the lack of clarity of whether we are going to get any dispensation and again what is going to be the macroeconomic situations moving like so that is the number as of now.
- Pretti S:** And then my second question is on the NPAs and SME business versus two wheeler. We used to think structurally two wheeler is more, it will have more cycles in NPAs and probably it would have been more stressful as compared to SME business, but in this quarter we have seen SME being more hurt, so do you think the businesses have taken structurally hit when you talk to your customers any kind of feedback that you can share with us?
- Y. S. Chakravarti:** I think I have already answered the question earlier about the two wheeler and SMEs
- Pretti S:** Let me just rephrase it, in this quarter would you continue to focus on the collections or recoveries or you would continue to focus your energy from the growth?

- Y. S. Chakravarti:** See we were forced to focus in collection because there is no other go in the last two months, there is no business, we did not want to do business. Now we will have to focus on both, you cannot do one and leave the other Pretti. I have to focus on both, otherwise I will have to answer to you next quarter.
- Pretti S:** Fine that answers my question thank you.
- Moderator:** Thank you. We take the next question from the line of Nischint Chawathe from Kotak Securities. Please go ahead.
- Nischint Chawathe:** Sir somewhere you mentioned in the call that the disbursements in the gold loan business are actually less than the cash that you are collecting. I think at the same time somewhere you said that if cash increases in the system then gold loan disbursements will go up, so I was just kind of trying to relate both the statements and try to understand what the scenario will be?
- Y. S. Chakravarti:** The issue here is that what you need to understand is that I cannot transport cash from one branch to another branch, we do not transport so the branches use whatever cash they have, so now what is happening is my gold loan business, you may look at it, is mostly in Tier III town with a maximum ability only to move cash from the bigger cities. This has a lot of risks, so we are not able to transport cash there. We had to hold that business in those branches. So the cash becomes available more easily, in small towns Gold loan disbursements will pickup
- Nischint Chawathe:** Got it great, thank you.
- Moderator:** Thank you. Well that was the last question, I now hand the conference over to Mr. Karan Singh. Over to you Sir!
- Karan Singh:** Yes on behalf of JM Financial I would like to thank the senior management team of Shriram City Union Finance and all the participants who are joining us on the call today. Thank you and goodbye.
- Moderator:** Thank you. Ladies and gentlemen on behalf of JM Financial that concludes this conference. Thank you for joining us. You may now disconnect your lines.