"Shriram City Union Finance Limited's Q3 FY'21 Earnings Conference Call" |

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Moderator: Ladies and gentlemen, good day and welcome to the Shriram City Union Finance Q3 FY'21 Earnings Conference Call hosted by PhillipCapital (India) Private Limited. As a reminder, all participants lines will be in 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. Pradeep Agrawal from PhillipCapital (India) Private Limited. Thank you. And over to you, sir.

Pradeep Agrawal: Thank you, Vikram. Good morning, everyone, and welcome to the Q3 FY'21 Earnings Call for Shriram City Union Finance.

To discuss the results, we have Mr. Y S Chakravarti – M.D. and CEO; Mr. R. Chandrasekar – ED and CFO and Mr. Jai Singh at Investor Relations.

I would now like to hand over the call to "Mr. Chakravarti for his Opening Remarks." Over to you, sir.

Y S Chakravarti: Thank you, Pradeep. Good morning, and welcome all to Earnings Call of Shriram City Union Finance Limited for the Third Quarter of Financial Year 2021. We have declared our Q3 results last evening and I hope you have had the opportunity to read the related "Investor Presentation" which has since been made available on the website as well as Stock Exchanges.

Q3 has certainly been among one of our better quarters in recent times. Disbursements stood at Rs.6,197 crores, which are double of last quarter numbers, and also 6.5% higher than the last year's numbers.

While all the products saw a substantial growth in disbursements in this quarter, I would like to take this opportunity to highlight our star performers, that is our mainstay products, MSME loans and the two-wheeler loans…of course, gold also has grown well in this quarter.

MSME loan disbursement grew 186% sequentially, albeit on a low base. And while we are still some distance away from our peak level lending to this segment, we are optimistic that Q4 would be a good quarter for us. As always, we continue to be cautiously optimistic about the MSME segment.

As concerns the two-wheeler loans, we have turned in one of the better performances in Q3. We ramped up our disbursements to 133% sequentially and disbursements were also higher by 9.2% overall over last year. Of course, typically Q3 is always a very good quarter for two-wheelers because of Dussehra and Diwali. And this Q3 is no exception.

One thing to note is that in the month of November, we have disbursed our highest ever amount towards two-wheeler funding, that is the first time we have crossed Rs.1,000 crores of funding for two-wheelers in a single month.

And we are also hopeful that the current quarter Q4 is on track, almost like pre-COVID levels and current January numbers give us optimism that this quarter, we will close with a good number of two-wheelers.

Gold Loan disbursements continue to pick up and were at 23.5% high over last quarter. And as I had informed you on the previous earning call we had introduced gold loans to some of our branches in north and the traction is picking up there. And once it picks up, we should be able to broad-base this gold loan business also and fill it up.

Moving to our other loan products, I had mentioned on the previous call about our cautious approach to the unsecured portion of our book. And now it's almost five months since the moratorium was done away with, and looking at the collection performance and overall sentiment, and since we have not seen undue stress on the personal loan book, we have increased our presence in this segment in Q3.

Used two-wheeler loans which we have introduced about a year ago are gaining traction and we have more than doubled our disbursement over the quarter. And we think that this promises to be a niche product and we can develop it to our advantage.

As per our new products, Q3 saw us introduce Micro Business Loans, that is business loans up to 1 lakh. And we hope to build this book going forward.

On the Performance Metrics, AUM showed a growth of 3.7% over last quarter. For the financial year so far it is at minus 1.85%. Our loan yields continue to be strong at over 20% and our NIM at 13% was the highest in eight quarters.

OPEX was higher by 12.4% on a sequential basis, which was on expected lines basically during the festival season, because of high disbursements and promotional expenses. And also, higher dealer payouts because of the high two-wheeler’s disbursements.

