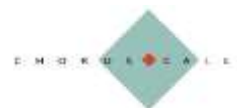




## “Shriram City Union Finance Limited Q4 FY2020 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day, and welcome to the Shriram City Union Finance Limited Q4 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:** Thank you. Good morning everybody welcome to the Q4 FY2020 Earnings Conference Call of Shriram City Union Finance. To discuss the financial performance of SCUF and share business updates, we have with us today Mr. Y.S. Chakravarti, Managing Director and CEO; and Mr. R. Chandrasekar, Executive Director and CFO. I would now like to hand over the call to Mr. Chakravarti for his opening comments.

**Y S Chakravarti:** Good morning, and welcome to all investors and analysts friends, who have logged in today to the earnings call of Shriram City Union Finance Limited for the Q4 FY2020 and the financial year 2020. I trust that all of you and your families are keeping safe. Before we move onto what has happened, I would like to inform you that out of the 28,000 employees that SCUF has, we had about 6 positive cases among our employees and I am glad to inform that all of them are stable and are doing well. From the customer base of over 4 million, touchwood, we had only 2 positive cases and one of them has been discharged and the other gentleman is doing well. So this is on the COVID impact on the customer base and health of the customers and the employees of the company.

We are almost now 3 months into a disrupted business environment and so much has been written and talked about, webinar, seminars, on the impact on the economies of the world, I am not going to talk anything about it. So I will limit my comments on how we at Shriram City have coped with this changed business scenario and how according to us FY2021 might evolve. So the nation-wise lockdown has come into effect on March 25, 2020 and to that extent, the impact on our operations was limited for Q4. We had already finished collecting on a large portion of our loan receivables between March 7, 2020 and March 15, 2020. However, a fair amount of new business as well as collections typically tend to happen at the end of March, and we have lost out on that. I will just take 2 minutes on briefing you on what we have done. The moment the lockdown was announced, within 4 working days, our entire HO has swung out, and we had a BCP in place and the BCP was implemented. So within 4 days, the entire back office was operational. The biggest concern was that how do you occupy 28,000 people stranded during the lockdown. How do you actually make them occupied so what we have done is we have taken all our sales and collection teams as a unit and for each of them, we have pumped in data of about 150 to 200

of our customers, including their mobile numbers, their account particulars, amount to be paid by them, what happens if they avail a moratorium, what is the extra interest burden that each of the customer has to pay and we have asked these teams to contact each and every single customer of the company. So to a large extent, we have succeeded in reaching out to the customers, explaining to them what is the impact of moratorium and the long-term impact on the tenure. We have also equipped all these people, close to about 12,000 people with the ability to trigger an SMS to the customer with the payment link in case the customer wants to pay through a digital mode.

The payment link gives various options for the customer to pay from various wallets, transfer through bank account, basically, ability to transfer money through a half a dozen different banks so this link was sent, each of the customer was reached and as a result, in the month of April, where we typically collect around Rs.380 Crores to Rs.400 Crores of cash in a month, we were able to collect close to Rs.250 Crores from these customers through this digital mode. On an average per month, we get about 40,000 customers transacting through the digital mode, which has jumped to close to 400,000 customers in the month of April. So that is basically the number I am giving you because it shows the connect that SCUF has with the customers. Most of them were small customers paying anywhere from Rs.4000 to Rs.10000 of EMIs. So that is how the collection and the sales teams swung out and were talking to the customers.

Now as I speak today, we have 900 of our 947 branches back in operation. Our corporate office and the team of senior executives have been attending offices from early May. The customer-facing collection team and sales team are also back in action physically. We have put in a very, very effective work-from-home system for those people who are not able to attend the office, who need to attend the office and most of these branches are operating between 25% to 30% of seating capacity. People who are in sales and collection team who need not come to the office are advised to not to come to the office, but continue the collection effort and remit the money directly into the bank so rest is all in place, our accounts, finance, compliance, treasury, all this are in place, and they are running smoothly. So among the measures that are initiated by RBI towards providing relief to the borrowers was on the moratorium and EMIs, and we have offered moratorium to all our loan customers. We have decided on the opt-out method. Despite having offered this moratorium, we managed reasonable collection efficiency in the month of April at 34% and in May at 52%. We have also adapted well to the disrupted business environment caused by the lockdown. So as I said, we had this recovery team approach each of these customers, talk to them, explain to them and basically, most of the calls were to inquire about the well-being of the customer and if they are interested in payments, send them the payment link and pay out.

