



“Shriram City Union Finance Limited Q3 FY19 Earnings Conference Call”

January 28, 2019



MANAGEMENT: **MR. Y. S. CHAKRAVARTI - EXECUTIVE DIRECTOR AND COO, SHRIRAM CITY UNION FINANCE LTD.**
MR. RAMASUBRAMANIAN CHANDRASEKAR – EXECUTIVE DIRECTOR AND CFO, SHRIRAM CITY UNION FINANCE LTD.
MR. V. LAKSHMI NARASIMHAN – EXECUTIVE DIRECTOR AND HEAD - INVESTOR RELATIONS, SHRIRAM CITY UNION FINANCE LTD.
MS. KRITHIKA DORAISWAMY- HEAD - FINANCE, SHRIRAM CITY UNION FINANCE LTD.
MODERATORS: **MR. NISCHINT CHAWATHE - KOTAK SECURITIES LTD.**

Moderator: Ladies and gentlemen, good day and welcome to the Shriram City Union Finance Limited Q3 FY19 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. I now hand the conference over to Mr. Nischint Chawathe from Kotak Securities Limited. Thank you and over to you, sir.

Nischint Chawathe: Hello everyone, welcome to the 3Q FY19 Earnings conference call of Shriram City Union Finance. To discuss the financial performance of SCUF and to address your queries we have with us today Mr. Y.S. Chakravarti - Executive Director and Chief Operating Officer and Mr. V. Lakshmi Narasimhan - Executive Director and (Head) Investor Relations. I would now like to hand over the call to Lakshmi for his opening comments.

V. Lakshmi Narasimhan: Thanks Nischint, thank you very much. Good morning to everybody and welcome for the SCUF call. On the call, I have Mr. Chakravarti, who is the head of business as also Ms. Kritika, who is head of Finance with us. I request Chaks to give a brief about the quarter and then we will take on any queries that you all may have.

Y.S. Chakravarti: Good morning, all. This is Chakravarti here. Welcome to this quarterly earnings call. The quarter gone by, we have disbursed close to around 4,600 crores. The disbursements were down by approximately about close to 30% and primarily as a fall out of the liquidity problems. We have decided to conserve cash and go slow on disbursement till we get a clear sight on the availability of funds in the market. So, the last week of September was impacted as in October and November both the months. Of the close to 4,600 crores disbursement about approximately 50% disbursement was done in the month of December, so which clearly shows that the business is back on a normal mode now. So, we expect this current quarter, running quarter also to end positively in the current quarter.

What we have done during the liquidity problem was that we have slowed down our disbursement majorly in SME, personal loan and gold loan also which is very evident when you look at the numbers. Two-wheeler there was also a double whammy on the two-wheeler side with the 3 year insurance getting packaged into the cost of the two-wheeler and festival season sales not picking up as expected. I am sure people on the call are aware that dealers are sitting on inventories of up to 3 months, walk-ins were not there. So overall, pick-up at the dealer point itself has slowed down and we have also selectively slowed down specific brands and focused on couple of brands. So, that is more of what I had.

V. Lakshmi Narasimhan: I think, essentially, I think I would want to highlight a couple of things which happened during the quarter. One is, if you look at the credit cost now that has dropped to 1.8%, considering that disbursement is not occupying the time of the manpower we kind of redeployed them into collections and a good part of it is came back that is also reflected in the Stage-3 dropping from

the levels of the previous quarter. I think that is a pretty welcome stuff that we have seen and it also gives a very clear view that portfolio quality is not beyond us and we should start clamping on the portfolio quality further as we go forward. So, from that perspective I think going forward we see a consistent drop in the gross NPA numbers, even though the credit cost need not necessarily remain at 1.8%. The second is we had guided more than a year back that we would get back to our regular levels of 3.25 plus in terms of ROA and close to be 18%-20% by FY20 in terms of ROE and it looks like we are headed for that for this financial year. I think these 2 things have really gone well for us. What did not go well is the fact of increase in the cost of funds as well but I guess that is the reality in the market and it was inevitable that our existing limits got revised in terms of pricing even though the fresh borrowings were very limited considering the price at which money was available.

So we had chosen the lesser evil of the two and ensured that portfolio quality comes back as also lower disbursement resulting as a function of higher cost of money and liquidity generally being tight in the market. I think these are some of the highlights that we have seen. We had also said that the non-south would start contributing more in the loan book and that also directionally is seen in the numbers that we have presented to you. So, net-net I think we are quite on track to get to our guidance in terms of 3.25 plus ROA and close to 17 odd percentage in terms of ROE, which was the exit ROE that we had mentioned on our calls and our meetings with investors. Over a period of next year, I think we should get to 3.4 odd in terms of ROA and close to 18%-20% in terms of ROE. So, we are quite well placed to get to that place. The drop-in manpower continues to happen and that is reflected in the Opex to some extent. The drop in Opex is also a function of lower two-wheeler business because the payout has been lower. So, all these things have contributed to our targeted PAT and targeted ROA, ROE.