Credit costs moderated to 2.5% which showcases the steadily improving collection efficiency. Stage-III gross delinquencies also continue to decline and were at 6.46%. This is 205 bps lower than last year. Stage-III provision coverage ratio was steady at almost 53%. COVID-related provisioning stood at Rs.592 crores as at end of December. Had we adopted the forbearance allowed by the Supreme Court order of September 2020, permitting standstill of NPAs, our gross Stage-III would have been 5.9% instead of 6.46%. Cost-to-income ratio is under control and below 40%.

Post-tax return on assets strengthened to 3.62% and ROE improved to 14.39%. Strong CRAR of 29.57% and leveraging levels of below three would serve as well in raising debt going forward.

Resource raising was particularly strong in a quarter, we raised Rs.4,556 crores of incremental funds with weighted average tenor of 36-months.

What is to be noted is the tenor of the debt. We have pushed the fresh raise of debt towards a higher tenor.

Cost of funds to moderate it further to 9.24%. Our liquidity buffer is at Rs.2,670 crores, and our retail deposit base continues to be steady. A little over 4% of our fixed deposits are now raised through purely online which has been introduced sometime around August. The online fixed deposit program is gaining good traction.

On the Restructuring of loans permitted by RBI, I had mentioned on the last earnings call that Shriram City does not expect to restructure too much of its loan book and that the amount could be a maximum of 100 to 150 crores which will be less than 1% of our book in the earlier guidance.

We have received approximately about Rs.150 crores worth of proposals for restructuring which we have approved, but not restructured as yet, we have done about Rs.20 crores this quarter, rest of it will be done going forward. Though we have approved about Rs.150 crores of proposals, we expect that this could shrink to about 120, 130 crores going forward.

The other recommendation by the regulator concerning ECLGS also did not amount to much for Shriram City. We have disbursed about Rs.65.5 crores worth of ECLGS loans till today.

We had positive news on the credit rating front. During the quarter India Ratings took Shriram City off the “Rating Watch Negative” status and also reaffirmed our credit ratings at “AA Stable.” ICRA also has reaffirmed that “AA Stable” for long-term debt and fixed deposits at “AA Plus.”

Our subsidiary, Shriram Housing continues to post strong numbers as a repeat of the last quarter's performance. Shriram Housing registered their highest ever loan disbursements in Q3, which grew at 54.1% over last year and 15.1% over the last quarter. Their AUM has crossed Rs.3,000 crores and has grown 49% year-on-year and close to 13% quarter-on- quarter. Shriram Housing has registered a 70% raise in AUM since March ’19, a commendable performance given the frequent headwind affecting the sector in the last two years. They achieved a PAT growth of 18.2% year-on-year and 35.7% QoQ, resulting from a healthy increase in net interest income and steady state Opex. The PAT growth is despite a higher level of provisioning. Cost-to-income fell below 40% in the quarter. Shriram Housing has adopted the Supreme Court forbearance on the status quo NPAs and reported GNPAs of 1.71%, and NNPAs of 1.22%. Without this forbearance, the GNPA and NNPA would have been 2.4% instead of 1.71, 1.91 instead of 1.22. Shriram Housing has an adequate fund balance of about Rs.678 crores. They received proposals for up to about Rs.50 crores of loans to be restructured. But we expect this to consolidate at about Rs.40 crores.

With this, we open the floor for questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have a first question from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

V Ramakrishnan: My question is on asset quality. Is it this dichotomy between people saying that job losses and salary cuts especially for the lower segment of society, and asset quality improvement which we see sequentially are at odds with each other, could you explain in terms of your segment, why do you see this kind of improvement and it's been a very good improvement?

Y S Chakravarti: Thanks. That's a good question to ask. Again, let me reiterate that on the SME front, my major segment of customers are traders and service industries, where they will come back very quickly to normalcy and functioning. We have minimal exposure to manufacturing sector, which is between 6% to 7%. So I think that's one of the reasons why we continue to do well. Even on the two-wheeler portfolio, about 70% of our two-wheeler customers are small businessmen and self-employed professionals; by professionals, I mean your typical plumber, electrician, these kind of professions, small businessmen, vegetable, milk, fruit vendor, these kind of customers. So, salaried we have not much of an exposure. Again, our business territories are mostly tier-two, tier-three, that is semi urban and rural areas. I think this is what probably has, I would say, insulated us majorly from the effects of COVID.

