"Shriram City Union Finance Q3 FY22 Earnings Conference Call hosted by PhillipCapital (India) Private Limited"

January 29, 2022

MANAGEMENT:	**MR. YS CHAKRAVARTI – MD AND CEO, SHRIRAM CITY UNION FINANCE LIMITED** **MR. R CHANDRASEKAR – ED AND CFO, SHRIRAM CITY UNION FINANCE LIMITED** **MR. RAVI SUBRAMANIAN – MD AND CEO, SHRIRAM HOUSING FINANCE LIMITED** **MR. GS AGARWAL – CFO, SHRIRAM HOUSING FINANCE LIMITED** **MS. KRITHIKA DORAISWAMY – SHRIRAM CITY UNION FINANCE LIMITED** **MR. JAI SINGH PONDE – HEAD INVESTOR RELATIONS, SHRIRAM CITY UNION FINANCE LIMITED**
MODERATOR:	**MR. PRADEEP AGRAWAL – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and Gentlemen, Good day and welcome to the Shriram City Union Finance Q3 FY22 Earnings Conference Call hosted by PhillipCapital (India) Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pradeep Agrawal from PhillipCapital (India) Private Limited. Thank you and over to you.

Pradeep Agrawal: Thank you Zaid. Good morning everyone and welcome to the Quarter 3 FY22 Earnings Call of Shriram City Union Finance. To discuss the Results, we have with us Mr. YS Chakravarti – MD and CEO, Mr. R Chandrasekar – ED and CFO, Mr. Ravi Subramanian – MD and CEO of Shriram Housing Finance and Mr. GS Agarwal – CFO, Shriram Housing Finance and along with Mr. Jai Singh Ponde – Head Investor Relations.

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

YS Chakravarti: Thank you Pradeep. Good morning friends and I welcome you to the earnings call of Shriram City Union Finance for the third quarter of the financial year 2022. I would also like to wish you a very Happy New Year as this is the first opportunity that I have had to interact with you in the New Year. I am sure you would have had a look at the financial numbers and the investor presentation that we have uploaded last evening. Before I give you the details about our performance in the third quarter I would like to briefly talk about the announcement made last month about the merger of Shriram City Union Finance, Shriram Transport Finance and Shriram Capital into the single composite entity to be called Shriram Finance Limited.

Today's Earnings Call is also the first opportunity for me to be able to talk to a larger number of our investors and analyst about this development and I shall take it in order to explain the reasoning behind the merger plans. The merger idea was under discussion for a fairly long time within the group, but we could act on it only now after we had put in place a structure that is simple in constitution and should hopefully meet with regulatory approval. In order to arrive at an acceptable structure for the merger, the group ensured that the insurance and non-lending financial businesses were parked under a separate Holdco arrangement, and that the intended merger should comprise only of the lending arms plus that portion of Shriram Capital with stakes in these lending arms.

As a result, the new company Shriram Finance Limited will have a promoter stake of 20.11% and of the balance Piramal Enterprises, Apax Partners and TPG will together hold 16.7%. We of course have other esteemed and long-standing stakeholders as well with significant current holding in Shriram City, but I have mentioned these three investors because they either have fairly major direct stakes in Shriram City, or in the Holdco, or both.

We would like to believe that all these valued partners will be with us for the journey the Shriram Finance Limited will embark on. We count on their support as well as on that of the other stakeholders who have reposed their faith in the company.

We expect several benefits to accrue to Shriram City from the merger. On the lending side there would be easier access to the customers and geographies where Shriram Transport is a strong player, thereby enhancing cross-selling opportunities. Shriram City's customers acquisition cost for the augmented business would also reduce because of the established presence of Shriram Transport in these segments and geographies, besides which, we would also be able to share each other's data.

Further, a significant number of Shriram Transport customers are owners of small businesses and this would present an opportunity to offer them MSME-oriented loans, a product specialization of Shriram City.

Two-wheeler loans, an area in which Shriram City has a dominating market share in the domestic lending landscape and also gold loan would be offered across more locations.

The addition of geographical markets would also enable the product suite of Shriram City to expand, in a timeframe shorter than earlier planned, into locations hitherto unexplored by the Company.

On the liabilities front Shriram City would benefit from Shriram Transport's higher credit rating and successful efforts at raising debt from outside India. Advantages would be present while negotiating with domestic banks and institutions too because as standalone NBFCs, both Shriram City and Shriram Transport compete for credit lines from the same set of lenders.

The merger would enable Shriram Finance Limited to negotiate with lenders from a position of strength because of the size of the loan book and of course also because of the dominance in products such as CV financing, MSME loans and two-wheeler loans. Borrowing costs therefore are expected to either decline or hold steady depending on the market and stance which the regulator is going to take going forward.