Q4 as just now we mentioned looks to be promising. Our January thus far has been good. Liquidity has eased up even though the price at which the money is coming in still remains elevated. But I think this quarter should be better and as you would have seen in the investor presentation even as of 31st December, we carried a cash surplus of close to 1850 crores. As we head deeper into this quarter, we will dismantle that because we now do not see the necessity to carry cash which definitely has a negative carry. So, we will dismantle that yet remain quite comfortable in terms of liquidity as we head into the quarter. So, we should get to our regular levels in terms of disbursement during this quarter and on an overall basis remain married to our guidance for the ROA, ROE. On this call we have Kritika and our CFO has just now joined on the call. So, we are now ready to take any questions from the investors. So, please do ask whatever questions that you think appropriate.

Moderator:

Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Nagraj Chandrasekar from Laburnum Capital. Please go ahead.

Pavan Ahluwalia: This is Pavan, Lakshmi, couple of questions. You mentioned the 1850 crores cash balance. I am assuming that if you adjust for the negative carry from that, could you give us some sense of what the yields would look like because it looks like the yields have actually been pretty stable if you adjust for the negative carry issue. So, is it decline on yield or advances simply a function of you guys taking the money that was coming in and lending less of it out of just carrying more of it year-end cash? And the second if you could give us some sense in terms of the new normal that we are seeing. Is it the case that now we have enough liquidity from banks to fund whatever our growth aspirations are but the money is coming at a different price. So, do you then expect that you will meet the same growth targets but then we are compression in the spreads that you should do on a going forward basis? Could you give us some sense of how, in this new normal given what happened on the liability side and also some what you alluded to on the asset side? What does that do to growth in spreads?

V. Lakshmi Narasimhan: See, as far as our forward-looking stuff is concerned, Pavan, liquidity has definitely eased. But as I mentioned the price at which the money is coming in is still elevated, so we would need to pick it up better at an elevated price that is one. Two is if we were to dismantle the 1800 odd crores worth of cash that we carry it will support to some extent in terms of the yield. At this point in time that impact has just had for 3 months. So, I am quite clear that dismantling that will kind of support the yield to a large extent. What we also need to realize is the comparison between last quarter and this quarter in terms of yield, we need to bear in mind one additional factor that last quarter we had an MTM gain on the investment that we had made - close to 16.32 crores was there last year which is not there this quarter. That is another reason why the yield has gone low. The third reason is generally the AUM has dropped as a function of which the yield will also come down that is what we have seen during this quarter. To get to specifics in terms of whether the cost of funds will continue to remain at these levels of go down or go up. I think I will just request Kritika to take that question and Pavan if there is something yet unanswered in your question, please do come back again.

Krithika Doraiswamy: On the cost of borrowing as we had just explained while the cost of newer borrowing has gone up. It is not as significant as 50 basis point increase which we have observed. It is also on the fact that why the interest expenses are fully loaded there have been significant amount of repayments which have happened. So, it is the fact that while the interest expenses are on a fully loaded basis. The denominator which is the outstanding borrowings which have come off. So, since the money was available at a higher rate, it is more like we have postponed the borrowing plan to the current quarter and now in January, it is back to the normal level. So, while the 50 basis points increase in the cost of borrowings is seen more of the fact of the interest expenses being fully loaded on the opening balance and on the closing balance such limits are not part of the borrowings outstanding.

Pavan Ahluwalia: No, I understand the math of that. But clearly, today relative to 3 or 6 months ago you have a higher cost of funds, right. So going forward, should we assume that the NIMs you will do will be compressed relative to say 6 to 9 months ago and maybe more in line with what they were

this quarter or little bit better than that and the growth that you have been targeting, high-teens AUM growth, is that still achievable even the liquidity situation that you are facing?

V. Lakshmi Narasimhan: Pavan the yield during the quarter 4 is expected to be higher than what we are shown during quarter 3. We will dismantle the cash balance that we carry as also the money that is coming in is not as costly as it was during the quarter 3. So the new normal if you look at the IndAS cost that was about 9.27 for the 9 months ended December 2018. If the 4th quarter pans out the way that we think expect for what we are seeing in the market today we are not too sure how Zee issue is not going to pan out. But we think that the cost of fund during this quarter should be lower than what it was and with cash getting dismantled we should look at a better yield as we head into the 4th quarter, that is one. In terms of growth as far as the next financial year is concerned, we are still getting our budget right but we had guided for a high-teen growth on the loan book. I do not think we are moving away from that for the next financial year. We should stick to our original guidance in terms of getting to the high-teen growth for the next financial year as well from the present circumstances of liquidity. Liquidity certainly has eased for adjusted price, that is all.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from Motilal Oswal Financial Services. Please go ahead.