So as far as current situation is concerned, currently, we are seeing some movement in the economic activity with a direct connect to our operations. After the April total shutdown, May second week onwards, people have started opening their businesses and started transacting. I am glad to inform that in the month of May, we have also started disbursements and we have disbursed around 50,000-plus 2-wheeler loans, which is amounting to something like around Rs.270 Crores of 2-wheeler loans and about another Rs.220 Crores of gold loans. Overall, about Rs.500 Crores plus of disbursement we were able to do in the month of May. The going forward plan is, we will continue to disburse on the 2-wheeler and gold, we will be pushing. We have not yet started the MSME loans, which we will start, hopefully, from July. We will focus on our existing customers and their needs first and then we will go to the market. Also we have also initiated our preowned 2-wheeler funding program. Also one positive thing is, this lockdown has actually given us time to reach out to all our customers, talk to them and in the month of May, the teams were busy in meeting customers physically, talking to them, finding out what is happening with their businesses and see the trends. The trends I see is that most of the small businesses have opened their stores. They have started businesses. Some cash is flowing in. Some of the customers who have opted for moratorium are paying one installment or part of the installment, whatever money they have left, they are able to spare, they are paying. One thing that we saw when we talked to a lot of customers in April was that they wanted to hold on to the cash because they did not know how long the lockdown is going to last. Even though they had money to pay the EMIs, they wanted to hold on to it. Some of the customers, I have personally spoken to more than 300 customers. The feedback that from most of the customers I got is and the assurance also that they gave me is that once the lockdown is lifted and they are back in business, they will start paying installment by installment. They do have cash, but they do not want to pay now because, as I said, they are not clear when the lockdown will be lifted and when the business volumes will pick up. That was one of the feedbacks that we have got from our customers and to be very honest with you, some of the businesses, they are still saying that doors have been open for about 20 days, they are not seeing much of a footfall. These are like stores like clothing, a few jewelry stores that I have talked to in this month are saying the footfall is very low though they have opened the stores and kept it open. So they are hoping that in the next couple of months, volume should pick up, and they may be able to come to a 50%, 60% level is what the feedback that I have got from these customers.

So basically the improvement of collection percentage from 34% to 52% in the month of May shows that most of our customers have opened businesses and are paying. In fact, if I look at June versus May as of today, the collections are almost close to 60% better than what it is in May. If this trend holds out, probably we should be ending up with a very good percentage in June, but early days. Because in the first 10 days, it is mostly the 2-wheeler,

the personal loans, the small ticket loans that are due June 15, 2020 is our due date for most of the customers. So we will have to see how it pans out post June 15, 2020.

I will also conclude my opening remarks now with an overview of the performance. Disbursement for Q4 was at Rs.5416 Crores. It was affected, particularly some of the disbursement in the last week of March, we could not do because that is the time that normally you book a lot of business in the last week, in the month of March, and that got affected because of the lockdown, particularly in MSME loans. However, overall MSME disbursement grew 25% on a sequential basis. Our preowned 2-wheeler loans also performed well as a result, which the disbursement in our auto loan segment. The preowned loans 2-wheeler loans are clubbed with auto loans, which we will rectify, and for the next quarter, we will separate out the segment. They have grown by almost 140% year-on-year and 22% quarter-on-quarter. Overall disbursement in FY2020 were, however, lower by 6%, mainly because of slower growth in MSME loans in the earlier part of the year and also reduced focus on personal loans.

AUM growth was flat on account of the runoff rate being at the usual level and the disbursements being lower. Asset quality, however, improved substantially, GNPA's having reduced almost 100 bps and year-on-year and 60 bps quarter-on-quarter with PCR being maintained. Shriram City has put aside Rs.426 Crores in Q4 as a provisioning to accommodate the likely impact of COVID-19 and the consequent income reversal resulted in our topline being lower by about Rs.31 Crores. However, NIM was steady in the 12% plus range. Interest expenses were higher on account of enhanced borrowing and on account of keeping a higher liquidity buffer, which actually indicates that liquidity was not a major problem during the last part of the year. During the quarter, we raised Rs.3638 Crores from a mix of privately placed NCDs, term loan, securitization under PCG as well as plain vanilla securitization and retail fixed deposits. Cost of funds too declined. Cost of funds were actually declined to 9.35% for the year versus 9.71% in Q3 and 9.87% a year ago. Backup liquidity was comfortable as on March 31, 2020 at Rs.2400 Crores.

Our subsidiary Shriram Housing Finance Limited too performed highly credibly in a tough year, having grown their AUM 25% year-on-year to Rs.2304 Crores, including a 10% quarter-on-quarter growth. Despite the lockdown affecting crucial business in March, Shriram Housing has clocked the highest-ever quarterly disbursement run rate of Rs.400 Crores. Asset quality was very good with GNPA's at 2.4%, being the lowest in 5 years. The company made a COVID-related provisioning of Rs.10 Crores. Cost of funds were stable sequentially. Reserve liquidity too was comfortable at around Rs.1270 Crores.