Moderator: Thank you. We have next question from the line of Prashanth Sridhar from SBI Mutual Fund. Please go ahead.

Prashanth Sridhar: If you can give us some idea about collection efficiencies on billing against these segments?

Y S Chakravarti: See, our collection efficiency for the quarter is around 98%. Normal pre-COVID level is within 96%, 97%.

R. Chandrasekar: Collection includes all collection, and the TBC for the month. Monthly collection is Rs.2,040 crores. We have collected close to around Rs.2,000 crores. On a quarter we have collected close to Rs.6,130 crores. Billing against collection will be close to around 77%, 78% for the month.

Prashanth Sridhar: How would it look across segment, something like SME versus personal loan or two-wheeler?

R. Chandrasekar: All the products are between 94%, in fact, if you see two-wheeler is 95%, EF is 97%, PL is 100%, used is also close to 100%, SL is 99%, and gold is of course 100%.

Y S Chakravarti: Two-wheelers is slightly lower compared to other products, but I think more or less we are able to achieve a number which is 1%, 2% plus/minus in each product.

Prashanth Sridhar: The second question is, if you can give us some idea of these disbursements that you've done, how much it would be something to stress accounts or something that would hit your internal limit stress, zero plus in previous quarters?

Y S Chakravarti: No, I've put out two statements; one is on the amount that we have done for the restructured account and the ECLGS. Other than that, no loan will be given to a customer who is under stress. And if you give it, you need to put it under restructuring or you need to create a provision for a stressed asset if you are still lending on it, which will also become a part of stressed portfolio, right? So the current disbursements, no top ups, top ups are less than 2% of the current disbursement, it's all loans given to customers where they have completed a loan. So, about 30% of the disbursement has gone to my existing customer who have already completed a loan, rest of it is to new customers.

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

Sanket Chheda: My question was, what would be our stock of Stage-II asset currently? And if you can just provide how it was last quarter, just to get a sense how it has moved up or moved down?

R Chandrasekar: In fact, last year, at the same time, the Stage-II was close to 13%, and after the moratorium from, March, it was 5%, Q1 it was 5%, Q2 was 5%, this quarter it has moved to 7%

Sanket Chheda: Out of this 7%, since we didn't have any delinquencies in this quarter, and we have not grown our book since last six quarters, I believe that all the inherent pain was already recognized, do we see any meaningful stress coming out of this Stage-II assets over the next quarter or so?

R Chandrasekar: Stage-II is between 31 to 90. Consistently because the bucket started moving, we expect it to be around this level or plus or minus 1% or 2%, we have to wait for another quarter. But so, far I think we are in control because pre-COVID level we are generally in the 10% to 13% range.

Sanket Chheda: And out of this 7%, as you said, 30 to 90 days, so, how much would be 30 to 60 day bucket and how much would be 60 to 90 day bucket if that is available?

R Chandrasekar: 30 to 60 bucket would be around 4% and 60 to 90 would be around 3%.

Sanket Chheda: If we see the ECL provisioning on overall book, our ECL provisioning is probably one of the highest in the NBFC space at about 8%, 8.5%. So, even if there were some delinquencies that may come in the coming quarters, we have fairly provided in terms of say provisioning on Stage-III asset is concerned or even the provisioning on the standard assets are concerned, is that the right assumption to make going forward?

R Chandrasekar: Yeah, actually, COVID provisioning has been taken into account, the collection efficiencies are up, and the gross NPA in Stage-III is coming down. If we look at Stage-II and also even Stage-

I and 1 to 30, we have an internal stress testing which shows that we are in the right direction. So, as of now, we are very comfortable with what the provision is. Considering next six to eight quarters, how the book will behave on a stress test, the provision is made.