Shriram Finance would be able to unitedly address the considerable number of fixed deposit holders of both companies without cannibalizing each other's deposit base. Significant opportunities exist is cross selling products such as life and general insurance since both companies currently in a limited way distribute these products. Digital initiatives are undertaken by both companies would now the unified under a super app which Shriram Finance will roll out thus improving efficiencies. Cross selling of loans to each other's customers would deepen productivity in the merged entity.

Simply put Shriram Finance would have much larger geographical and customer canvas to paint on. I emphasize here that Shriram Capital would merge into Shriram Finance with no baggage in the form of assets or liabilities. Shareholders of Shriram City and Shriram Transport are, therefore, not placed at any disadvantage with Shriram Capital's presence in the merged entity as there is no purchase of assets or taking over of liabilities involved. There is, therefore, no room for any holding company discount.

Now to address the matter of financial performance in the quarter, it gives me a great pleasure to report to you that the consolidated disbursement of Shriram City and Shriram Housing at Rs. 8,398 crores were higher by 23.6% year-on-year and 19% quarter-on-quarter and represent our best performance ever. Consolidated AUM at 36,853 crores was up by 16.3% YoY and 6.3% Q-on-Q. Consolidated top line at Rs. 1,860 crores grew 18.5% YoY and 8.5% QoQ and consolidated net profit at Rs. 322 crores was higher by 7% QoQ and 5.9% year-on-year. We have therefore sustained our performance in Q3 and we will strive to close out the year on a good note as well.

On a standalone basis Shriram City disbursed Rs. 7,630 crores worth of loans in the quarter which is higher by 23.1% YoY and 18.8% QoQ. As I mentioned earlier these have been our highest ever quarterly disbursements. Q3 was the festival quarter for us so disbursements were led by two-wheeler which grew by a whopping 54.5% Q-on-Q. Other product also performed well and most hearteningly SME loans grew almost 90% year-on-year and 8.4% quarter-on-quarter. We therefore think that MSE segment which form the bulk of our loan book has weathered the effect of COVID-19.

Assets under management at 32,247 crores grew 13% year-on-year and 6% sequentially. Profit after tax at 293 crores grew 3.6% sequentially and 4.6% YoY. This PAT represents our highest number in eight quarter.

Our collection efficiency for the quarter was at 103%. The rule regarding the daily stamping of NPA has promulgated by RBI did impact our Stage-3 delinquencies as they came in at 7.3% versus 6.86 in Q2. However, on a like-to-like comparison that is without considering the new RBI rule our Stage-3 actually improved to 6.61% in Q3. These are important variables to which I would like to draw your attention and I would also like to emphasize here that our loan losses continue to trend at historical range between 2.5% to 3%.

Credit cost were 2.79% in Q3. Net NPA as at December 21 stood at 3.98%. Also, we expect no major increase in Stage-3 number as we move into the next few quarters. In fact, we expect these numbers to trend lower over the midterm.

Our branch network now stands at 986 full-fledged branches plus another approximate 500 feeder locations. Our manpower count it is 26,920 employees.

Our onetime restructuring levels at 315 crores was less than 1% of our AUM and the COVID related provisioning now stands at 511 crores.

Our loan yield, net interest margins continue to be robust at 21.72% and 13.44% respectively. Pre-provision profits at 606 crores were the highest in more than three years.

The quarter saw us continue to develop our digital products. Our express two-wheeler loans and contactless personal loans were introduced over the last 6 months and we are happy with the results. In fact in the contactless express two wheeler loan product we have booked close to 18,000 loans in 2 months.

We have introduced our online gold loan products on a pilot basis in some branches and are monitoring the performance. I am also happy to tell you that we have now started disbursing gold loans in about 70 locations in Punjab, Haryana and Rajasthan which we will take to, we will probably in the next 3 months we will be powering our entire branch network in this geography. Currently we have reached disbursement additional volume of about 10 crores in these 70 locations.

On the resource side we raised 5,660 crores in the quarter and the average door-to-door maturity was 55 months. We carried a liquidity backup of 5,027 crores as at the end of quarter and we possess sanctioned and undrawn credit lines of another 939 crores.

There were positive developments on the credit ratings from all the four rating agencies post the announcement of the merger. All the four rating agencies CRISIL, ICRA and Care Ratings have reaffirmed the long-term ratings at AA and placed the ratings on watch with positive implication.

India Ratings has revised the outlook from stable to positive and reaffirmed the ratings at AA. FD rating is from ICRA and is at AA plus and short-term ratings continue to be at A1 plus.

Our subsidiary Shriram Housing Finance continues to keep up the good work. They registered quarterly disbursement of 768 crores, their highest origination since inception. Asset under management at 4,606 crores grew by 47% YoY and 8% sequentially. Their cross-sell program called "Griha Poorti" contributed significantly to their performance in the quarter - from 2% of home loan origination, **"**Griha Poorti" now contributes 11% to quarterly home loan origination.