With this, ladies and gentlemen, we open the floor for questions.

- Moderator:** Thank you. We will now begin the question and answer session. The first question is from the line of Abhijit Tibrewal from ICICI Securities.
- Abhijit Tibrewal:** Thank you very much for a very comprehensive opening remarks. So my first question is on your moratorium and collection efficiency. So if we heard you right, during your opening remarks, you suggested that you have a monthly collection run rate of about Rs.380 Crores to Rs.400 Crores.
- Y.S. Chakravarti:** That was cash collection.
- Abhijit Tibrewal:** Cash collection, right and what would be the total quantum of the collections?
- Y.S. Chakravarti:** Total collection for the month of April?
- Abhijit Tibrewal:** Sir, I mean, Rs.380 Crores to Rs.400 Crores is your monthly cash collection. What would be the total collections, including digital collections and cash collections?
- Y.S. Chakravarti:** You are talking about the demand for the month? Are you asking me demand for month or the amount collected in that month?
- Abhijit Tibrewal:** Yes, sir. So in the month of April, what was the total billings? And what was both collected?
- Y.S. Chakravarti:** Okay. Total collection was about...
- R. Chandrasekar:** Yes, I will take it. Collection in the month of April, we have the total amount to be Rs.1,640 Crores. But we collected Rs.550 Crores in the month of April.
- Y.S. Chakravarti:** Rs.560 Crores.
- R. Chandrasekar:** So in the month of May, we have collectable Rs.1603 Crores, we collected Rs.685 Crores, total around 43%. In the month of March, we collected 90%.
- Y.S. Chakravarti:** Let me add one more thing. In the month of May, around Rs.1608 Crores billing, we have collected Rs.689 Crores, which does not include collection on gold. The collection gold TBC is about close to something like Rs.200-odd Crores and we were able to collect everything on the gold in that month, in the month of May.
- Abhijit Tibrewal:** Okay. All right.
- R. Chandrasekar:** If you take gold, Rs.1000 Crores collected against Rs. 1900 Crores, 52% collection.

- Abhijit Tibrewal:** Rs.1952 Crores?
- R. Chandrasekar:** Rs.1900 Crores. We collected Rs.1,000 Crores. So including all products is 52%.
- Abhijit Tibrewal:** Okay. Sir, I mean, this was collection efficiency as on May, during your opening remarks, you also suggested that collections in the month of June because you have already had just one cycle on the 7th, you were suggesting it is 60% better than May? Or has the collection efficiency reached 60%?
- Y. S. Chakravarti:** No. I am saying it is 60% better than May, on a day-to-day comparison.
- Abhijit Tibrewal:** Right, Sir. And...
- Y.S. Chakravarti:** May 12, 2020 to June 10, 2020.
- Abhijit Tibrewal:** Right. Sir, I mean, something with regards to your liquidity. I mean, we understand that your liquidity position was good as on March. But how have these months of April and May been like? What have you been able to raise incrementally in the months of April and May? Because if I understand correctly, if I look at your ALM profile, Chandru Sir, did you have about Rs.1,700 Crores of payments due in April and May?
- R. Chandrasekar:** Yes. Actually, I will give the answer now or your question is hold or still...
- Abhijit Tibrewal:** Yes. So I am done. I just wanted to understand what is the liquidity position right now? What we were able to raise in the months of April and May? And if we have about Rs.1700 Crores of redemption.
- Y.S. Chakravarti:** It is not Rs.1,700 Crores, it is Rs.1100 Crores. Chandru, okay, go ahead. Chandru, please go ahead.
- R. Chandrasekar:** Yes. With reference to liquidity, the point is, in the month of April and May, we have not raised any money. But in the month of June, last week, we have picked up some Rs.350 Crores of money, one. Second thing is, we are quite comfortable with the liquidity. Still as of date, we have a very healthy balance. If you include fixed deposits and everything in the outflow, effectively, the commitment was Rs.1,600 Crores, but the balance we have disbursed Rs.500 Crores as Chakravarti was telling in the opening remarks. Still, we are quite comfortable with the liquidity position. We have a couple of more sanctions received during the last month, which we are working on. Within the next 10-15 days, we will be able to get sanctions from two banks. So we should be very comfortable on this liquidity position.

