



“Shriram City Union Finance Limited Q3 FY2020 Earnings Conference Call”

January 31, 2020



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Moderator: Ladies and gentlemen, good day, and welcome to the Shriram City Union Finance Limited Q3 FY2020 Earnings Conference call hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nischint Chawathe from Kotak Securities Limited. Thank you and over to you.

Nischint Chawathe: Hello everyone. Welcome to the 3Q FY2020 Earnings Conference Call of Shriram City Union Finance. To represent the management we have with us today, Mr. Y. S. Chakravarti, Managing Director & CEO; and Mr. R. Chandrasekar, Executive Director & CFO. I now hand over the call to Mr. Chakravarti for his opening comments. Thank you.

Y S Chakravarti: Very good morning ladies and gentlemen. This is Chakravarti here this side. Welcome to the Shriram City earnings call. I have with me my colleagues, Mr. Chandrasekar and Jai Singh, so I will just start off with what has happened in the quarter. The quarter was a fairly stable quarter in terms of delinquency and on the disbursement side. We had a highest ever quarter in terms of disbursement of two wheelers. We have done about close to 1887 Crores of two-wheeler disbursements and which was the highest ever quarter for us in Shriram City. We have done about close to 360000 two-wheelers compared to 210000 same period last year that is about 150000 two-wheelers higher.

The other thing was that during the quarter, on the disbursement front we had disbursed about close to 400 Crores to preowned 2-wheeler segment, which I have mentioned in the last earnings call that this is a new line that we are trying to introduce and that is on an average about 120 Crores, 130 Crores is what we are doing now per month on this preowned two-wheeler. The preowned two-wheeler business is clubbed in the personal loan and auto loan business, by oversight, which we will move that into auto loan. The pure auto loan business has degrown. There was only a disbursement of only about 5 Crores in the auto loan business. Personal loan, we have cut down on personal loan. Personal loan used to be about, last quarter was about 700 Crores, this quarter it is about 185 Crores.

On the delinquency front, I think we have done fairly well, given the economic situation and the economy, but going forward we are confident that we will be able to hold on to the delinquencies and this quarter also we expect the delinquencies to come off.

Liquidity has improved. During the quarter, we have raised about 2200 Crores and in the month of January we have raised about 450 Crores through PCG route from State Bank of

India, so sanctions are happening. Term loans have also started happening, we have had about 500 Crores of term loans in the quarter, so liquidity is improving.

Now on the cost of funds, I think they have come off slightly. So we are hoping that going forward, it will either remain stable or there may be a slight reduction in the cost of funds.

The other point is on the subsidiaries performance. SHFL has done an excellent job. The income has ballooned up primarily because of the direct assignments of 131 Crores that they have done. They have done about 386 Crores of disbursement, which is their highest ever in this quarter. So even if you take out direct assignment income, I think the income has remained stable, considering the fact that the last two quarters the disbursement is not much and as of now out of their portfolio, retail portfolio is about 98% and construction finance is about 2% of disbursement. On the book side, it is 95% retail and 5% construction finance, so they are on track. Probably they will also end the year with about 2400 Crores of AUM. So from my side, I think that is it. So we are open for questions.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.

Pavan Ahluwalia:

My question is just is on the liquidity issue. So it looks like you guys are still sort of keeping the lid on longer tenure SME loans and I am wondering, is that because you are not seeing an appropriate opportunity to make, you have to make loans because you are worried about stress of credit quality in the system or as you said 1 or 2 quarters ago is the main reason to continue to have the break from there, the fact that you are not sufficiently confident on the availability of liquidity, maintaining the appropriate ALM, etc., so could you give some color on that, how liquidity constrained is our disbursement right now and what would we need to see happening on liquidity for us to get the disbursement that we need to address the opportunities that we are seeing, did you hear my question or should I repeat it?

Y S Chakravarti:

No Pavan. I am sorry, we were not able to hear anything, please repeat it.

Pavan Ahluwalia:

No, that is okay. So I just wanted to check on the liquidity front two quarters ago you had said that you were seeing a lot of opportunity to make good loans in the SME space, but because these are longer tenure loans you had constrained the disbursement until you were confident that liquidity was available in a sufficient magnitude that would let you maintain your ALM when you run that kind of balance sheet. The disbursement pace for SME still appears to be contained, while at the same time you are saying liquidity has eased, is that because liquidity has not been enough for you to be confident to be making these longer-

tenure loans or is it because your view has changed on credit quality or the attractiveness for that segment, given the economic situation right now?