Shriram Housing is now the most widely distributed affordable housing finance company in South India. Q4 will see the launch of **"**Griha Poorti" in Gujarat. Shriram Housing's gross Stage-3 at 1.49% was the lowest since March 2014.

With this, I conclude my opening remarks and now we are open to take questions. Thank you.

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 Sanket Chheda from Batlivala & Karani Securities. Please go ahead.

Sanket Chheda: My question is on the stage wise movement, now even if we compare on a like-to-like basis as per the old reporting, the stock of Stage-2 has gone up beyond the improvement that we see in Stage-3, so I understand the 25 basis improvement in Stage-3 would now sit in Stage-2, but even adjusting for that it has gone up 45 bps one and second it says that there was no inherent improvement in Stage-2 or the inherent movement from Stage-2 to stage 1, so any light on that?

R Chandrasekar: If you see the stage wise movement there is improvement in stage wise. Stage-2 actually from 11.96 has gone to 11.97 in fact it is on the same level. The stage 1 has come down by 0.45 and Stage-3 has gone up. But basically this is consequent to the RBI recognition of the day wise thing. If before calculating this staging has actually come down to 6.61.

Sanket Chheda: I am sir not seeing the numbers of the new classification at all. I am saying even if compare on a like-to-like basis you have also reported what it would have been in case of old reporting. There I am saying the Stage-2 number has rather increase, so one there was no inherent improvement from Stage-2 to stage 1 and second there was rather an addition to Stage-2, so why is that happening with collections and everything improving?

YS Chakravarti: So basically what is happening here from March 20 onwards you see which was your stage 1 which was at 86% is now still has not come back. I think it will take some more time before we can get this number back to the March 20 numbers. Based on the COVID effect where we are able to collect the arrears now and the current will take some more time to get back. See the play is mostly between stage 1 and Stage-2 and it is not we were able to arrest it from moving into Stage-3.

R Chandrasekar: Sir actually one point I like to add - if you see historically pre COVID level we have around 15% to 16% in fact last consistently it is coming down only this quarter, but if you see last two years Stage-2 historically now it is around 11.9 and it is coming down.

Sanket Chheda: Yes sir I understand that. Our performance particularly in COVID times has been resilient. My question was just about this quarter. Anyways, on growth now that we would be heading into the merger related processes and all, last two quarters growth has been very strong, but how do you see it for maybe next three, four quarters as far as just SCUF is concerned?

YS Chakravarti: I will put it this way - merger is probably the business of probably top 8 -10 people as of today. So, none of the business stream is disturbed or involved in this process. So, on the growth front the teams are committed, you have seen this right even post the announcement and all that the teams have not lagged down and we hope actually the fourth quarter, this quarter, to be strong in terms of MSME disbursement. So, on that front no worries.

Moderator: Thank you. The next question is from the line of Ankur Jain who is an Individual Investor. Please go ahead.

Ankur Jain: I wanted to know about the strategy of the merged entity on the credit assessment side because right now as I understand there is a lot of touch and feel in terms of credit assessment visiting the customers business premises, meeting the customer, so when both the entities get merged how is that going to get changed I mean will it be some centralized credit assessment that will take care of this and will the branch manager be still in a position to visit all the customers because that is our earlier strategy?

YS Chakravarti: Fundamentally both STFC and SCUF are basically as you said a high touch model that we are operating in particularly on the MSME side of the business as well as the on the truck financing side. That will continue, there is no change in the way that we are going to look at it, but even now there are certain functions are actually handled from a hub level. The basic credit, the branch manager and his one above are particularly involved in the credit decisioning of up to certain value, ticket size. If anything beyond that, there is one more level which will get involved. So, in that sense there is no change, only the documentation, the cross checking through bureaus or we need to cross check through bureau, the KYC validation all that has already moved to a hub. So this is how it will happen. Fundamental assessment of the customer at the ground level branch levels, cross check of customer financial, rest of the work that can be taken care digitally has moved to the hub model.

Ankur Jain: So the credit assessment will continue to be same as we are doing currently?

YS Chakravarti: Yes.

Ankur Jain: So in that sense the main, the lever would be to basically train the employees, same employee would be trained on both, SCUF employee would be trained on truck financing and a truck financing guy would be trained on SCUF products, is that correct?

YS Chakravarti: Eventually, but immediately in the next one year what we are trying to do is pick up people from both the organizations and cross pollinate these people. So, basically pick up people from SCUF who are working on MSME or two wheelers, move them and place some of these employees, move them and place them in STFC offices. Similarly, from STFC offices pick up the second line people and put them in SCUF offices. See basically these guys would be say for example MSME guy would be sitting in a STFC office, the teams will be generating leads and this guy would be looking at the credit processes. So it basically kind of an on field training kind of a thing where this person the SCUF guy would meet each of these customers along with the STFC guy and work along with this guy. So, eventually the people of both the companies would be equipped. Probably it will take about a year, year and half before they can understand how this is being done and start doing themselves.