- Y.S. Chakravarti:** I think to answer your question, again, there is actual commitment is about Rs.1100 Crores in the month of April and May, against which, we also apart from the liquidity, we also have collections of about close to Rs.1560 Crores.
- Abhijit Tibrewal:** Okay. So this Rs.1560 Crores were in the month of April and May?
- Y.S. Chakravarti:** Correct.
- Abhijit Tibrewal:** All right.
- R. Chandrasekar:** Your question, April and May commitment is Rs.1,100 Crores, which has all been..
- Abhijit Tibrewal:** Can you repeat the number once again, for April and May commitment?
- Y.S. Chakravarti:** Rs.1,109 Crores.
- Abhijit Tibrewal:** Okay. And Sir, last question is on your provisioning for personal loans. I see that you made COVID provisioning and you have increased your provision coverage ratio in almost all of your product segments. But surprisingly, even though personal loans is an unsecured product, and we have not really been doing any disbursements in the product segment, we have not increased our provision coverage ratio on personal loans?
- R. Chandrasekar:** No, we have done for all the products.
- Abhijit Tibrewal:** Even for personal loans?
- R. Chandrasekar:** You are talking about COVID provisioning. Am I right?
- Abhijit Tibrewal:** No, Sir. I am talking about the provisioning coverage ratio on your personal loans product segment?
- R. Chandrasekar:** The point is, for the personal loan book, earlier we were going to market. Now we have had a lot of improvement in the personal loan over the last one year. Last 15-16 months, we are able to do cross-selling of personal loans to existing customers. So the quality has improved and the PD, LGD over the last 5 years is coming down. So there is an improvement in the collection efficiency even in the personal loan.
- Abhijit Tibrewal:** Okay Sir. Thank you and I will come back in the question queue.
- Moderator:** Thank you. The next question is from the line of Piran Engineer from Motilal Oswal Financial Services. Please go ahead.



- Piran Engineer:** I just want to go back to the collection efficiency question. So you collected Rs.560 Crores in April and Rs.689 Crores in May on non-gold?
- Y.S. Chakravarti:** That is the collection is from non-gold customers. In April, since the total shutdown, customers could not come back and redeem their gold, gold collection did not happen. In May, after we have opened branches, we were able to collect close to Rs.300 Crores in gold. So put together is about Rs.1,000-plus Crores in the month of May.
- Piran Engineer:** Okay. And that is how you received 52% collection efficiency?
- Y.S. Chakravarti:** Exactly.
- Piran Engineer:** So if I may ask what percentage of our customers have not paid a single installment since the lockdown in the last 3 months?
- Y.S. Chakravarti:** See, that is difficult to tell you. There are people who have opted for moratorium and then still paid 1 installment or part installment. So I have not looked at that data. But if it is important to you, I can send the data to you.
- Piran Engineer:** Yes, that would be good. Sir, my second question is, basically, you said you financed 50,000 2-wheelers in the month of May. Am I right?
- Y.S. Chakravarti:** Yes. Correct.
- Piran Engineer:** So I am guessing that is preowned and new, both.
- Y.S. Chakravarti:** No. I am talking about only new.
- Piran Engineer:** Sir, but what was the industry auto volumes in the month of May? I believe it was like 1.5 lakh, 2 lakh.
- Y.S. Chakravarti:** It is around 2,40,000 to 2,50,000.
- Piran Engineer:** So you financed 1 in 4 or 5 vehicles that were sold in the month of May all over India?
- Y.S. Chakravarti:** Correct.
- Piran Engineer:** Okay. So if I may ask, how did you get so much market share, like were the competitors or our peers were not in the market, such a sharp market share gain is...

- Y.S. Chakravarti:** No, See, on such a small volume, you cannot take it as a market share gain or anything. Probably we are better prepared to be in the market the moment it opened.
- Piran Engineer:** Okay. But overall competitors also at the dealer points in May, what is the competitive landscape now...
- Y.S. Chakravarti:** Some of them are present.
- Piran Engineer:** Okay. That was my only thing. If you can just get back on the percentage of customers who have not paid since April, that would be great.
- Y.S. Chakravarti:** Yes.
- Moderator:** Thank you. The next question is from the line of Rajeev Agrawal from DoorDarshi Advisors.
- Rajeev Agrawal:** The first question is on your slide 14, where you have given the ALM data. You had assumed that the inflow is around Rs.2,300 Crores and outflow is around Rs.1700 Crores in the month of April and May. So can you confirm what has been your actual expense? And therefore, what does the liquidity look like as of May 31, 2020?
- R. Chandrasekar:** With reference to the liability thing, I was telling that we had an opening balance on March 31, 2020 of Rs. 2,000 Crores, and we continue to have Rs.2,000 Crores liquidity even today. In spite of it, we are able to raise some Rs.350 Crores of money, and we have a couple of more proposals in hand. So the liabilities for the last 2 months, the actual payout was around Rs.1100 Crores and the schedule inflow as we told that we are able to collect Rs.550 Crores and Rs.700 Crores during the last two month.
- Y.S. Chakravarti:** No, Chandru, it is Rs.1000 Crores in the month of May, your gold collection, your...
- R. Chandrasekar:** Yes. So collections were close to around Rs.1500 Crores-Rs.1600 Crores and the commitment was close to Rs.1100 Crores, and we are able to have liquidity balance of more than Rs.2,000 Crores even now.
- Rajeev Agrawal:** Okay. In the MSME book, right, and MSME book is primarily cash flow-based lending, so what is the typical collateral like for what percentage of the book would you have a collateral and what is the typical loan-to-value? Can you confirm on that?
- Y.S. Chakravarti:** About 80% of the MSME book is collateralized. Loan-to-values will be around anywhere from between 50% to 60%. Entire 2-wheeler book obviously is collateralized, so the