Y S Chakravarti:

On the credit quality side, no, my views have not changed. We are very comfortable with the credit quality in fact we see it improving further going forward. No concerns on that side. What has primarily happened is we have decided to move out of the unsecured business and focus on the secured business. So there was a temporary dip in close to about 20%, 25% of disbursement that used to happen to unsecured, which we have moved out of. Similarly we have moved out of personal loan also, the same view that sometimes we will focus on the secured book. That is one. The other one is liquidity is there, but what happened was that we wanted to allocate more to the two-wheeler funding because of the demand during the October, November months. So if you noticed the disbursement in two-wheeler has gone up substantially. If you look at it year-on-year basis about close to 850 Crores increase, and on a quarter-on-quarter basis it is about 600 Crores of increase in two-wheeler disbursements. We wanted to make sure that since it is a dealer-driven product that we have enough liquidity in our hands to actually support the dealer, so these are the two reasons and on top of that we also have increased our cash and signed limits to about 1500 Crores. So that is another 500 Crores of liquidity backup that we wanted to increase and keep it. These are the reasons why SME during the quarter has slowed down, but this quarter it should be back to normal.

Pavan Ahluwalia:

Just a followup on that, what led you to change your view on the unsecured in the personal loan segment obviously high yield were you concerned about credit quality, what in a sense it did not play out the way we thought it would play out?

Y S Chakravarti:

Again credit quality is not an issue there. In fact, the unsecured book performs slightly better than the secured book. There are no worries on the credit quality. It is just that there is lot more demand for collateral-backed receivables in the market than an unsecured book, so that it is fundraising becomes easier.

Pavan Ahluwalia:

Thank you.

Moderator:

Thank you. The next question is from the line of Abhijit Tibrewal from ICICI securities. Please go ahead.

Abhijit Tibrewal:

I also wanted to get some color on why we have cut down on personal loans, which you have kind of already answered in the last question, so can you tell me what are the securitization and assignment transactions, during your opening remarks you suggested that you did about 450 Crores through the PTC route with State Bank of India, other than that were there any other assignment or PTC transactions in the quarter?

- Y S Chakravarti:** The 450 Crores that we have done with State Bank of India is in the month of January, but for the quarter, yes, I will let my colleague, Chandru take your question there. Before that, yes, direct assignment, we have not done. It is a very negligible amount we have done direct assignment. Rest of it would be securitization, which Chandru will take that question.
- R Chandrasekar:** Yes. During this Q3, we have done close to around 2000 Crores of securitization. Out of that it has been done with the public sector banks, foreign banks, private sector banks, so it is done with all the 5, 6 banks and so we will continue to be, going forward also we will do more, raise money through securitization route plus on the traditional side we will also do deals to get some term loans from different banks plus fixed deposit. We continue to do fixed deposit route, but majority of our inflow happened because there is lot of demand of secured pool from banks.
- Abhijit Tibrewal:** Sir we are also planning to do some ECBs very soon, right, would that mean that our cost of borrowings can incrementally come down?
- R Chandrasekar:** We are working on it. Within next 1 or 2 months I think we will be able to give answer. So the team is working on this.
- Y S Chakravarti:** But on the cost of funds, I do not think that is the reason why you would want to go to ECB route. Obviously, the bonds would be expensive anywhere between 10.25%, 10.50% type landed cost, fully hedged, so it is not going to be cheap. If you are going there, you are going there for probably as...
- R Chandrasekar:** More on the liability profile, which is more of a diversification, but the cost advantage is not visible.
- Abhijit Tibrewal:** Which means that, at least the landed cost will be higher than our current cost of borrowings we are doing it primarily for diversification?
- Y S Chakravarti:** Absolutely.
- Abhijit Tibrewal:** Last question, in gold loans, we have seen the asset quality deteriorate for about 7 quarters now, is there some color that you can give in terms of gold loans, did we see some frauds happening in our gold loan book?
- Y S Chakravarti:** There is no fraud at all. It is a temporarily blip, it will be come back to normal in about 1, 2 quarters. It is basically the prices are going up, customers are holding on, so we are just giving them some time to redeem, extra time to redeem.