Sanket Chheda: The last question is sir, we are talking about a small business loan, maybe picking up from Q4, so maybe similar growth would be there. But in FY'22 do we foresee any AUM growth of mid-teens probably are we targeting that number?

Y S Chakravarti: Yes.

Moderator: Thank you. We have next question from the line of Abhijit Vora from Sundaram Mutual Fund. Please go ahead.

Abhijit Vora: I just wanted to clarify a couple of things: First one is, you said the Stage-III numbers which you have given is without benefiting from Supreme Court order, right, as in you have recognized all the GNPAs?

R. Chandrasekar: Yes, correct.

Abhijit Vora: Had you utilized the benefit, Stage-III would have been lower, right?

R. Chandrasekar: Correct.

Abhijit Vora: Second, I wanted to check, what is your write-off policy sir after loan becomes NPA if the recovery is taking place, in how many days or months do you write off the loan?

R. Chandrasekar: Basically, we have a board approved write-off policy, where there are multiple methods which we consider. First, we look into the case where it is above 90-days, and we also discuss with the business teams and the branches, divisions and other people to see which case can become delinquent. So, we go by account-by-account, agreement-by-agreement where the probability of default is higher, based on which we write off. So we have a detailed policy. I think if you want, we can also share it.

Abhijit Vora: What was the write-off quantum in Q3?

R. Chandrasekar: This quarter we have Rs.209 crores of write-off. In terms of percentage, it will be close to 2.8% to 2.9%.

Abhijit Vora: One question on credit cost sort of guidance or expectation for Q4 and FY'22. Of course, if stress is coming down by a good amount, do you think credit costs will start normalizing in Q4 itself or it will take let us say one, two quarters more, what is the internal expectation?

R. Chandrasekar: Credit cost in fact this quarter is 2.5%. Generally, we do very well during this Q3 compared to other quarters. So we generally budget between 2.8% to 3% for the full year. And going forward we feel that the credit cost will be between 2.5% to 3% range. Quarter-on-quarter 15 20 basis points up or down, but we expect somewhere to be around 2.7% to 2.8% going forward.

Abhijit Vora: On cost of incremental borrowing, what are the benefits you're seeing right now? And also, based on your borrowing program, any expectations you have for cost of borrowing, how much can it come down by next six months or 12 months?

R. Chandrasekar: In fact, if you see our cost of borrowing for the last one year, I think it is steadily coming down, in fact, last year was 9.6%, Q1 was 9.59%, Q2 was 9.56%, this quarter it has come down to 9.24%, in fact, this quarter we have brought it down 31 basis points. We have two, three strategies on the thing. One thing we are very clear about - even this quarter, we mobilized Rs.4,500 crores which is all three-year money. Going forward also the strategy for the company is to have long term borrowings in the book. This quarter, we expect cost to be 5, 10 basis points down. And for next financial year, we expect the cost of borrowing to be somewhere between 9% to 9.1%.

Y S Chakravarti: Chandru, I think you should also mention the fact that the fresh borrowing is at 8.8%.

R. Chandrasekar: Yeah, fresh borrowing is coming down, because since all the earlier books is fixed, so, it will take some time for the older book to go out, but we expect to be somewhere between 9% to 9.1% for the next financial year.

Abhijit Vora: This lower cost of borrowing, will it be retained as NIM expansion or will it be passed on to the customers?

R. Chandrasekar: Generally, we don't pass on. So, in fact, we expect the growth to go up next year. Though cost of borrowing will come down steadily but because capital…

Y S Chakravarti: Chandru, no… see, one thing is on the two-wheeler front and all, we have actually passed on some of the benefits there.

R. Chandrasekar: But some of the products like PL, and in fact we have started doing high yielding products also, so there is some balance here in the high yielding products, like this quarter yield has gone up because personal loan and used two-wheeler. Individual products, individual areas in the geographies we may do here and there, but overall, we expect the yield to be around 20%.