personal loan book, unsecured. Preowned 2-wheeler, again, collateralized has an asset backing. Auto loans, obviously, has asset backing. Gold has asset backing. So if you look at the entire book, probably about...

**R. Chandrasekar:** 85% is secured.

**Y.S. Chakravarti:** 85%, Yes.

**Rajeev Agrawal:** 85%, Sir?

**R. Chandrasekar:** 85% of the company's loan is secured, 15% is unsecured.

**Rajeev Agrawal:** Got it and especially in the MSME, you mentioned 80% is collateralized. Do you see a difference in the delinquency for the remaining 20% versus the 80% in the MSME book? Just want to see if the behavior of the customer...

**Y.S. Chakravarti:** No. Basically, in this period, no, I have not seen anything. In fact, even prior to COVID also, there is not too much of a variance between a securitized or unsecuritized book. It is just that we do these unsecured loans because of the very small loans, like loans up to Rs.5 lakhs, we avoid taking collateral because it involves a lot of expenses for those small loans.

**Rajeev Agrawal:** Right and you mentioned that in the personal book, you do not have any collateral, right? Is that correct?

**Y.S. Chakravarti:** Yes, correct.

**Rajeev Agrawal:** And so that is where you also seem to have the highest NPA, right? So...

**Y.S. Chakravarti:** Let me put it this way. See, about 12 to 14 months prior, we were doing personal loan in the market. So obviously, looking at the yields, I would say again, these are the customers who have impaired credit history or have not borrowed anywhere or do not have a steady business. So we wanted to move away from this customer segment, and we moved away. So for the last 1 year, the entire personal loan book is built on my existing customers who have finished a cycle of loan with me. So the quality, probably in the next 3 to 4 quarters, we will see very good improvement in the personal loan delinquency book, as the old book is running out.

**Rajeev Agrawal:** Right and what percentage of the current customer base in personal loans would be your existing versus new? Like could you give some...

**Y.S. Chakravarti:** Anyway around 60% of old is still going on. 40% is new.

- Rajeev Agrawal:** And it is a new customer which is much more assessed being delinquent, right? So old customer, you already know them.
- Y.S. Chakravarti:** I did not get you.
- Rajeev Agrawal:** Yes. So in the personal loan, I am assuming that if the customer is an old customer, then you have the credit history and they tend to be not delinquent, right? So it is the 60% that is
- Y.S. Chakravarti:** They tend to be better at paying than a guy who is coming off from the market.
- Rajeev Agrawal:** Got it and if I were to look at your subsegments, so MSME, gold loans, 2-wheeler, auto and personal, if you were to look at the return on equity for each of the subsegments, how would you think? Is it similar across each of the subsegments?
- Y.S. Chakravarti:** See, it is difficult to look at it this way because the teams, there are a lot of common costs. So we do not look at product-wise. The reason being, everything is shared right from manpower to our space. A guy who is doing 2-wheeler will also do a personal loan cross-sell. A guy who is doing MSME will also do a personal loan cross-sell. The 2-wheeler people staff at the branch, also the branch manager and all, also manage gold loans. So as a product-wise, it is difficult because apportionment of cost is difficult.
- Rajeev Agrawal:** Right. But then how do you prioritize getting capital to one segment versus others? Like in today's environment, where, I guess, you have plenty of opportunities, and you would have to decide where you want to give out the loans, how would you prioritize?
- Y.S. Chakravarti:** See, that is basically, again, when the capital is scarce, the decision is based on for what product they can raise capital in the market. Suppose, for example, though the unsecured loan could give me a 200, 300 basis points better return even at a contract level, but then if I am not able to raise money, let us say, on securitization for an unsecured book, and there is a lot of demand for securitization, I will focus on funding a customer where I have an asset backing, could be a 2-wheeler, could be an auto or it could be a gold.
- Rajeev Agrawal:** Right. Got it. Okay and then a few more quick questions. One is on this Rs.3 lakh Crores package, which should have helped our customer base significantly. So can you give a sense of how many of our customers would be eligible for that package? And what is the traction you are seeing so far on that?
- Y.S. Chakravarti:** Most of my customers are proprietary concerns in the sense they run their business on their own, the one guy. So most of them will not be eligible, because the loan will be in individual name, so most of them will not be eligible, number one. Number two, I have as I