- Abhijit Tibrewal:** In personal loans if I remember correctly, we were predominantly doing personal loans as a cross-sell product, but still the GNPA's there remain very high, any particular reason, 11% kind of GNPA's in the personal loan segment?
- YS Chakravarti:** Yes, correct, but we also have the legacy book. So this, the legacy book should run out in the next 18 months or so.
- Abhijit Tibrewal:** Sure Sir. Thank you so much and all the very best.
- Moderator:** Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund Manager. Please go ahead.
- Karthik Chellappa:** Sir, my first question is, as far as the gold loan NPL is concerned, is it concentrated, let us say, in a few pockets or few markets that you are focusing on or is it pretty much broad-based?
- Y S Chakravarti:** Karthik, I am sure you are aware that we do gold loan business only in the 5 states that is south and Maharashtra. So it is actually almost close to uniform across, it is not specific to one geography, it is just that you are not putting pressure on the customers since the gold anyway is going up, you just would like to give them some time to come and redeem rather than go for an immediate auction process.
- Karthik Chellappa:** Got it and Sir in one of your earlier comments you had mentioned that within the business loans, you are deemphasizing the unsecured portion or so and I am just a bit curious, at the margin in your core markets have you noticed any competition from alternate funding channels for your business loans could be SFBs, could be some nationalized banks or so who are starting to give higher ticket size loans, have you witnessed any of that?
- Y S Chakravarti:** From the banks definitely no, but in pockets yes. From couple of players, other NBFCs in the market and couple of SFBs, but at a pan India level no, we do not see a player competing with us at a pan India level, but at a regional level, say in Rajasthan, for example, in a state like Rajasthan or Gujarat or Tamil Nadu, we have smaller NBFCs, which are in this space or a couple of SFBs.
- Kartik Chellappa:** And at the margin, has that had any impact on your disbursement growth?
- Y S Chakravarti:** No. There is enough and more out there in the market traffic. It is your ability to reach to them that you determine how much we can disburse. Not just your ability to reach, but your ability to again, reach out and collect from them. So I do not think competition is a factor today in ramping up volumes.

- Karthik Chellappa:** Got it.
- Karthik Chellappa:** My last question is on this preowned segment where we have seen some strong disbursements, about 400 odd Crores. I believe it is being offered only in the south and the west, which is basically 90% of your branches, can you share how many branches as of now offer this product and how many vehicles you actually funded in this quarter?
- Y S Chakravarti:** All of the branches and on an average of Rs. 25000, 26000, of ticket size it should be about close to 1 lakh vehicles in the 3 months.
- Karthik Chellappa:** Sorry, 1 lakh vehicles in 3 months, is it?
- Y S Chakravarti:** Yes.
- Karthik Chellappa:** And the average ticket size you said is about 25000 to 26000?
- Y S Chakravarti:** Yes.
- Karthik Chellappa:** This will be at a much higher yield generally than, let us say, business loans, right, it is somewhere between 18% and 24%?
- Y S Chakravarti:** True.
- Karthik Chellappa:** Okay. Got it and Sir just one data point. On the write-offs for the quarter, in the last 2 quarters we have seen write-offs in the region of about 190 Crores, 200 odd Crores, what would be the mix of these write-offs segment wise roughly?
- R Chandrasekar:** Basically, write-off will be in the same proportion because it may reach some 70 Crores, 80 Crores in a year and it is across product, and it will be somewhere similar to our allocation of something like 20% in two-wheelers, 30 Crores, 40 Crores, 20 Crores, 22 Crores in PL, so write-off will be across all the products and it is basically the company has put in a write-off policy and it is done accordingly, so it is in all the products there is nothing lumpy in any particular product.
- Karthik Chellappa:** So relative to the AUM mix, it is not as of one category is standing out in terms of write-offs. It is more or less in sync with our AUM mix plus or minus of which we can take?
- R Chandrasekar:** Yes. It is almost similar to it.
- Karthik Chellappa:** Thank you Sir. Thank you very much and wish you all the best.