Shubhranshu Mishra: The first question is with regards to the huge inventory that dealers are sitting on. So, do we expect the subvention income to go down for them and our yield should go up in that regards, that is the first. Second is, what is the quantum of liabilities and assets which are coming up for repricing in the next 6 months?

V. Lakshmi Narasimhan: On the asset side we are fully locked, so there is no asset that comes up for repricing. As far as liabilities are concerned just give us a minute while the two-wheeler question gets handled for you. So, the question is you are saying since the dealer is sitting on inventory whether the payout to the dealer is going to be lower than what we have paid thus far, that is the question, right?

Shubhranshu Mishra: Correct.

Y.S. Chakravarti: See, we have one of the lowest payout structures in the industry. We are at an average of about 2% and even if the dealer is sitting on inventory, they are offering discounts on the vehicles. So this is one source of income, which they would not want to let go. So, subvention cost has not come down.

Shubhranshu Mishra: So, we do not expect a normalization of subvention cost at least for the next 6 months, despite the high inventory?

Y.S. Chakravarti: No, see as I have mentioned, we have one of the lowest payout ratios of subvention. So, coming below that I do not see a chance of that.

- Krithika Doraiswamy:** On the repricing, close to about 4000 odd crores of borrowing is scheduled for repricing in the current quarter. These all are bank loans which are linked to the MCLR of the bank. So, close to about 4000 crores are due for reset.
- Shubhbranshu Mishra:** So this is in the 4th quarter. What would be there in the first quarter of next year as well, if you can highlight that?
- Krithika Doraiswamy:** It will be closer to those numbers at the range of about 3000 odd crores.
- Moderator:** Thank you. Next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.
- Karthik Chellappa:** My first question is to the comment on the employee count that you alluded to in your opening remarks. So, year back we were at about 28700 which has come down to about 27100 odd, which is a 6% reduction. Is this all due to natural attrition and if we are looking to grow again in double digit for the medium term or so. At what point do we need to start hiring again?
- V. Lakshmi Narasimhan:** Yes, so last year that 28000 odd number Karthik that you mentioned, we had said that close to 1500 people we think is the bench strength that we have created expecting loss of people to competition during the year. All that has been reduced is passive we have not actively asked people to go. So, it is just that we have not recruited fresh people, opposite people who have quit and gone. We think another 500 people reduction is the possibility without expecting the growth aspirations for the next financial year.
- Karthik Chellappa:** So, somewhere around 26,500 would be where it stabilizes, basically?
- V. Lakshmi Narasimhan:** Yes.
- Karthik Chellappa:** And my next question is on the comment on the two-wheeler brand emphasis that Mr. Chakravarti alluded to that they are going to focusing on a few main brands. If I just look at our portfolio almost 90% of our portfolio is concentrated among the top 3 which is basically Hero, Honda and TVS. So, by not focusing on some of the smaller brand, is it going to move the needle at all and what exactly is the thought process behind this strategy?
- Y.S. Chakravarti:** Karthik, I think there was a gap in understanding. What I said was in the months of October, November and December we have moved away from smaller brands and focused on the larger brands. Post the liquidity becoming normal, we are now working with, starting with December itself we have started working with all the manufacturers.
- Karthik Chellappa:** My last question is on our SME portfolio given the liquidity situation, etc. I believe there was a strategy for us to raise pricing at some of the higher ticket loans and go slow on those loans only when the pricing is looks right to us. Has that been fully given effect to in this quarter?

- Y.S. Chakravarti:** Yes.
- Karthik Chellappa:** And that will also be the case going forward, right even when the liquidity normalizes?
- Y.S. Chakravarti:** Correct.
- Moderator:** Thank you. The next question is from the line of Anitha Rangan from HSBC. Please go ahead.
- Anitha Rangan:** I just wanted to know, if you have any color on the asset quality front. I mean, we are still seeing a reasonable amount of stress in the overall asset quality particularly in that gold loan and auto segments. So, any idea when the asset quality stress will abate or what is your thought process here?
- V. Lakshmi Narasimhan:** I think on asset quality 2 things. One is I had mentioned when we started the call that the gross NPA numbers as per us should start dropping from the existing levels and we have seen that drop over our last 3 quarters consistently. Specific to auto if you see the loan book on the auto is de-growing and that is a function of the gross NPA numbers looking elevated. We used to do that business in more states than what we do presently say for example Tamil Nadu we have completely stopped doing the auto loan business essentially because the delinquency started showing up more than the other territories. As far as gold is concerned, I think historically if you look at the numbers it remained at the existing levels and has not changed dramatically during the past 7-8 years. So, the gross NPA numbers should start dropping as we go forward. Does that kind of answer your question?
- Anitha Rangan:** Yes, and my second question is around how much have you been able to modify, or going forward you will modify your debt structure? In that sense how much of bank lines have we managed to draw down and how much is your liquidity available at this point?
- Krithika Doraiswamy:** See, the liquidity available as of 31st December was close to about 1800 odd crores and now in the current quarter there has been an easing out on the liquidity and we are back to the normal levels of borrowing from banks also.
- Anitha Rangan:** So, going forward will you change your borrowing mix in terms of like more towards banks in that sense?
- Krithika Doraiswamy:** See, as such the major contributor of our borrowing remains the bank and the focus shall continue to be there with the banking system.
- Anitha Rangan:** And how much do you have - this 1800 is completely in cash?
- Krithika Doraiswamy:** That is right. That is in the form of fixed deposits and current account balances. It is all in the form of liquid cash apart from the undrawn lines which we hold.