said, I have called and spoken, I am speaking, in fact, to a lot of customers on a regular basis. None of the customers that I have spoken to have reacted positively, they are saying they are still not able to get any money from anywhere. So sorry to say this, but most of these customers, I mean, I have spoken to a few customers who trade in, say in fact, I have spoken to a couple of customers not yesterday, day before yesterday, who are involved in aquaculture, then a couple of customers who are involved in supplying to these aquaculture firms. I have spoken to a couple of rice millers, a couple of granite polishing unit owners. It is still very early days. They are not sure when the money will reach them, whether they will be able to get the money.

**Rajeev Agrawal:**

Okay. So this package may not have it for them. On the gold loans, when I look at your peers like Muthoot and Manappuram, they typically lend 22% plus, we are around 18%. So are we targeting a different business, a different customer segment here? And is there an opportunity for us to improve our yield there?

**Y.S. Chakravarti:**

See, there are a lot of reasons. One, for SCUF, we are not a pure-play gold loan company,. Number two, we are using our existing infrastructure wherever it is to do this gold loan. Third, gold loan is a Pull business. We do not advertise our presence. Four, most of my branches are located either in the first floor or the second floor. So it is not easy for customers to reach, there are other avenues available. So basically most of this gold loan again is kind of business that is coming through referrals of my existing customers. So we are happy with that yield because unless, if you want a better yield, then you need to do a very aggressive focusing business in gold. Then you can ask me, why do not you advertise? Right now, we are confined only to five states in the country for gold loans. So unless I increase my presence across, my footprint, there is no point in spending money on advertisement. But on that line, we probably by end of June, we will be starting about gold loan in 20, 25 outlets in the north and the plan is by the end of the year, we should be starting gold loan in all the 900 branches. This is if you compare with the pure-play gold loans, probably my network would be one-third of some of these players or even smaller. But then I think that is when we will be able to pull in more customers and probably increase the yield in the gold. But right now, business that is happening is mostly through referrals and most of these gold loan customers that we have today are our existing customers who come and pledge with you on a regular basis. To give you an idea, about 60% of my gold loan customers come back and pledge again and again.

**Moderator:**

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

- Prashanth Sridhar:** Yes. Good morning Sir. I hope you are all doing fine. Sir, could you just talk about any deposit outflows that we would have seen in April and May? And what sort of risk you see here going forward?
- Y.S. Chakravarti:** Deposits, I am very, very happy to inform you that we have not seen any outflow in March, April, May. In fact, there is a positive net accretion of deposits in all these months.
- Prashanth Sridhar:** That is great to hear, sir. And what is the rate of interest on our deposits right now?
- Y.S. Chakravarti:** It is about 8. Chandru, if I remember correctly, it is 8.2%.
- R. Chandrasekar:** It varies from 8% to 8.5% depending upon tenure also. So weighted average will be around 8.25%, 8.3%.
- Prashanth Sridhar:** Okay and you mentioned that out of the total liability outflow of Rs.1600 Crores in April and May, some part was related to FD, did I hear that right?
- R. Chandrasekar:** Yes, correct. FD also, there will be fresh inflow and outflow.
- Y.S. Chakravarti:** No I will tell you what it is. It is Rs.113 Crores in the month of April and Rs.119 Crores in the month of May.
- Prashanth Sridhar:** Okay. But you are saying since you have got more outflows, the net affected the growth.
- Y.S. Chakravarti:** Net inflow.
- R. Chandrasekar:** Inflow is Rs. 100 Crores more than outflow for the two months.
- Prashanth Sridhar:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Shubhranshu Mishra from BOB Capital Markets. Please go ahead.
- Shubhranshu Mishra:** Sir, quickly on this two-wheeler disbursement that you have done, my thought is that should it scare me because two-wheeler is largely cash segment and we have gone out and disbursed in the month of May. Have we changed any kind of underwriting policy, credit appraisal for the two-wheeler customer?
- Y.S. Chakravarti:** No. I will tell you why. I am very confident on the two-wheeler business, Shubhranshu and I think we have cracked it like nobody else in the business. I anticipate two-wheelers to do well even in this year because of the social distancing. Even now, we are seeing a good

number of inquiries coming in. In these 10 days, we have already disbursed about 10,000 vehicles. I anticipate good demand. If you look at even the manufacturing data, I think most of the manufacturers now are ramping up production to reach 60%, 70% of the pre-COVID production levels. Also the stocks in most of the dealer points is running out. So now some of the dealerships also need BS VI vehicles.