Moderator: Thank you. The next question is from the line of Chandrasekhar Sridhar from Fidelity International. Please go ahead.

Chandrasekhar Sridhar: I had a few questions. Mr. Chakravarti, three questions to you – one is any reason why the Used two wheeler product now isn't growing? Is there some recalibration which you have been doing because we have seen quite some time of this business and NPL pretty much seem to be where the two wheelers are, but it has not grown for a year, that is question one. Number two just on the LAP product, till when will you pilot, how long will you wait and pilot and wait and see the results before you think of scaling, and how does this fundamentally differ from the LAP at SHFL. Third were just early thoughts on some of these digital initiatives, no contact two wheeler and personal loan lending. I mean fundamentally our strength has been the touch and feel and trying to asses from front. How are the underwriting checks here different from what we do typically; and couple of questions for Ravi on SHFL – I notice that the share of construction financing is increasing and it is actually it has gone up to about 260 odd crores from about 113 crores last year. Just what the thought process around where do you want to see CF in this book and the last was a glide path on cost-to-income at SHFL because we have a reasonably large book right now, comparable to some of the peers, but the cost numbers, just a ballpark?

Ravi Subramanian: I will answer the construction finance bit first. Look construction finance is not a focus area for us at this point in time. Construction finance area is more a feeder into the retail. So our strategy in construction finance is largely to finance builders from whom we can have a reasonable amount of retail offtake. Now we have not been very successful in that because we have not done too much of it. Where we want to see the construction finance book is somewhere in the 5% to 7% of our total AUM would be the construction finance book; as of now it is about 5% and it has kind of stayed between 4% to 5% over the last one and one and half years. In terms of disbursals, it will be about 10% to 15% of our disbursals, but construction finance runs down pretty fast. As a product we have our amort scheduled in such a manner that we take out most of our payments in the first 50%, 60% of his receivables. So essentially even though we booked these loans for three to four years these run down in about one/one and half years. So that's in a sense our construction finance outlook. I do not think it will go beyond 7% at least in the near future so that is one. Two is you asked me what is the difference in SHFL LAP and the SCUF LAP. Actually SHFL LAP is just a byproduct in the sense that because it's property, because the assessment process is at least the constituents of the assessment process are very similar to home loan assessment in terms of valuation, legal etcetera and because we are the infrastructure whatever loan come our way we do. We do not proactively go and look out for LAP and that is clearly a domain of SCUF and at this point in time both do very little LAP so we do not really compete, but if we get to a stage where one of us has to do it and the other has let go it will be SHFL which will let go and SCUF will continue the product. So that is the way we have envisaged LAP. Your third question was on cost-to-income. On the cost for SHFL. Well SHFL is a high growth machinery at this point in time. We are in the investment phase at this point in time and if you go back and look at last our one year we have added lot of people, we have invested in "Griha Poorti" which is a very large project for us in AP Telangana where we have setup our infrastructure in 178 geographies, we are opening up roughly about 25 branches between Tamil Naidu and Karnataka, we are starting "Griha Poorti" in Gujarat where we will actually open up 40 new locations residing on the group infrastructures by putting in resources in those geographies. So, in the last two quarters alone about 8 crores of investment has gone into these two initiatives that I just mentioned, and this particular year my 15 to 17 crores of expense would be investment for growth. Today we are doing about 230 crores, 240 crores a month. With this investment we on a steady state building up an infrastructure for about 325 crores to 350 crores of disbursals per month and that we will reach by March, April, by April most likely. So, this investment will pay off only next year. At this point of time we are focused a lot more on building an organization, building a high growth engine and most of the expense increase that you are seeing is actually towards that. If you knock that off and look at our steady state numbers we would be pretty much in line with most of the competition. FY23 I expect the cost to AUM to settle around 3.2 or thereabout and FY24 it will settle down at about 2.75% and in steady state it will be somewhere between 2.5 to 2.75. So did I leave out any other question or any clarifications you have?

Chandrasekhar Sridhar: Just a clarification on this just on the LAP when you say our byproduct, this will be to the existing customers? My understanding was SCUF LAP is open market?

Ravi Subramanian: SHFL is also open market. SHFL is not for existing customers. In fact you should ideally avoid giving home loans and LAP to the same customer because that is asking for trouble. So, I do not think we have any customer who has got a home loan and LAP both from us.

YS Chakravarti: Used two wheeler finance, last few months there was a slower, basically we were focusing on festival season, the entire team was focusing on new two-wheeler business because they had to spend a lot more time with the dealer outlets. So probably from February, January also because the Pongal season they were all busy, so it will come back to the regular run rate in this quarter.