- Moderator:** Thank you. The next question is from the line of Abhijit Tibrewal from ICICI Securities. Please go ahead.
- Abhijit Tibrewal:** Just 2 questions, if you do any securitization or assignment transactions during the third quarter?
- Krithika Doraiswamy:** Yes, we had about 930 crores of sell-down, out of which 430 crores were in form of securitization.
- Abhijit Tibrewal:** Can we expect the disbursements to normalize around your run rate of 6000 crores to 6500 crores in subsequent quarters?
- Y.S. Chakravarti:** Yes.
- Abhijit Tibrewal:** And lastly sir, can you give you us some color on your housing finance subsidiary? While the asset quality has improved the GNPA has come off, can you give some color there and what will be the disbursement run rate like in your housing finance subsidiary going forward?
- V. Lakshmi Narasimhan:** See, I think first thing is on the housing. Considering the way it was positioned up to Q1, we had guided that we are looking for refurbishing the management team which has now happened. We have had a new CEO take over, who is a person from within the group. He has just taken over in the month of December. So, we kind of expect this synergy between SCUF and the SHFL which was missing thus far to take shape that is one. Two is, as far as Q3 was concerned the disbursement was lower again as a function of liquidity in the housing finance enterprise. As we head into the next financial year, the plans are pretty clear that we need to kind of grow that business. Chaks you want to add some color on that? So, first thing is the management changes happened out there and I presume now things should start looking far better than what it was in the past.
- Abhijit Tibrewal:** So, sir what is the disbursement run rate that we expect going forward from the levels that we have seen in the past few quarters?
- Y.S. Chakravarti:** What we are expecting that, on a quarter-on-quarter basis we are looking at about 300 crores.
- Moderator:** Thank you. The next question is from the line of Kunal Shah from Edelweiss. Please go ahead.
- Kunal Shah:** So, was there any increase in yield across any of the products segment with this rising funding cost? I do not know if you have highlighted it earlier but across the products or have we increased anything?
- V. Lakshmi Narasimhan:** So, I think the increase in the yield Kunal, we have guided that right from April we had increased in segments which was possible. As far as Q3 was concerned we had mentioned that we increased the yield only in the high-ticket SME segment. But that was more from a perspective of discouraging that segment of growth in the book than to actually attract even though some

customers did come in and pick up money at those elevated levels. Specific to third quarter, we did not increase the rates very consciously other than the high-ticket SME segment. Because we kind of presume that the elevated cost during Q3 was more a transitory piece than a permanent piece and that is bailing out very clearly the cost in December and comparison to October-November was lower. And as we head into this quarter the cost are expected to be lower than what it was in Q3. From that perspective we have not increased it only because of function of the existing price in the market.

Kunal Shah: Yes, but overall any which way, the funding cost has gone up. So, even if it settles lower than Q3 but still maybe it would be, if we compared it say with respect to the first half it will still be higher than that. So, just wanted to get the sense may be in terms of the pricing power and maybe the impact on margins because and maybe now even if it corrects from 9.27% are still higher. So, how should we look at it?

V. Lakshmi Narasimhan: See, in terms of margins this quarter was 19.68 as per IndAS. There are three things that will overall contribute to the ROA, ROE. One is the yield itself at which we deploy money. Two is the price that which we borrow. Three, is the cost and fourth is the credit cost. There is a limited scope for us to keep increasing the yield in the customer segment in which we deploy money, Kunal. So, wherever possible and wherever it is opportunistic we will kind of continue to do that. But the idea would be to actually work in the cost and reduce the credit cost, so that our guidance in terms of ROA, ROE is met. So, as much on the borrowing as we will be opportunistic so much on the lending side as well, we will be opportunistic. But the scope for increase in the yield as far as the lending rates are concerned are not as possible as is possible on the other head of items for getting to the ROA, ROE.