Moderator: Thank you. We have next question from the line of Ankur Jain from Prayaas Capital. Please go ahead.

Ankur Jain: You have mentioned about the disbursals which have gone up in the personal loan segment. So, I wanted to ask about the gross NPA level in that segment, they continue to be elevated. So, what are your thoughts on them going forward?

Y S Chakravarti: See, the incremental book gross NPAs have come down substantially. The reason being we have moved away from the market personal loan to purely cross sell customers. It will come down steadily in the next three, four quarters as the old book gets retired and the new book portion of the business starts growing, it will come down steadily.

R. Chandrasekar: Even during this period, there's a 20 basis points dip in the personal loan, it was 10.89 last quarter, it was 10.69, even if you see the Q3 last year was 10.99, now it is 10.69, even quarter-on-quarter, year-on-year I think the personal loan percentage is coming down drastically.

Ankur Jain: So what is the NPA level that you are experiencing in the new book which you are underwriting?

Y S Chakravarti: For the new book. it is less than 50% of what you see on the overall.

Ankur Jain: So let's say between 5% and 6%?

Y S Chakravarti: Yeah.

Ankur Jain: Sir I have a couple of questions on the housing finance business. So what we are experiencing is that a lot of companies including Shriram Housing Finance, which are catering to the self-employed segment and the geographies of tier-two, tier-three, and semi urban geographies, so all these companies are experiencing very high growth. Now part of the reason could be due to the low base AUM that these companies have. So my question was, what are the underlying economic conditions in that segment and what is causing such high growth, and is it sustainable?

Y S Chakravarti: Probably if you're looking at a high growth, it could be a factor of the low base. And the other thing also that, as you're all aware that for the last two years, we have a leadership change at housing finance, we have created a very strong and dynamic team there, and it probably took a year for them to consolidate and then move from there. So they are now working with the group, basically utilizing the group, and expanding. So probably, they will continue to grow at this pace for at least another two to three years, and then the growth may not be in this high number.

Ankur Jain: Sir, my question was more on the macroeconomic conditions, in the geographies and the segments, which Shriram Housing Finance caters.

Y S Chakravarti: So, basically, if you look at Shriram Housing Finance, they are focused on south, that is Tamil Nadu, AP, Karnataka, then you have Maharashtra, Gujarat, Rajasthan, and Delhi. So these are the seven major geographies that they are operating. All these seven geographies are performing well on macro-economic conditions side also. These are the states that have the most potential.

So I think you can get a sense of it since they're operating only in the seven states right now which are a very large market for housing finance and where the group also has a large strength.

Ankur Jain: A follow up question on that. I mean, you mentioned about the leadership change, which happened in Shriram Housing Finance, and how the team consolidated the process. So I just wanted to know what processes have the team changed to ensure that the underwriting is prudent? And are you confident that those processes are baked in now and the business has turned around?

Y S Chakravarti: Yeah, I can give you an example, whatever loans disbursed from January 2019 till today, I think they have two accounts, which are 90 DPD, which is about close to 2,000 crores of AUM. Does that answer on the center underwriting?

Ankur Jain Yeah, quantitatively you have provided figures that gives confidence, but I just wanted to understand qualitatively what this team is doing different than the earlier team, maybe a couple of points?

Y S Chakravarti: I think we have an hour in this call. So, it will be difficult for me to explain. But if you really want to meet the team and talk to them, I would be glad to arrange to meet with the team or a call with the team so that you can discuss with them in detail. I would request you to contact Jai. He will organize the interaction with the team for you.

Ankur Jain: In an interview, you mentioned the plans to raise capital of around Rs.300 crores to Rs.400 crores in Shriram Housing Finance. First of all, is it on track? And secondly, I mean, would you like to raise it from the private investors or are there plans to tap the primary market?