- Moderator:** Thank you. The next question is from the line of Saurabh Dhole from Trivantage Capital. Please go ahead.
- Saurabh Dhole:** Couple of questions. Firstly, on the two-wheeler business, what is the breakup between the preowned and the new vehicles?
- Y S Chakravarti:** See on the 2-wheeler, whatever you see under 2-wheeler, it is all new vehicles. The preowned two-wheelers are combined in the personal loan auto loan space separate it out. You must have seen the auto loan investor presentation, which is at Q3 disbursement at 400 Crores out of which close to 395 Crores, 396 Crores is preowned.
- Saurabh Dhole:** Okay. Sir, so then 2 questions then. On the 2-wheeler segment, now we have been hearing very bearish commentary across players and the numbers are also not very encouraging. So any color that you would want to give regarding how your take on this space is vastly different from what we are hearing from players around because your growth has been pretty sharp there?
- Y S Chakravarti:** No. Actually, I would not call it as pretty sharp because if you look at my 2017-2018 numbers versus the numbers of 2019-2020 it is not sharp, but since we are looking at 2018-2019, so if you look at it, I think, if you look at my 2017-2018 numbers they are somewhere around 340000, 350000 2-wheelers that we did. So this is not a sharp upside, sharp jump.
- Saurabh Dhole:** No, I was talking mainly about the AUM growth. So you were at about 5000 odd Crores of AUM on the 2-wheeler side, which is at about 6200 Crores now. That is a 20% kind of a growth, and in an environment where numbers are not very encouraging, so this seemed a little high to me. So I am just curious to know what it is?
- Y S Chakravarti:** That is what I am telling. The AUM obviously comes from the fact that of your disbursements, right and that is what, as I told you, I am not really concerned because the credit quality on the two-wheeler is actually also is on a downward slope. So I am not seeing any concern there. Probably because, I do not know probably you may have got the feedback from people who are funding a single product, but we do not see that because if you look at my two-wheeler disbursement, actually about 65%, 70% comes from Hero and HMSI. So rest of it would be evenly spread between other manufacturers and I am not seeing that. Again, Tier-2, Tier-3 cities and major small towns I am not seeing this stress in that place.
- Saurabh Dhole:** The second question is on the preowned vehicle financing business that you do and I understand this is purely two-wheeler preowned vehicles, right?

- Y S Chakravarti:** Correct, only preowned right now.
- Saurabh Dhole:** Yes. So can you give us some color on who are your main competitors in this space and what are your typical yields and what kind of LTVs do you actually lend at and how are you valuing the vehicle?
- Y S Chakravarti:** As of today, there is no organized player in this space. So the competitors would be in most of the places, it is the local financiers, where the lending rates are anywhere between 36% and 40% for the local financiers. Of course they also just fund it on the fee book. They have no other, they do very little documentation, so they are able to get away with the pricing. So for us, in this, actually, about 40%, 50% of the customers are people who have completed their tenure. The cash flow probably the 2-wheelers that we are funding would be anywhere between 18 to 24 months old and the LTVs would be roughly around 75%, 80%.
- Saurabh Dhole:** In terms of valuations and all?
- Y S Chakravarti:** Valuations, it is a straightforward process. We have almost all the dealer point, we have tie-ups with mechanics. So it gets valued and then done that way, one. Two, as I told you, in about 45%, 50% of the cases, they are all customers who have already completed 1 cycle with you.
- Saurabh Dhole:** Okay. So 100% of your customers in this particular product are that who completed 1 cycle?
- Y S Chakravarti:** 50%.
- Saurabh Dhole:** Sorry 40%, 50%. Yes. So your yields will also be around that 36%, 40% range?
- Y S Chakravarti:** Yields are between 18% and 26%. So for an existing customer, it tends to be on the lower side. For a customer who is coming into first time to us would be on the higher side. So the average yield could be in the range of about 22% to 24%.
- Saurabh Dhole:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Utsav Gogirwar from Investec Capital. Please go ahead.
- Utsav Gogirwar:** Just first question on the funding piece. If I look at your borrowing mix over the last couple of quarters, the share of securitization is increasing very rapidly so just want to understand the thought process behind doing the securitization, is it just because we are facing a

liquidity issue right now and that is why we are going to securitization route or this will be the normal course in the coming quarters and I just want to understand your thought process behind that, secondly related questions on this, what percentage you will cap the share of securitization?

R Chandrasekar: Yes. Basically, the reason why we are going for securitization is there is a lot of demand from the banking space on this product, one. Second thing it is a long-term, we are able to have almost 50 months securitization is a long-term borrowing. So we prefer from ALM angle and there is a lot of demand. We will do this, which is good for us, for the company and the cost for such a long term also is around 9.6%, in terms of cost advantage. So keeping in mind long-term benefit, we feel it is the right way of doing it and that is one. Going forward, how much we will have? Today we have around 14%. Maybe we will have around, somewhere around between 20% and 25% of our book will be through securitization, I think. Not beyond it. Because there are other things we have. We also have term loans and total bank borrowings, we expect to be around 50% out of it 25% will be this plus we have public NCD deposit and we have 25% capital, so all these things are there, so we will somewhere capped between 20% and 25%.

Utsav Gogirwar: Are we able to take any advantage of the credit guarantee schemes, is there any some traction in that?

R Chandrasekar: We actually did one PCG transaction, not during last quarter. Q4, we are there.

Y S Chakravarti: About 450 Crores.

R Chandrasekar: Yes, during this quarter.

Utsav Gogirwar: Okay with SBI which you mentioned at the start?