Kunal Shah: And in terms of the pockets of growth, so incremental disbursements now how would we prioritize amongst the product segments which we have, so be it in terms of the priority where do MSME, PL would lie as compared to the auto, two-wheeler and gold on the incremental given the liquidity will still continue to be tight. So, how do we see the disbursements?

V. Lakshmi Narasimhan: I think, we have guided for over a period of next 2 to 3 years that the small business loan which is the SME segment should get to the 60%-65% levels as far as the loan book is concerned. We still remain committed to getting that to 60%-65% levels. The personal loan is a segment that will get to close to about 10%-12% of the loan book and that again remains the focus because for two reasons. One, it is a cross sell products for us, now virtually 80%-85% of the personal loan that we do is through the cross-sell method. There the acquisition cost is low as also the credit costs are more predictable than the other loans. So, these two segments remain the segments for growth. Two-wheeler will truly be a function of what the manufacture sale is expected to be in. Next year we are already hearing that it is not expected to be more than 6%-7% in terms of growth. So, two-wheeler would form the next bulk and there would definitely be a drop in the AUM for the auto book and the gold loan as a contributor to the loan book would remain at the existing levels.

- Kunal Shah:** And in terms of the Opex, so any reason for such a sharp decline. I do not know if you highlighted but there is almost like 20 odd percent kind of decline in year-on-year growth. So, what would be causing this kind of a decline in Opex?
- V. Lakshmi Narasimhan:** Yes, I think you missed that. Opex we did highlight. There are two reasons, one is there is drop in people which is the lower contributor. But the larger contribution has come from the fact of the two-wheeler business being lower because our pay outs are lower.
- Kunal Shah:** So, any way that employee cost would be in the personnel expenses. So, this line item would be largely in terms of the two-wheeler payouts?
- V. Lakshmi Narasimhan:** That is right.
- Kunal Shah:** And the entire delta is on account of that?
- V. Lakshmi Narasimhan:** Correct.
- Kunal Shah:** And lastly in terms of securitization income you give the amount which has got securitized. But what would have been the income which has been booked in this quarter?
- V. Lakshmi Narasimhan:** I think, 6.53 crores is the income that we have booked as a function of direct assignment. Securitization is negligible in terms of income which is going to be the same as the normal book rate because you want to amortize it over the tenor of the contract.
- Moderator:** Thank you. The next question is from the line of Vibha Batra from Fair Connect. Please go ahead.
- Vibha Batra:** My question is on the liquidity policy, you said you will reduce our liquidity from current levels of 1500 crores. But if you were to go back and revisit the policy, have you tightened your policy in the recent past? And is it just meeting RBI guidelines or is it stricter than that?
- Krithika Doraiswamy:** On the liquidity the 1800 crores we used to earlier also have such kind of a liquidity surplus, which is more in form of undrawn credit lines, rather than maintaining it or the liquid cash balance. So, we will go back and then have it maintain in form of undrawn facility.
- Vibha Batra:** But what is the policy say that you have to meet the repayments for next 3 months-6 months or is it in line with what RBI says?
- Krithika Doraiswamy:** In addition to the RBI requirements on maintaining our liquidity we also have for the next 3 months commitment. Of our net of the renewable on which we have had stress tests conducted and in addition to that our liquidity surplus has maintained.

- Vibha Batra:** 30 day plus delinquencies, how have they moved between September and December for the company? 30 day plus or Stage-2 assets.
- V. Lakshmi Narasimhan:** See, if you look at our Stage-1 Stage-2 is about 25489 crores which is slightly lower than what it was in the previous quarter. But as a contributor to the overall AUM it is higher than what it was the last quarter. Stage 3 has dropped, so a good number of ...
- Vibha Batra:** I am looking at Stage-2 separately?
- V. Lakshmi Narasimhan:** Yes, we actually do not put out Stage-1, Stage-2 separately. We combine that and split out and that is what is available in the public domain presently.
- Vibha Batra:** But directionally, has Stage-2 gone up from September quarter?
- V. Lakshmi Narasimhan:** Yes.
- Vibha Batra:** And when we take the LGDs for Stage-3 versus Stage-2 and Stage-1, are they similar or they are different?
- V. Lakshmi Narasimhan:** They would definitely be different, right. Because of what is LGD, your question is LGD?
- Vibha Batra:** LGD, yes. No, LGD need not be different. Costs could vary, I mean, Stage-3 is already through default. But Stage-1 and Stage-2 LGDs may not be materially different. I do not know what is yours, it may be based on the historical data and all.
- V. Lakshmi Narasimhan:** That is right.
- Vibha Batra:** But directionally 30 day plus have gone up from September quarter?
- V. Lakshmi Narasimhan:** So, the Stage-2 have gone up slightly than 30 days definitely gone up, right.
- Moderator:** Thank you. The next question is from the line of Bunty Chawla from B&K Securities. Please go ahead.
- Bunty Chawla:** Just one question that what will be the FY19 AUM growth target for us? Although for FY20 we are very much confident high-teen number we can get through because the liquidity has been normalized but for FY19 what will be the AUM growth target was?
- V. Lakshmi Narasimhan:** Are you saying FY19?
- Bunty Chawla:** Yes.
- V. Lakshmi Narasimhan:** That is for this financial year. I think, it is little early but we should get to our mid-teen, yes.