Chandrasekhar Sridhar: But now that you have spent enough time doing this business you all are comfortable that this business can continue to scale it, you have enough history now of the product to know whether it …..

YS Chakravarti: We are quite comfortable there. Probably I think in another 6 months to 9 months' time we would probably be actually increasing the volumes with the help of the STFC team also we will start increasing these volumes. Your second question on digital - can you just repeat your second point I have just note it as digital?

Chandrasekhar Sridhar: Just on no contact two-wheeler lending, personal loan lending, just one of what all you have got to the table is obviously the whole touch and feel and understanding the customers, so how does this underwriting check differ from what we are doing?

YS Chakravarti: Let me elaborate the idea behind this - the idea here is see there is a section of customers, the section of people that we are not reaching today. Typically, the below 30s, young people who prefer to transact with their mobile or on a laptop and not get into a physical travel or go to the showroom; they have already decided what they want. So, we actually wanted to tap this segment of customers. We are already pretty strong in this semi urban rural and we thought unless we have a digital solution it is difficult to build a sizable number or a reputation in the urban market. So that is the background in which we started this and to be honest with you if you look at the entire digital lead that we are generating, they are coming from about 18 - 20 cities. So the idea now is to focus on these 18 - 20 cities, build capability to deliver all products there, so we are working on that now.

Chandrasekhar Sridhar: How does the underwriting differ from the existing underwriting services?

YS Chakravarti: There is a lot of difference in underwriting in the sense you are looking at lot of parameters, you are looking at CIBIL scores, you are looking at bank balances, you are looking at your income levels, then we also work with a couple of third-party service providers where you integrate certain APIs and then build a scoring mechanism there. So, basically there is no manual intervention in the whole process, whereas in my regular business I do have somebody talking to the customer, somebody going to the customer's house, office, verifying the addresses, making sure that this is right and then do a neighbor check, then look at the income statement and then credit team takes the decision to release. Here, there is zero human intervention, at the end of the day customers gets approval and he gets a coupon. All he has to do is go to the dealer and present the coupon and get the delivery of the vehicle. So it is basically majority of it is through electronically done where the customer uploads his KYC, uploads his bank statements and with the help of as I said a few integrated APIs you actually go and cross check the document submitted to you plus CIBIL score. So all of this is used to arrive at a score for the customer and given approval to the customer.

Chandrasekhar Sridhar: Just to harp on this, is it fair to say that the quality of the customers is one notch better than what you would typically do on the two-wheeler side?

YS Chakravarti: Quality of the customer as of today to be honest with you this is also done after looking at my data for the last 7 years of the numbers that I have done physically. The scoring is arrived at with the experience of my business in the last 6 -7 years of two-wheeler business. I am 100% sure that delinquency levels here would be lower than my touch model. I mean what we as of today preliminary feeling is we will have to see because since it is still for pilot we have not done too many numbers, just 18,000 numbers we have done. So we will have to wait for at least another 6 - 8 months before we understand how this is performing, but early signs is there are 100% hit rate chances today, as of today there is zero bounces in the 18000 accounts and we are hoping it will continue.

Moderator: Thank you very much. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: Couple of questions from my side maybe first to Ravi - the repayment rate in housing business appears to be a little bit on the higher side, so what we think are the repayment very high and where do you think this sort of settles down? The other is how comfortable are you with a 20% coverage on Stage-3 loans and just the third one is that if I look at quarter-on-quarter rise in

Stage-3 loans it looks like some of the non-focus states like Kerala, UP, West Bengal probably there was a decline, but there was a rise in the other states and just maybe my reading is not accurate?

Ravi Subramanian: As far as the repayments are concerned, prepayments are concerned there has been an increase in prepayment in this quarter primarily because of two large value loans which get prepaid and these were loans which we have been trying to push out of the system and because we did not want those large value loans in our system and that is why it seems higher. Otherwise if you knock those two loans out of the system we would actually be pretty much normal. Our average repayment rates is somewhere around 5.5% to 6% is the BT out rate that we have per annum and that is pretty much par for the course. As far as the NPAs are concerned, no, in fact if you look at our overall NPAs they have dropped from where they were in March by about 4 crores or thereabout it was about 66 crores in March and it is about 69 crores now, but by and large static. We have a few sticky accounts in the old book which we are struggling to resolve which hopefully will get resolved this quarter, but there has not been any significant rise in the non-focus states that you are talking about for example in the East it has been fairly static, in the West it has been fairly static in that sense and even in the non-focus states of UP and few others not much has increased. In fact we have actually in our investor deck which is on our website we have actually put out a slide which gives you the Stage-3 and our focus states and non-focus states. So, if you look at it they have been fairly static and even the performance of the new book in these non-focus states has been pretty good, the maximum that you have is about 0.6%, 0.7% GNPA in the non-focus states. So no concern there at all and I am happy to report that our growth in the focus states has been significant; roughly 90% for disbursals now comes from the focus states which are running at about 0.27% GNPA.