R Chandrasekar: Yes.

Y S Chakravarti: The other thing is on the securitization side, one advantage that Chandru has mentioned, we see in this product is that, it is a perfectly matched ALM product for us, which Chandru has actually mentioned, long term. It is basically the ALM perfectly matches. So that is another reason why we would want to pursue the securitization actually.

Utsav Gogirwar: Sir, just last question on the AUM side. So this quarter, definitely, we have shown a very good growth in the 2-wheeler business, but rest of the segments, that is either flat or seen some of the segments in decline, so now if I look at say next couple of quarters or 3 to 4

quarters, how do you see or which segments will drive growth and what is the guidance you are guiding for next year in terms of AUM growth?

Y S Chakravarti: On the AUM side, for the next year, we are looking at 15% to 18% growth. We are still looking at it on a conservative way. So we want to look at the AUM growth in a little more conservative way. So basically, any upward revision could depend on the economy, but otherwise we are looking at 15% is something which we are sure we will be able to achieve, even on the 15% to 18% is what we are projecting.

Utsav Gogirwar: Which segments do you think which will help to support this kind of growth because for a 15% growth your disbursement has to be very fast compared to the current run rate what we are doing?

Y S Chakravarti: Of course. That will come from SME primarily. SME, preowned 2-wheeler, and probably as the liquidity improves we will get into the cross-sell personal loan and that may also should grow, that also should grow.

Utsav Gogirwar: That is it from my side Sir. Thank you.

Moderator: Thank you. The next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: Sir good set of numbers and encouraging on asset quality in the current environment, congratulations to the team. So there is common a theme of questions, which we have seen so far Sir mine is also in the same thing. First of all, your asset quality, we see that by and large it has remained stable or improved marginally. Has there been some tightening in underwriting norms, which you have done, has the average CIBIL score gone up or any big difference that you see because especially in gold loan you mentioned that there was a legacy issues if you can explain that a little more, that would be useful for us?

Y S Chakravarti: Not in gold, and the legacy issue is on the personal loan where it is not legacy. Legacy book where the personal loan business was run when the customer is new to the company, so there, the delinquency is high, whereas in my cross-sell business, where I am lending to an existing customer, the delinquency is much lower, so with that in mind, we have stopped disbursement of personal loan to outside customers from January 2019. So once the book gets replaced, we will see a much lower delinquencies is what I was seeing. The other thing is, no, CIBIL scores have not gone up nor my underwriting norms have undergone any change. What has changed is, for the last 2 years, we have been on a continuous drive to sensitize our customers to the fact that, you are no longer on a 180-day DPD, you are at a

90-day DPD and that they have to work with us to bring down the delinquency. It is more than a 2-year effort, which is showing results now in the last 2, 3 quarters.

Vivek Ramakrishnan: Excellent Sir. Sir, the other thing is in terms of, there is NPAs and which is, of course, because of delays, but in terms of the write-offs, which is the eventual credit cost what is the eventual credit cost for Shriram City Union?

Y S Chakravarti: Over a period, it is always hovered between 2.5 to probably 2.8 2.7. So it is no different this quarter also. It is actually 2.5 this quarter.

Vivek Ramakrishnan: Excellent Sir. Last question. In terms of scaling up fixed deposits, how difficult is the process and do we expect to see, because you have a good brand name and there is a search for yields among retail customers, so I was wanting to know about that?

Y S Chakravarti: In fact, if you see the last 2 quarters and the last 3 quarters, in fact, there is a steady increase in the fixed deposit base. See, we have not looked at fixed deposit as a very actively earlier because of one is the costing and also bank funding, abundant availability of funding from the market. So we activated the retail channels through our partners and you see a steady increase in the fixed deposit business in the last 3 quarters. So it is actually improved from quarter-on-quarter, it has improved.

Vivek Ramakrishnan: About 180.

Y S Chakravarti: Yes.

R Chandrasekar: Approximately 200 Crores is what we have able to do in last 2 quarters. I am sorry net. Gross is 500 Crores, the net is 200 Crores and the cost will be around 9.5%, 9.6%.

Vivek Ramakrishnan: Great Sir, congratulations and look forward to good results. Thank you.

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

Umang Shah: Congratulations on a stable quarter. I just have 2 questions. One is a clarification, which you mentioned that for the housing finance business, adjusting for the DA income margins is largely stable, right, quarter-on-quarter?

Y S Chakravarti: Correct.