- Moderator:** Thank you. The next question is from the line of Ankur Jain, an investor. Please go ahead.
- Ankur Jain:** So, I have a question on the MSME portfolio. So, could you help me understand what are the top 3 or 4 segments where the money is lent in the small business segment? And also, what percentage of the book broadly is lent out to traditional wholesalers and retailers which includes kirana stores and provision stores?
- V. Lakshmi Narasimhan:** See, 80% of the MSME book that we have comprises of traders and service providers and my average ticket in any case for the entire book is about 9 Lacs. So, that is the segment that contributes majority of the business that we guys have. And that covers your kirana stores and all those guys that you just now mentioned.
- Ankur Jain:** The number you mentioned is 80%?
- V. Lakshmi Narasimhan:** 80%.
- Ankur Jain:** A follow up on that. I mean, so what we are experiencing that retailers are having lower sales for the last couple of years because of the e-commerce players and a lot of organized retailers which are increasingly taking away large portion of retail sales. So, do you think that this over a medium to long term the traditional retailers and wholesalers are facing that risk? And what are your thoughts on it?
- V. Lakshmi Narasimhan:** At this point in time we do not visualize that the entire trading and service providers segment will kind of shift out and merge into the e-commerce platforms so on and so forth. I think, the mom and pop stores that we fund would continue to exist and our view is that should be the case at least for next 3 to 5 years. But as we head deeper into the GST regime more such question can be answered even more clearly with appropriate data support. But at this point in time we have not seen that.
- Ankur Jain:** I have another question on the housing finance business. So, I mean the performance up till now has been a little suboptimal. So, when you would devise that initial strategy? How things turned out to be different than what you initially expected?
- Y.S. Chakravarti:** The initial strategy was to work with the affordable housing sector. It is actually, in certain geographies it really works well. So, only I think, strategically where we have gone wrong is spreading ourselves too thin. So, the new CEO is redrawing the, he is already redrawn the priorities, resizing the workforce. And as envisaged initially the SCUF network itself was not fully and optimally exploited which we are focusing now. So, on the affordable housing side markets like Andhra Pradesh, Telangana and Karnataka have performed better than expected. I do not think it is our choice of product was the problem but I think we had spread out too thin and that is what has created a suboptimal performance earlier which we are correcting now.

- Ankur Jain:** So, when you mention spreading out too thin, is it I mean, geographically you have spread out too thin?
- Y.S. Chakravarti:** Yes, geographically, you are right.
- Ankur Jain:** And now you have constrained yourself to a couple of geographies you are focusing on a few geographies?
- Y.S. Chakravarti:** Yes, we are now focused on 6 states and we will be focusing only on those 6 states for the next 3 years.
- Ankur Jain:** It was 6 states.
- Y.S. Chakravarti:** Yes.
- Moderator:** Thank you. The next question is from the line of Abhishek Murarka from India Infoline. Please go ahead.
- Abhishek Murarka:** So, few questions, sir. One is can you share the number of your gross additions to NPA and the recoveries upgrades that you have done this quarter?
- V. Lakshmi Narasimhan:** Yes, sorry that is not available straight away we will need to do it off-line.
- Abhishek Murarka:** So, the next question is, so you mentioned that the higher rate of recoveries was due to more employees being channelized into that from the sales effort. Now, as your liquidity normalizes and you are looking at more normalized disbursement run rate. You would be sort of redeploying this people back to sales. So, do you expect this kind of a recovery run rate to continue? Also you are looking to still let go of another 500 people without really replacing them. So, with the employee count coming down and incrementally refocusing the employees to sales do you expect the same run rate of recoveries to come down to continue and therefore, should we consider this GNPA's to continue to come down at this same rate? Or do we see a flattening out over here?
- V. Lakshmi Narasimhan:** See, two parts to this. If you kind of recall we had guided for a credit cost as being around 3 for this financial year and getting to under 3 as we head into the next financial year. And that credit cost would include both the provision cost as well as the write-offs. We remain committed to ensuring that that happens. What you have seen during the current quarter is something extraordinary which gives us the comfort in terms of one aspect that the portfolio quality definitely is capable of behaving better than what we have shown thus far. So, we will continue to kind of work on the collections piece. But 1.8% as being the credit cost is a dream position, I do not expect that to remain as is. Having said that, the gross NPA numbers as we head into the future, Abhishek will come down continuously and consistently. Also because of the fact that like we mentioned during the earlier calls as well the portfolio that we are acquiring now through

the new underwriting mechanism is behaving better than the portfolio that was acquired prior to that. So, as this portfolio takes larger share of the existing loan book your gross NPA numbers will start tracking down. So, gross NPA will come down, letting go of people 500 will not affect collections and our credit cost should be under 3 as we head into the next financial year.