**Shubhranshu Mishra:** Okay. So how are we different? Like what is our strength here?

**Y.S. Chakravarti:** I think very simple. The secret sauce I would say is the relationship that my team is able to build with the dealers over a period of years and the support that we have extended to them, and basically, the comfort level that the dealer derives from my teams. Our decision-making is decentralized; decision-making most of the time happens at a branch level and the comfort that they derive from that and a quick turnaround time. Just these two, there is no other factor.

**Shubhranshu Mishra:** And we have not changed any credit underwriting or appraisal policies for two-wheelers?

**Y.S. Chakravarti:** As of now, no.

**Shubhranshu Mishra:** Sure Sir. In terms of SME financing, Sir, what percentage of our customers would be in essential services versus nonessential services? And given the fact that they are under cash flow stress, are we thinking of giving them any kind of top-up loans or anything that can help them start their business? Because I think after lockdown, they would need some kind of working capital as well to restart their business as well?

**Y.S. Chakravarti:** What you say is true. See, most of these people who were involved in the essential services so when I have talked to them, they were saying that their credit cycle has shortened because the distributors now are insisting only on cash. So they were forced to put in more money. So that is one of the reasons. Also, they were saying that, though, they have money, and they were doing business even during the lockdown, they were not paying the EMIs because their cash purchases have increased. See, I think it is early days, but what we are doing, we are actually going and meeting these customers and looking at what level of business and the volumes that have come back and we will take a call basing on that. But we will start only in the month of July. Disbursement for SME, we will start only in July. But that as I said earlier, that we will start the disbursement only to our existing customers, where we have a track record and where we feel that they need this working capital support.

**Shubhranshu Mishra:** Right. But we are open to giving top-up loans. Is that correct?

**Y.S. Chakravarti:** Yes.

**Shubhramshu Mishra:** Sure, Sir. And sir, how many people do we have in collections? And what kind of credit costs should we expect in FY 2021? If you can highlight that.

**Y.S. Chakravarti:** Collections, we have something like roughly around 6,000 people across the country. Credit costs, very early days, since you do not have to look at the moratorium. My gut feeling is for the businesses to reach 80%, 90% of their earlier volumes will take at least another 6 months. During the demonetization time, we have seen 170-basis points of GNPA jump, and we have been able to recover that in the next 9 months. So there may be a temporary dip, but very difficult to tell you right now. But there could be 100-basis points jump on the gross NPAs, but I am not really worried about it because I have seen through cycles, I have seen that next three to six months, we should be able to get a clawback on this.

**Moderator:** Thank you. The next question is from the line of Pratik Chheda from IIFL Securities. Please go ahead.

**Pratik Chheda:** I was just looking at the GNPA's in the gold loan segment. I understand the customers not being able to come and pay during the lockdown, but over the last four quarters, the GNPA's in the gold loan segment have swiftly moved up from around 2% to around 4%. So just wanted to understand what is the reason of this increase? And how do you see the credit cost in this segment going forward? And what are the LTVs in the gold loan segment?

**Y.S. Chakravarti:** Gold loan LTV is, okay, I will answer your last question first. The gold loan LTV today on the book is around 60% that is one. The other point is earlier, when the gold prices were a little subdued, we were following a very aggressive auction policy, where any overdue account, we used to issue notices and immediately do an auction of the gold loan. As the price has started increasing, we have decided since we have enough collateral, we have decided we will give the customers extra time. Though, yes, it affects my GNPA book, but we thought we can afford to do it because as the gold price is increasing, we wanted to take a little relaxed approach towards auctioning the gold. But you should see that coming down sequentially in the next two quarters.