Nischint Chawathe: That was my question, right, that your performance on the non-focus states, and I was exactly referring to that slide, you know it seems to be at least on a quarter-on-quarter basis seems to be better than the focus states, so is it something to do with the fact that you had couple of sticky delinquent accounts which affected this quarter?

Ravi Subramanian: Sorry I did not get you; you are saying that our performance as a focus states seems to be better than the non-focus states, right?

Nischint Chawathe: The other way round.

Ravi Subramanian: No. If you go back and look at my focus states, my focus states Stage-3 is 0.91 and the non-focus states Stage-3 is 10.28 and in fact last if you look at my Stage-3 in the last quarter my focus states Stage-3 was 1.13 and that has dropped to 0.91 this quarter. My Stage-3 GNPA last quarter in non-focus states was 13.61 that has dropped to 10.28. So, overall, the Stage-3 in the non-focus states has dropped, Stage-3 in the focus states is dropped and the Stage-3 in the focus states is dropped by almost as much in terms of percentage as it has dropped in the non-focus 13.61 to 10.28 and 1.13 to 0.91. So in terms of percentages, it is almost the same. So we do not have an issue yes we have a few sticky accounts in the non-focus states which if you resolve one or two of them it will lead to a significant drop, but overall on the portfolio front our focus states continue to perform well, our new book continues to perform well and it is only for example if you take East, out of the 69 crores that I have, East contributes to 21 crores out of the 69 crores and I hardly have 3% of my AUM in the East. I am still sticking on to East largely because if I exit the East then I will struggle to even collect this. So I would rather be there, do little bit of business there and collect these outstandings, and you knock of this 20 crores from NPA that is one third gone that is about 0.6% overall gone out of the 1.5% in GNPA that I have. So it is only these few specific geographies where a few sticky accounts are creating an issue, but otherwise I think look at the new book, new book is about roughly 4,000 crores now and that is running at 0.28% GNPA. So, it is a good story emerging and on the focus states 0.91% I think I will take it any day.

Nischint Chawathe: The ECL coverage of 20% are you comfortable or you think this kind of …?

Ravi Subramanian: So 20% is largely because one we are also providing for the RBI circular staging at 15%. Now averaging out it works out to 20 otherwise on the regular Stage-3 my provisioning is about roughly 23% and that is sufficient because these are all as I said out of 69 crores only about 10 crores is the new book and the balance is all the old book and the new portfolio it is performing brilliantly in terms of recoveries in terms of ability to sell property and recover your money. So we really do not think that we will need anything more than this and two overall I am actually 1.4% provided on AUM which at this point in time is among the better ones in the affordable housing finance companies in terms of provision-to-AUM.

Nischint Chawathe: So as I understand this the broad policy is that all the loans which are sort of true Stage-3 loans you will provide at the ECL base and all those loans which kind of fall into a NPL category which are a part of Stage-3 now we will probably provide at the RBI rate?

Ravi Subramanian: That is right.

Nischint Chawathe: If I can squeeze one or two questions on SCUF, one is your Stage-3 coverage for SCUF is down I think mostly in the business loans, is this because of a very similar sort of a policy that the Stage-3 rise because of RBI definition we will probably provide at a lower rate?

Krithika Doraiswamy: On the coverage ratio or the LGDs are computed on a yearly basis so what you see as a difference between the quarters is more to do with the product segment wise. So otherwise the LGD computation is more or less yearly.

Nischint Chawathe: So is the policy similar to that of Shriram Housing where you probably have an internal breakup between Stage-3 loans for those which fall because of RBI definition and those which are sort of Stage-3 as per the previous sort of a calculation and have different PCRs on them or would you kind of everything that goes into Stage-3 we will probably put in a same coverage?

Krithika Doraiswamy: Everything which goes into the Stage-3 we will have a similar coverage and the coverage is on a product segment wise. Between two-wheeler and the SME there will be a differential, but anything which goes into the Stage-3 will have a similar coverage.

Nischint Chawathe: And I think within SME itself we can see the coverage ratio going down from 60 to 50 so maybe that's because I guess the sub-segment of SMEs is probably….?

Krithika Doraiswamy: You are right.

Nischint Chawathe: And just one last question is on again on SCUF itself, if you could give some guidance in terms of where you see the operating expense growth sort of settling down because I think the quarter was almost like a 25% growth, 23% growth in employee expenses, so where do you see this ratio really?

YS Chakravarti: It should be around between 38% to 40%.

Nischint Chawathe: But I think currently you are at 42 I thought last quarter so probably this comes….?