Abhishek Murarka: And can you also share the incremental cost of fund this quarter versus let us say during the last quarter? Just what you borrowing at right now in terms of NCDs, bank loans, CPs?

Krithika Doraiswamy: To give you the combined cost, the Q3 incremental borrowing has been at around 9% which in the earlier quarter was close to about 8.6%.

Abhishek Murarka: So, that was Q3?

Krithika Doraiswamy: Yes, Q3 is 9%.

Abhishek Murarka: And so, far let us say a late December or right last 3 weeks or 4 weeks if you done any transactions what would that be coming ahead?

Krithika Doraiswamy: It has dropped. The drop has been to about 30 basis points. So, Q4 also the major contributor remained Commercial Papers. So, over there we have seen a drop in the rate. So, as against you are 9%, right now, though we have seen an improvement of close to about 30 basis points.

Abhishek Murarka: That is your blended cost of borrowing?

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

Prashant Shridhar: Firstly, would it be able to get the 180 plus percentage for the December quarter as a percentage of closing AUM?

V. Lakshmi Narasimhan: Yes, if you have another question please ask. By the time we kind of pull the number out.

Prashant Shridhar: Secondly on the housing front, I am seeing the GNPA's have almost halved from 6.4 to 3.2. So would this be mostly due to collection efficiency or any other reasons like change in asset mix or?

V. Lakshmi Narasimhan: So, the GNPA number has been coming down essentially because of the collection efforts and of course the portfolio mix changing with the newer acquisition taking shape. The 180 plus is 5.12%.

Prashant Shridhar: No, sorry the 180 plus was for the entire SCUF portfolio and the GNPA question relates only to the housing finance.

- Y.S. Chakravarti:** Plus 180 DPD it was September it was 5.81 and December is 5.12.
- Prashant Shridhar:** 5.12 was the entire SCUF portfolio.
- Y.S. Chakravarti:** Yes. On the housing it is also because some of the assets were sold to ARCIL. So, that is also another reason why the variance in the NPA.
- Prashant Shridhar:** Another question on the liquidity front - so we have 1845 of cash and FDs as on December 2018, right? What would have been this same figure in September 2018, quarter?
- V. Lakshmi Narasimhan:** Also around 1800 last quarter if I am right.
- Prashant Shridhar:** So, going forward what we can we expect this figure to be at, cash and FDs?
- V. Lakshmi Narasimhan:** No, I said we will kind of dismantle these 1800 crores of excess cash that we are carrying and a good part of that we will get covered because of unutilized bank lines. So, while we will have liquidity cover, it may not be in the form of cash.
- Prashant Shridhar:** So, currently what would be the quantum of undrawn bank lines and what percentage would be like a commitment fee backed what?
- Krithika Doraiswamy:** Close to about 900 crores is in the form of undrawn facilities and I mean the commitment fee is very negligible. We generally do not accept sanctions with commitment fee. So, that is very negligible versus 900 crores.
- Moderator:** Thank you. The next question is from the line of Jignesh Shial from Emkay Global. Please go ahead.
- Jignesh Shial:** Just one follow-up. You said the housing finance will be focusing only on 6 states. Can you name which are the 6 states where you will focusing now?
- V. Lakshmi Narasimhan:** Yes, which are the states which we will kind of do the housing finance in 6 states.
- Y.S. Chakravarti:** It will be, the four states in south, AP, Telangana, Karnataka and Tamil Nadu, Maharashtra and Gujarat.
- Jignesh Shial:** And you said just confirming that you basically stopped doing auto business in Tamil Nadu seeing delinquencies rising? Am I understood correct?
- Y.S. Chakravarti:** Yes, right.
- Jignesh Shial:** And since you have slowed down during the last quarter because obviously the borrowing cost has been rising and even on the two-wheeler side, you have been focusing on specific brands

and all. How is the competition shaped up specifically from the small finance banks, anything different you would have witnessed or anything worth noticing from them? Have they captured the market share or how is it?

Y.S. Chakravarti: No, I am not seeing anything regarding small finance banks in this space.

Jignesh Shial: So, even the competitors have been facing the similar issues there has not been any threat coming up from either the small finance banks or any other NBFCs or the larger banks.