Y S Chakravarti: Definitely, no primary market. It is a tossup between whether SCUF should invest, or if we should invite an external investor. We're still debating on it, nothing has been formalized. But they would raise capital down in six, seven months' time.

Moderator: Thank you. We have a next question from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: So overall, maybe if we have to see in terms of where the Stage-III settling and given that Stage-II is also at 7%-odd, should we say that maybe in terms of the asset quality behavior has been better than the anticipated and maybe looking into it if we think that the situation has stabilized, how should we look at the growth in most of the segments because maybe like three, four years, so is it giving us more confidence to get back into the highest growth trajectory getting into FY'22 and FY'23 and which segment would ideally drive it?

Y S Chakravarti: I'll answer your last point first. The segments, obviously, that we will continue to focus on are both SME, two-wheeler. The other point is that across the country in the next 12 to 18-months, we want all our branches to be able to do gold loans. So obviously that's where we want to go.

And as far as I think NPAs are concerned, Stage-III, we are at a point where we are confident that we will be able to hold them or improve further on this. Even if you hold them where they are today with the increased AUM, as a percentage, we will be able to improve on this number. Idea is that, '21-22, as somebody has asked me and I said, yeah, we are targeting high teen growth on the AUM side.

Kunal Shah: And secondly, when we look at it in terms of collection efficiency, so, I heard that maybe in terms of the billing that was 77%, 78%, was it correct again maybe purely…?

Y S Chakravarti: You are right.

Kunal Shah: Overall collection efficiency we mentioned was 98% for the quarter and this was 77%, 78%. So, should we read that balance is coming as more of an arrears when people are coming and paying the past installments?

Y S Chakravarti: Majority of it is arrear customer collection.

Kunal Shah: So almost like 20%-odd would-be arrear customers?

Y S Chakravarti: Yeah.

Kunal Shah: We said like two-wheeler is lower because most of the other products are 94%, 95% or say 100% and given that two-wheeler I think still is like 23% 24% of the book, then it has to be like exceptionally lower to get to this 77% 78% So, what is the collection efficiency in two-wheeler and how it was in the pre-COVID level?

Y S Chakravarti: Normal two-wheeler efficiency during pre-COVID level was about 96%. I am talking about this number overall. I will get back to you, I don't have it ready right now.

Kunal Shah: So when we look at billing against collections, because 94%, 95% or say 100% in other products and overall at 77%, 78%, then two-wheeler has to be like sub-25%-odd I would tend to believe which I don't know….?

Y S Chakravarti: I will give you that number but to understand on the two-wheeler side, basically, we do have a lot of these customers who come to the branches and pay money or basically no non-banking customers. There is a difference between that product and rest of the products. Jai, please make a note and get it.

R. Chandrasekar: Collection is almost close to the pre-COVID level, there may be plus or minus 1%.

Kunal Shah: And one more question was on yield. So I don't know if you have passed on the benefit on the funding cost side. Definitely the portfolio mix is helping the overall yield to sustain at this level. But if you can highlight is it like enough of pricing power, and whatever cost advantage we had seen, there was not much of a need to cut rates. So, compared to the decline in the cost of funds, how would we have done with the card rates across the product in last two to three odd quarters?

Y S Chakravarti: See, other than two-wheelers, yield on the rest of the products has not moved. Two-wheelers did well typically in a festival season. You tend to give some discounts to the customers, geographies, so, you run some schemes for customers, which normally happens in any festival quarter where you also pass on benefit of lower cost of funds to the segment there. So, otherwise rest of the products are steady, two-wheeler has slightly come off, which in the non-festival seasons will go back to normal.

Kunal Shah: Sir, I'm just trying to get that, maybe whatever decline in the funding cost is there, are we absorbing it more in terms of the profits and there is not much of a need to pass it on to the customers and that should…?

Y S Chakravarti: Kunal, I got your point, but with the kind of segments that we are addressing today, I think we are adequately priced, there is no need to reduce the rate as of now.