- Umang Shah:** Should we assume that growth has kind of bottomed out in the housing finance business and probably the current disbursement rates are sustainable?
- Y S Chakravarti:** Not bottomed out. Growth has not bottomed out they will grow and the current disbursement numbers are sustainable in fact they will improve only.
- Umang Shah:** My second question was related to, there were some media reports a few weeks back regarding RBI kind of declining the proposal for a 3-way merger so any update on this issue which you can share with us?
- Y S Chakravarti:** This is news to me. You have read in the paper, I have also read in the paper.
- Umang Shah:** So what I was trying to understand, any progress on the merger issue that you would like to share with us?
- Y S Chakravarti:** No. I have no news as of now. You have to excuse me on that, since we have no news.
- Umang Shah:** No problem, thank you and wish you all the best.
- Moderator:** Thank you. The next question is from the line of Jignesh Shial from Emkay Global. Please go ahead.
- Jignesh Shial:** How come I am seeing there is a bit of a rise in your gold loan portfolio as far as your gross phase III is concerned from 2.8 to 3.38 and now even the net NPA has been rising. So sequentially, has there been a rise so anything to read into and same whereas there is a sharp reduction in your auto loan one, where your gross stage 3 has sharply declined on sequential basis so anything that you can explain on this?
- Y S Chakravarti:** On the gold loan side, there is nothing to be alarmed about, in the next couple of months it should come back, settle down at the historical level, nothing to be alarmed about there. The gold loan prices are increasing, the customers are coming and asking us for a little more time to redeem, so we have actually held back on the auctioning process of the gold, so that is the reason why there is a slight rise you see. On the auto loan side, probably sometime later, I will ask Jai Singh to give you the correct numbers. This is also because of the inclusion of our 395 Crores disbursement of preowned 2-wheeler into auto loan because of which, we will actually remove that from auto loan and give you those numbers. Auto loan could have actually some, the AUM is also falling. So see, as a percentage could go up, if you remove the 395 Crores, which we will do this and calculate.

- Jignesh Shial:** Understood. Secondly, now you are guiding for the AUM growth of 15% to 18% for FY2021. So right now, we are growing in little single digits. So this should be combination of what, if you want to achieve that kind of AUM growth the disbursement growth should be fairly heavy?
- Y S Chakravarti:** It is a combination of SME, which should grow at around between to 20% and 25%, 2-wheeler at about 12%, and then of course rest of it should come from your gold and personal loan.
- Jignesh Shial:** You even see that the overall repayment issues should also be coming down because, overall cost of funds coming down, the overall competitiveness of the company improving, do we see that way or this is more to do with demand environment improving and disbursement growth accelerating?
- Y S Chakravarti:** No, demand is there, I am not seeing any slowdown in the demand for the ticket sizes that we are in. We are not seeing much of a slowdown their demand is there. What has happened is that as I mentioned earlier we have moved away from unsecured loans and also because we wanted to be conservative on the liquidity side we have earmarked a lot more fund to the two-wheeler business and also showed up our cash and bank balances plus some of the unutilized numbers, which we have actually taken it from 1000 Crores to 1500 Crores. That is one of the reasons why there is a slowdown on the SME, but this quarter, you should see us going back to...
- Jignesh Shial:** Understood. Can I get your securitization number once again that we did during the quarters 440 Crores, right what was the amount?
- Y S Chakravarti:** Securitization during the quarter was 1855 Crores.
- Jignesh Shial:** 1855 Crores.
- Y S Chakravarti:** And 450 Crores that is mentioned is drawn under PCG scheme from SBI during the month of January.
- Jignesh Shial:** Okay. That is for the current quarter?
- Y S Chakravarti:** Not here. It is basically the fourth quarter withdrawal.
- Jignesh Shial:** So these 1855 Crores sort of a run rate will continue or this is kind of a one-off?

- Y S Chakravarti:** No, it is not a one-off. As my colleague Chandrasekar has already mentioned we are looking at about 25% to 30% of the book being securitized, so it will continue.
- Jignesh Shial:** Okay, but this is not assignment, so the book will...
- Y S Chakravarti:** No, this is not it. We have a negligible amount of assignment.
- Jignesh Shial:** So the risk also stays with you and the book will also will be reflected in your books only, in your AUM?
- Y S Chakravarti:** Exactly.
- Jignesh Shial:** Perfect. Thanks that is helpful. Thanks a lot Sir and all the best.
- Moderator:** Thank you. The next question is from the line of Piran Engineer from Motilal Oswal Securities Limited. Please go ahead.
- Piran Engineer:** Congrats on the quarter. Most of my questions have been answered. I just had a couple of queries. Firstly, in preowned two-wheelers, is this a top-up or a fresh purchase I am a bit confused?
- Y S Chakravarti:** As I mentioned earlier, it is about 45% to 50% of this is from an existing customer, existing customer who has completed his existing 2-wheeler that is basically an 18 to 24 month 2-wheeler. Rest of it is from the fresh customers.
- Piran Engineer:** So the existing customer, his two-wheeler, his loan is still going on?
- Y S Chakravarti:** No. The existing two-wheeler loan is closed and is back to you for a top-up loan. The loan is given only if he has finished his existing loan.
- Piran Engineer:** Understood and against the same collateral?
- Y S Chakravarti:** Yes.
- Piran Engineer:** Secondly, have we increased the tenure in our MSME loans over the last couple of years because I see the repayment rate constantly declining?
- Y S Chakravarti:** No. It has gone up.
- Piran Engineer:** Is it still a 3-year loan?