Y.S. Chakravarti: See, there is always this I think the NBFCs, larger banks and SCUF are in the same boat, in the sense, we are all, I think for a share in the market, number one. Number two, we are all in competition with the OEM finance companies. There is nothing specific that we are seeing from SFBs is what I am saying. The competition is mostly from the existing players. The new players are very small players or other small NBFCs but from the SFB side, we are not seeing anything on the two-wheeler.

Jignesh Shial: So, just lastly, can you quantify the market share you might be having in two-wheeler finance last quarter and year end FY18, what will be the market share if you have the data?

Y.S. Chakravarti: See, we were at year end FY18, at approximately about 5% of the total sales were funded by SCUF and quarter ending December 2019, I think we are at about 4.85%.

Jignesh Shial: Just for the two-wheelers, right?

Y.S. Chakravarti: Yes. Of the number of two-wheelers that are sold, domestic sales.

Moderator: Thank you. The next question is from the line of Abhishek Murarka from India Infoline. Please go ahead.

Abhishek Murarka: Just a question on your cost to income and you said you are targeting to bring it down. If you can share your target you have been at around 40% quite steadily for the past 2-2.5 years. So what is your target and what time frame and how do you intend to get there?

V. Lakshmi Narasimhan: I think over a period of next 3 years we should get to about 38%-odd as cost to income. And you will start seeing that directionally happening as we go forward. The reduction will essentially come in as a function of manpower productivity increasing and hence there is no incremental requirement of people. And as your portfolio quality improves the number of people that you require in collections will also drop. Essentially it is going to be people driven in terms of cost savings, Abhishek.

Abhishek Murarka: So, roughly just to sort of get that 26000 - 26500 that you will probably level out at, after that you will just be replacing the normal attrition and you will not be looking to increase that employee count materially, is that a correct understanding?

V. Lakshmi Narasimhan: At least for the next financial year because we would need to size up how this pans out. The year after that, if the growth aspirations cannot be met to the current number of people then we may need to recruit some additional people. But at least the growth of people that we were seeing in the past is not the level at which we will continue to grow as we head forward. And just to answer that first question of yours in terms of recoveries and additions, in Q2 the recoveries were 296 crores, in Q3 recoveries 298 crores, in Q2 the addition was 470 crores and in Q3 the addition is 208 crores.

Abhishek Murarka: So then, Lakshmi, the GNPA has actually come down because of slippage is coming down. Not so much because the run rate of recoveries has gone up.

V. Lakshmi Narasimhan: No, when we say recoveries these recoveries are essentially write-offs and stuff like that included. This is not just about gross NPA coming down from one bucket to the other. The movement of contracts from bucket 3 to bucket 2 has also happened which is not completely part of this number that I just now gave you.

Abhishek Murarka: So, what I basically wanted to find out is apart from write-off what has been the run rate in recoveries and upgrades?

V. Lakshmi Narasimhan: We will kind of need to rework that number and come back to you.

Moderator: Thank you. The next question is from the line of Sourabh Dhole from Trivantage Capital. Please go ahead.

Sourabh Dhole: Just referring to your initial comments where you said that you have kind of come down to zero in terms of auto loan disbursements in the state of Tamil Nadu. Just wanted to get some more sense on this, is it like any particular color that you can add here in terms of what is the underlying reason why asset quality is not behaving in the state of Tamil Nadu as you would have liked. So, that is one and second is are there any more pockets or any more product segment where you think the asset quality will incrementally be much more weaker and because of which you might curtail disbursements in such segments. So those are my 2 questions.

Y.S. Chakravarti: When you see auto loan portfolio, it is not your traditional auto. What it is the comprises is used car, used tractors and very small used commercial vehicles and three-wheelers, comprises of all these segments, right. And Tamil Nadu, when you look at the portfolio size, the contribution of Tamil Nadu was also not high in this, majority of the portfolio comes from Andhra Pradesh, Telangana and Maharashtra. And since the portfolio is not performing as expected in Tamil Nadu and numbers are not great, we are not doing large numbers. What we have decided is to deploy less manpower on the MSME side and moved them out. We are not looking at this running down or moving out from any segment of business going forward.



Shriram City Union Finance Limited
January 28, 2019

- Sourabh Dhole:** But there is no, at least from a company point of view there is no sense as to what are underlying reasons in the state that is causing such high delinquencies or such poor maybe repayment track records.
- Y.S Chakravarti:** It is basically not being a focused product. But in these 2 states, that we have, we are able to build a focused team and Tamil Nadu, basic reason is that it is not a push product.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Nischint Chawathe from Kotak Securities for closing comments.
- Nischint Chawathe:** Thank you very much for joining the call today and we thank the management for giving us an opportunity to host the call.
- V. Lakshmi Narasimhan:** Thanks Nischint, thank you very much, thanks everyone.
- Moderator:** Thank you very much, sir. Ladies and gentlemen, on behalf of Kotak Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.