Kunal Shah: So then margin should stay on at a higher level?

Y S Chakravarti: Yes.

Moderator: Thank you. We have next question from the line of Subramanian Iyer from Morgan Stanley. Please go ahead.

Subramanian Iyer: I had a question on the collection efficiency. So you mentioned that 77%, 78% is the collections based on monthly billing, and the rest is coming from arrears. So I just wanted to understand that on average, even looking during the pre-COVID period, what used to be your collections from monthly billing and what used to be your collections from arrears?

R. Chandrasekar: Pre-COVID level also it was between 76% to 80%.

Subramanian Iyer: So essentially, it's a normal course that you would get at least 15%, 16% of collections from arrears?

R. Chandrasekar: Historically it is like that.

Subramanian Iyer: The other question I had is I just wanted to confirm the Stage-II numbers. So I believe it's 7%, right. And what was its last quarter?

R. Chandrasekar: Last quarter was 5%.

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

Prashanth Sridhar: One follow-up question from my side. So, on one side, you're collecting almost 20% extra for the quarter from arrear accounts or past overdue. But at the same time, Stage-II is also increasing by 2%. So, how do I read both of these figures together?

R. Chandrasekar: The point here is that a lot of arrears collection is coming, so Stage-II 2% is a small thing because if you see the overall book of 100%, Stage-I is almost close to around 87%, 88%, Stage-III is 6%. Even if it moves from 30% to 32%, then it becomes Stage-II. When we take collection percentage, it includes arrear collection also, it can be one bucket, two bucket or even three bucket, it can be overdue, all those things. So going forward, we expect the Stage-II to be around this level, maybe between 7% to 9% or 10%. It's difficult to explain the calculation on this book.

Y S Chakravarti: Stage-II may move here and there, but the point to note is that you have consistently been collecting from the arrear customers, so the customers may move a bucket and then come back, which is quite routine for this kind of segment of customers. Ultimately, the write-off or the credit cost is well under control, if you look at eight quarters, ten quarters. So I would urge you to take a look at that. And not just bucket-I, II. This kind of a segment of customers, a month not paying and coming back and paying next month is quite normal.

Prashanth Sridhar: If you could just give us the collection efficiency for the housing finance entity as well?

Y S Chakravarti: I will send across to you with the details. You are talking about the Stage-I, II assets, right? 97%-plus on billing and over 100% on the total.

Moderator: Thank you. We have next question from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.

Pranav Tendulkar: The arrears and the regular payments, that proportion you mentioned is similar to pre-COVID, am I right, so, this is normalcy?

Y S Chakravarti: Almost.

Pranav Tendulkar: So, whatever is the Stage-II and Stage-III and Stage-I is almost similar to pre-COVID, am I right in that?

Y S Chakravarti: Yes, correct.

Pranav Tendulkar: Second thing is that what is your record in each of the verticals in recovery, so if say 6% is GNPA right now, how much of that you will recover in two, three years, have you done any historical analysis and fine tune your strategy along according to that, can you just elaborate a little bit on this loss given default, how is that and recovery?

R. Chandrasekar: I shall put the answer slightly differently. For example, we write off somewhere between 2.5% to 2.7%. Out of that, we are able to collect some 0.4%, 0.5% on the previous year’s write-off.

Around 15%, 20% on the write-off, we collect subsequent year, but it will be booked under other income.

Pranav Tendulkar: How are you measuring productivity of your manpower and have you done not incremental, but technological step changes, in terms of hiring technical expertise or technical heads of the organization, anything of that sort you have done?

Y S Chakravarti: We do have a very strong full-fledged team there both on the analytics side and also on the process improvement side.

Pranav Tendulkar: Who is heading that team?