- Y S Chakravarti:** Yes. See, the average tenures are anywhere from tenure is at 12 to 60 months, but the average is about 3 years. That has not changed.
- Piran Engineer:** Lastly what would be your strategy on gold loans now given that over the last few years, we have deemphasized this product, but has that stance changed?
- Y S Chakravarti:** Yes, we are actually starting on a campaign starting February in the existing states and planning to open in a few of our locations in the North. So we will slowly expand it to our other branches in the North India.
- Piran Engineer:** Understood Sir, okay that is all from my end. Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Rajeev Agrawal from Doordarshi Advisors. Please go ahead.
- Rajeev Agrawal:** My first question is trying to understand your preference for securitization over assignment. So can you talk through why you prefer securitization instead of assignment?
- R Chandrasekar:** No. In fact, you are aware that we have moved to Ind-AS from March 2018. So now, as per the new Ind-AS securitization is on book, assignment is off book. Previously under IGAAP both securitization assignment were both off book, so since it is on book we feel it is good for the company, in a sense good demand is there. It is a long-term liability management advantage, very good ALM product and we are also able to get at a very fair, around 9.5, 9.6 price for a 4-year, 4, 5-year money. So it is a good ALM product and it is a beneficial for the long-term angle.
- Y S Chakravarti:** So to add to what Chandru is saying, there are 2 other reasons why we would prefer assignment, securitization or assignment. One is we are sitting on a capital adequacy ratio of about 25%, so there is no point in taking AUM off the books, number one. Number two is in assignment you upfront the income, which will lead to, 1 quarter your income is up, and next quarter if you do not do an assignment your income is down whereas in assignment it was done over that way.
- R Chandrasekar:** So out of our books, we have only 2% to 3% assignment. Assignment, we may do here and there 1 or 2 more small, small transactions, but not on a bigger scale, because depending upon the banks. We may do small transactions.
- Y S Chakravarti:** It is not our preferred route.
- R Chandrasekar:** Yes.

- Rajeev Agrawal:** So how much additional collateral do you, like what is the haircut when you do the sign securitization and do you have to put any cash collateral as well?
- Y S Chakravarti:** It depends from bank to bank, there is nothing standard, and so it changes from bank to bank.
- R Chandrasekar:** It is somewhere around 10%.
- Rajeev Agrawal:** 10% is the cash collateral, is it?
- Y S Chakravarti:** It could be. Depending on the bank to bank, it will vary, but, yes. You need to give a cash collateral.
- R Chandrasekar:** Yes.
- Rajeev Agrawal:** Got it. Is there a haircut also taken when you do the securitization and how much is that for the haircut, I think if you are having 100 Crores of loans that you are securitizing in the PTC, how much is the loan that you get or how much are you able to recover, all 100 Crores or 90 Crores or how is that?
- R Chandrasekar:** No, no. Full.
- Rajeev Agrawal:** How much you get? Full, I see, right. So the cash collateral is the only additional thing we have to keep it, got it and if you were to do assignment, is the interest rate higher like you said 9.5% is for the securitization is assignment at the same rate or higher than that?
- R Chandrasekar:** It will be around the same figure.
- Rajeev Agrawal:** Around the same. Got it. That is my first question. When I look at the growth, is the growth limited more due to liquidity issues I think you talked about the fact that you wanted to be liquid and you wanted to increase the liquidity on the balance sheet and the growth will come back in Q4 and also into financial year 2021. So should we expect that with the securitization, you have enough of funding availability that you will be able to grow the way you have envisaged or are there any other issues that you are seeing, which is preventing you from growing the way you would want to?
- Y S Chakravarti:** With the securitization pipeline now running smoothly, we should practically see improved disbursements now.