YS Chakravarti: It is 42, this is also because some of the ESOPs cost has been baked in here. Second one is also if you look at the festival season quarter, it is a huge number of two-wheeler business which was done and which entails a dealer payout, upfront dealer payout. So, basically these are the two that has contributed to this and also about 1,600 employees getting added, but then I think as I said on a steady state we should be between 38 to 40 probably a couple of quarters from now.

Nischint Chawathe: And just one last question related to this the movement in yield is purely because of change in business composition or have you raise lending rates in any of the segments?

YS Chakravarti: It is because of the change in composition.

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

Prakhar Agrawal: Three sets of questions - first more fundamental from understanding basis. When I look at the RBI circular especially it was based on a rule based provisioning while for ECL or IndAS they are more from behavioral aspect perspective, so in that sense why would our at least these numbers will reflect, or Stage-3 reflect the RBI rule or is that there is a convergence between gross NPA and Stage-3 in our case?

YS Chakravarti: Your voice was not very clear can you repeat that again.

Prakhar Agrawal: So I was talking more from a fundamental perspective so I was saying when I look at RBI rule it was more to do with a rule based provisioning and a rule based framework, but when I look at IndAS it is more to do with behavioral aspect of a customer, so how does that probably impact

Stage-3 asset so as to ideally it should have been that we are submitting whatever we are submitting to RBI on a rule base, that number would have been impacted not under IndAS so just a clarification on that?

YS Chakravarti: I understand your question, but if you see the Stage-3 in fact we have also given in one of the slides with RBI and without RBI.

Krithika Doraiswamy: If I may just kind of understand your question is it on the classification of Stage-3 or is your question specific for the provisions which have been made for the Stage-3.

Prakhar Agrawal: No ma'am I was asking more from a perspective that when you do accounting at the IndAS your accounting or classification of a borrower under stage 1, Stage-2, Stage-3 depends upon behavioral aspects and not on a rule-based aspect. When I talk about 90 plus DPD or in terms of daily recognition norms all these things are rule based aspects.

Krithika Doraiswamy: We have kind of classified this staging so even for a customer on a day basis he happens to be a 60 DPD as on the quarter end, but during the period as per the regulatory requirement he has slipped to 90 and then had not paid the full arrears, we do show it only as a Stage-3 asset. So it is a possibility to show him as a Stage-2 also we have kind of adopted both from the rule based with this RBI requirement and then shown these customers under the Stage-3.

Prakhar Agrawal: So 7.3 is also your gross NPA number, Stage-3 is equal to gross NPA if I were to just look at this?

Krithika Doraiswamy: That is the reason the Stage-3 and gross NPA are shown as the same figure while on the IndAS regulation it might still be a different number, but we have what kind of considered the regulatory requirement so the Stage-3 and gross NPA are all are the same.

Prakhar Agrawal: Now the second related question to this is when I look at your coverage ratio in Stage-3, now given the fact that all these customers especially we are dealing with will have a volatile earning component and to that extent for them to clear four EMIs or probably to that extent upgrades will be relatively difficult, so do you anticipate that this sort of coverage that is maintaining earlier would ideally go up under new RBI regulations or probably we are okay with 47%, 48% sort of number?

Krithika Doraiswamy: Honestly if you look into the figures the coverage ratio or the provision requirement will actually come down if we were to kind of adopt a proper IndAS logic. I mean what I mean over here is the customer while the classification is still as a gross NPA as such, there is every possibility the customer would be even only a 30 DPD. So, I do not think there is a requirement per se to increase the coverage ratio from where we are right now close to about 50%. In fact if we were to take a three year kind of view and look at it, there is every possibility we can even look at reduced coverage, but at the management level we are not anticipating any reduction in the coverage, but I mean the 50% which has been there historically in the range of about 50% should be adequate enough to take care for the Stage-3.

Prakhar Agrawal: So then third is on small business loans so what is unsecured portion of our if at all there is what is sort of unsecured portion in our business loan?

Krithika Doraiswamy: On the SME book.

Prakhar Agrawal: Yes.

Krithika Doraiswamy: Close to about 15% is the unsecured portion.

Prakhar Agrawal: What will be lending yields for unsecured MSME portion?

Krithika Doraiswamy: MSME portion is about 18% unsecured.

Prakhar Agrawal: Ma'am just a follow up on this when I look at few competitors who are operating in a similar geography for unsecured portion or for a secured portion they are lending at around 24%, 25% and for unsecured lending we are charging 18% where is the disconnect in this?

Krithika Doraiswamy: The lending rate of 24 pertains to two-wheeler not the MSME loan.

Prakhar Agrawal: I am asking there are competitors who are doing MSME loan secured portion at around 24%, 25% while we are doing unsecured MSME at 18%, so where is the disconnect because that particular ,competitor is also operating in a similar geography, so where is the disconnect, why are we not able to or is there something?