Y S Chakravarti: A gentleman is Mr. Karthikeyan and on the digital marketing side we have our digital marketing head called Mr. Unnikrishnan. Productivity, we do have our own internal standard measures and each and every employee's productivity is measured on a monthly basis and the incentives or their career course is also linked to the productivity. Basically, each team leader and the team are measured on productivity on a constant basis.

Pranav Tendulkar: I am unaware of this- in the home portfolio, what is the split between home and LAP?

Y S Chakravarti: We have 63% home loan, we have a 4% home improvement, on the 32%, LAP is 29% and construction finance is 3%.

Pranav Tendulkar: For construction finance, land is the security or…?

Y S Chakravarti: Yes, basically when projects in various stages you fund, so land is a security. We also have a restriction on the ticket sizes. We don't fund big ones. The entire project is a security, so the largest ticket size we would have funded would be about Rs.10 -12 crores.. Actually Rs.10 crores is the cap.

Pranav Tendulkar: So is it like local small builders having very good visibility or what is that?

Y S Chakravarti: Exactly. RERA-registered, single tower projects.

Pranav Tendulkar: Don't you think that the risk here is different? I understand that you understand the risk better than the investor community, so can you elaborate a little bit higher on this point that how is risk assessed qualitatively and quantitatively in this part of the portfolio?

Y S Chakravarti: See if you look at the entire thing this is about 30% of our portfolio which is about Rs. 1000 Crores, number one. Construction Finance is 3% of the book. Of the 32%, LAP is 29% and Construction Finance is 3%.

Pranav Tendulkar: Right, so this question becomes irrelevant then.

Y S Chakravarti: Yeah, it is a small portfolio but then it is also done to …as I said 10 Crore is the cap, single tower, local reputed builders, the project definitely needs to be under RERA.

Pranav Tendulkar: Average ticket size for LAP and home?

Y S Chakravarti: About 20 to 22 lakhs would be our average ticket size for home loan, and for LAP, it would be around same, 25 to 26 lakhs.

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

V Ramakrishnan: I just wanted to circle back to the 77% collection on billings to the entire cycle. I think a lot of the analysts' questions are around that and I know it's been a long call. If you could just walk us through how it happens in the sense that bulk of our customers where you collect cash from, are the cheque bounces and what you could share would be very useful. If it's a bit late, we can always do it next quarter separately also sir.

Y S Chakravarti: We have three more minutes. Let me put it this way. If you look at my business for the last 15 years, it's always been like this; there is nothing exceptional in this; month-after-month, quarter-after-quarter, this is the same that happens in the segment that we fund. See, most of these customers have fluctuating cash flow. So they may bounce this month, come back, and pay you next month. It's a cycle that keeps happening. So even if you look at the historical data, I can also ask Jai to give you the historical data or the last three years, four years, whatever period that you want, and you will see that the pattern is the same across. The other thing is we do not go and put pressure on customers for this, because we know that it's not a willful default, it's just a temporary cash flow glitch, and the customer will come back and pay you. Because we've seen this even during the moratorium period also, where customers have kept coming back and paying you, they may miss a month, a couple of months, and they come back and pay you a month, and then they tell you that they don't want moratorium, we will pay you back. So this is a quite familiar territory for us.

V Ramakrishnan: Okay, that's good, because all of us have tuned to some EMI-based thing, I understand how the cycle works. What percentage of collections is now cash?

Y S Chakravarti: Roughly about 30% of the collection happens in cash, and it used to be about 40% and post lockdown about 10% of it has moved to digital.

Moderator: Thank you, sir. Ladies and gentlemen, that was the last question. I'd now like to hand the conference over to Mr. Pradeep Agrawal from PhillipCapital for closing comments. Over to you sir.

Pradeep Agrawal: Thanks, Vikram. On behalf of PhillipCapital, I would like to thank the entire senior management team of Shriram City Union Finance, and all the participants for joining us on the call today. Thank you and goodbye. Have a great day.

Y S Chakravarti: Thank you.

R. Chandrasekar: Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of PhillipCapital (India) Private Limited, that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.