Rajeev Agrawal: Got it. On the SME front, I think Shriram City Union has always said there is enough demand and that particular segment is a very good segment and yet when we talk to other players we keep hearing there is a lot of concern around MSME loans right and I think you have always said you lend to the services segment and not to the manufacturing segment so that stance continues, right, so there is no change in that stance and you continue to see that interesting and attractive asset class or asset segment that you want to lend to, right, in the SME space?

Y S Chakravarti: Yes. There is no change in the stance. Second thing is even MSME is a misnomer in the market because it could be anywhere from 5 lakhs to 50 Crores will come under the MSME slab. So the granularity in our book, our ticket size is about anywhere between 10 lakhs, 12 lakhs and probably in South, it should be around, average could lead to about 12 lakhs to 15 lakhs and in that segment it is mostly again traders and service providers. We have very little exposure to manufacturing. So the stance is not changing, and we will continue to pursue.

Rajeev Agrawal: Last question is on the provisions. So I see that your Stage 1 and 2 provisions is almost 3.2%, right and you mentioned earlier that your credit cost is around 2.5% to 3%. So it seems like you have adequate provision both on the Stage 1 and 2 of course as well as for the Stage 3. So do you feel like, the run rate of the cost that you have around provisions and bad debt and so on is going to be similar to what we are seeing this quarter, right? Is that a reasonable expectation we can have?

R Chandrasekar: If you see, I think our Stage 3 is coming down, the Stage 1 and 2 is steady. So we expect to be around this going forward and there can be margin reduction around this year.

Rajeev Agrawal: Thank you very much.

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

Kunal Shah: Yes. So just in terms of the overall disbursements, sir, this quarter, it was more skewed towards the secured products. So one is maybe in terms of the demand for the collateralized lending for securitization and maybe the tight liquidity environment, which is there. However, we have been able to raise 3000 odd Crores and we have 1500 Crores, 1600 Crores of credit lines plus maybe the current balances. So when do we see the shift maybe in terms of again the small enterprises and personal loans or what level of liquidity or how much are we comfortable raising it from the market that we will start seeing the growth in these 2 segments so is it like a quarter away or maybe it will take 3 to 4 quarters and the skewness in favor of the secured products can continue for a while?

- Y S Chakravarti:** Hopefully, we hope that it is a quarter away. See, we are working with the lenders for this product. So hopefully, by next quarter, we should be in place and we should start this product again.
- Kunal Shah:** Okay. So any indication in terms of because you said that there is no worry on demand side. So if we assume that the traction on the secured is still continuing, I think personal loans and small enterprise financing was very, very low, okay, hardly like 1600 odd Crores, so is there a sufficient liquidity?
- Y S Chakravarti:** What I am saying, we are working with few lenders specifically for the 2 products, for the unsecured SME and personal loan product and the talks are in preliminary stage, but we are hopeful that we should be able to tie up funding lines for those products in the next couple of months. So that is why I said, from the first quarter next year we should see disbursements happening in this.
- Kunal Shah:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line Kabir Gulati from HL Capital. Please go ahead.
- Kabir Gulati:** Yes Sir. So within your MSME segment, now within that, how you compare unsecured versus secured in terms of the ticket size and the segment that you cater to?
- Y S Chakravarti:** See the unsecured tickets. Our average ticket size will be about 5 lakhs.
- Kabir Gulati:** Okay. So the segment could be very much similar?
- Y S Chakravarti:** Similar. The loans range from see you start at 2 lakhs and go up to probably 7 lakhs, 8 lakhs, but the only thing here is, since most of the customers would, the loans are smaller loans and then the cost of taking it with collateral is so much, sometimes you feel it is not worth it. Not worth it in the sense the cost to the customer is so high that you actually are okay with the cash flows and then you do these loans.
- Kabir Gulati:** So presently unsecured would be what proportion of your MSME loans?
- Y S Chakravarti:** About 20%, 22% of the SME book.
- Kabir Gulati:** Region wise would it be concentrated in only single or 2 states or would it be a pan India product?

Y S Chakravarti: Sorry.

Kabir Gulati: Would it be a pan India product or concentrated in your key markets obviously?

Y S Chakravarti: No. It is a pan India product, but obviously 60% plus of SME portfolio is in south, again, it will follow a similar pattern here also.

Kabir Gulati: Got it Sir. Thanks a lot.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question. I now hand the conference over to Mr. Nischint Chawathe for closing comments.

Nischint Chawathe: Thank you everyone for joining us today. We thank the management to give us an opportunity to host the call. Thank you.

Y S Chakravarti: Thank you.

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