YS Chakravarti: See let me put it this way - the rates vary on the ticket size and the customer you do. If somebody is doing a 24%, 26% MSME lending the ticket sizes will be 1 - 3 lakhs, whereas for us the ticket sizes range from 2 lakhs to close to 50 lakhs, though the average is about 10 - 12 lakhs. So, the yields differ depending on the ticket size. So, the average yield for us is anywhere between 18%, 19% would be the average yield.

Prakhar Agrawal: And peak yield will be the highest yield that we will be charging in a lower ticket size what will that number be?

YS Chakravarti: Sorry.

Prakhar Agrawal: The highest yields that you charge on a smaller ticket size that number would be what?

YS Chakravarti: 24%.

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

Shubhranshu Mishra: Couple of questions. The first one is on the gold loans - somehow I missed out your initial comments on gold loans, just want to understand you spoke of some kind of strategy and entry into new states. If you can also dwell on what kind of ticket sizes we are doing and what kind of incremental ticket sizes we are doing, and what is the yield on the gold loan book, that is first. Second is on Shriram Housing Finance sir, now we are a sizable housing finance company in the affordable space, almost 5,000 crores, so any plans to list it separately, is there a timeline that we can look out, these are my two questions?

YS Chakravarti: On the gold the average yields are about 16%, 17% and ticket sizes are typically between 30 to 40 thousand.

Shubhranshu Mishra: And we spoke of a few new states as well in your initial comments for gold loan I believe?

YS Chakravarti: Few states right now as I have mentioned in the call it is Punjab, Haryana, Rajasthan is where we are focusing now. So, once we are actually we have reached a volume here then we will look at other states. As and when the merger takes place we would also be expanding into some other STFC branches.

Shubhranshu Mishra: My question was that we are a sizable affordable housing finance company today, so any plans to list Shriram Housing separately, can we look at a particular timeline for that?

Ravi Subramanian: At this point of time let us focus on building this to a 15,000-crore company and along the way if we feel a need to list it, we will, but the reasons for listing have to be the right reasons. Just because it is a fad and the capital markets are buoyant is not good enough reason to list. I think we are very capitalized, parent is very capitalized, there is a fair bit of investor interest in Shriram Housing. So, we would let it be, let it run the way it is running at this point in time and we will take a call when the time is right.

Moderator: Thank you. The next question is from the line of Ashwin Kumar Balasubramanian from HSBC Asset Management. Please go ahead.

Ashwin Balasubramanian: I am sorry if this question has already been answered, but just wanted to know the difference in the GNPA between the new RBI norms and without the new RBI norms at 0.7% impact, is that coming only from the daily stamping rule or I mean it is both put together or you are already following the rule that if it slips into NPA then we have to recover everything, so just wanted to understand is it the combination of the two or just one of them?

Krithika Doraiswamy: We have been following the second norm which is the upgradation was only after the entire overdues are cleared. So that was already in practice for almost three years now. So, the only impact would be on the day-wise rule.

Ashwin Balasubramanian: So just a follow up on that, in that case your 90 plus as such would be different from what is shown as gross Stage-3 like as per the earlier norms?

Krithika Doraiswamy: What we have adopted is I mean wherever the day wise stamping and because of which the upgradation has not been done has also been shown both are Stage 3 and as gross NPA so there is no difference.

Ashwin Balasubramanian: My question here 90 plus in that case would be lower than that case?

Krithika Doraiswamy: On a practical basis would be much lower, but because of…..

Ashwin Balasubramanian: If you can give some color on how much that would be out of the Stage-3 how much will be cases that we have just not been able to upgrade?

Krithika Doraiswamy: It has touched about 70 basis points.

Ashwin Balasubramanian: So the 70 basis is a difference due to daily stamping I am asking the difference between what is it might be plus the 90 plus will be lesser than what is in Stage-3 because we have not been able to upgrade a few of those?

Krithika Doraiswamy: As I mentioned I mean almost for three years we have been following the rule of only after the entire arrears is paid we do go for an upgrade. So, that number I mean even historically if you see irrespective of the circular also we are following the upgrade only upon the entire overdue getting cleared. So, for us more of an impact on day wise recognition versus the month end recognition.

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

Pradeep Agrawal: On behalf of PhillipCapital I would like to thank the entire senior management team of Shriram City Union Finance and Shriram Housing Finance and all the participants for joining us on the call today. Thank you and have a good day. Sir if you would like to add any closing remarks or we can close it.

YS Chakravarti: Thank you gentlemen thank you for the opportunity and thanks for your time. Thank you so much and keep safe. Thank you so much.

Moderator: Thank you very much management. Ladies and gentlemen on behalf of PhillipCapital that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.