**Pratik Chheda:** Okay, sir. The gold holding...

**R. Chandrasekar:** The credit cost for the gold loans, it is hardly a few lakhs. In fact, it is in decimals only.

**Pratik Chheda:** Okay. So basically, the holding period of the gold of the nonperforming customers has increased?

**R. Chandrasekar:** Yes.



- Pratik Chheda:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Anitha Rangan from HSBC Asset Management. Please go ahead.
- Anitha Rangan:** Just wanted to understand, in terms of liquidity, just one more question here. Were you able to participate like TLTROs from banks? And generally, what we have heard is like banks are pretty risk averse. So did you face any of the risk aversion from banks in terms of like getting sanctions? Or are there like delays in processes getting completed in terms of fresh sanctions and so on? What is your experience?
- R. Chandrasekar:** See, we got around Rs.350 Crores last week from SIDBI, under a special scheme. So things are moving, but we do not think most of the banks are willing to lend money. However we are likely to get some inflow from PCG 2.0. So special scheme, as I told you, we got Rs.350 Crores.
- Y.S. Chakravarti:** To answer your question, Anitha, the other thing is yes, banks are risk averse, so I do not blame them for that. But we have proposals pending with almost all the banks and as far as delay is concerned, yes, it is taking time. Things that used to move in a week, 10 days, now is taking a month. Probably, it is also because they are also not working at full capacity. But we have no worries on that side. I think the signals that we are getting is that most of the banks are waiting for the results to be declared and we think that we should be able to get money probably before end of June and some sanctions in July.
- Anitha Rangan:** Okay, all right. Thank you.
- Moderator:** Thank you. The next question is from the line of Ankur Jain, an investment adviser. Please go ahead.
- Ankur Jain:** Hi good morning. Thank you for the opportunity. I had a question about the provisions and moratorium from banks. Excuse me, in case you have already discussed this part in your opening remarks because I missed a part of it. So my question is that about the COVID-related provisioning of Rs.426 Crores, what percentage of this provision may actually have to be written off? Or do you think over a period of time, we will be able to clawback most of this?
- Y.S. Chakravarti:** See, I will leave our CFO to answer that. But from a business point of view, we should be able to recover almost 90% of this. I will leave Chandru to answer your question more elaborately.

- R. Chandrasekar:** Yes. So with reference to COVID provisioning, I think we have already put up some of the information on the collection what we have done and we have also given moratorium for the last three months to different customers, close to around Rs.2,500 Crores for non-gold and Rs.350 Crores moratorium for the last three months. So basically, what we did is we increased our PD...
- Y.S. Chakravarti:** No, no. Chandru, I think his question is on how much you think we need to write-off of this Rs.426 Crores?
- R. Chandrasekar:** Yes. That is what. So basically, keeping in mind this provisioning, we expect that this question can be exactly answered over the next six to eight quarters, but still one more tranche of moratorium also is coming in. So the probability of 85% to 90% is what we expect as of date. But going forward, we have to see on the data of actual collections, moratorium benefit...
- Y.S. Chakravarti:** I think to give you another insight into this is, if you look at my absolute write-off for the last 15, 20 quarters, it is between 2.5% to 3% and I do not see any reason why there will be a spike on this, probably on 10, 20 basis points at best of increase. I am not really worried about it moving more beyond that.
- Ankur Jain:** Right. Yes, got it. And one more thing about this provisioning of Rs.426 Crores, does this cover only the first moratorium which was offered? Or does it cover the second moratorium also which was offered?
- R. Chandrasekar:** First tranche of moratorium.
- Ankur Jain:** First tranche. So there is incremental provisioning which may come in the subsequent quarters also?
- R. Chandrasekar:** When we close the Q1 books, we have to see how things move. Then we will take a call on them.
- Ankur Jain:** Right. On the moratorium from banks, has the company applied some moratorium from banks? And have we received any in case we have applied?
- Y.S. Chakravarti:** Yes, we did apply. We did apply for a moratorium. We have received from three banks, but that is also not much. It is basically HSBC, Union Bank and Indian Bank we have got our moratorium from.

- Ankur Jain:** So what percentage I mean, for whatever we applied, what percentage in value terms have we received the moratorium?
- R. Chandrasekar:** It is hardly 3%, it is negligible. Just we applied it, and we got some two, three banks. That is all. And that is on the interest component. So it is actually negligible.
- Ankur Jain:** Okay. I wanted to basically understand on the liquidity part that is moratorium an important part for us to keep our business going in terms of disbursement also?
- Y.S. Chakravarti:** It will put in this way. Let me rephrase your question. You are asking me whether if I do not get a moratorium, my disbursements also will get affected?
- Ankur Jain:** Right. Yes.
- Y.S. Chakravarti:** It may, if we do not get a moratorium, but I am not looking at moratorium for disbursements. As I mentioned, we have another close to Rs.700 Crores on the PCG, which paperwork is pending, which we should be able to do it, and we raise that Rs.700 Crores probably in the next two to three weeks. Apart from that, we also have in various stages of consideration other proposals with bank. So I am not really worried. Even if I do not get a moratorium today, I am not really worried. It may help, but 50% of my borrowings is from banks, right? So it is not that 100%, but 50% moratorium could probably help in retaining some cash in the company. But looking at the proposals that are with banks and the reactions that we have now ....
- R. Chandrasekar:** I think Chakravarti's line just got cut off. I will continue. So we expect some fresh disbursements, we have sufficient cash available, is point number one and we are not looking into moratorium very seriously. It may come, it may not come and we are looking into the fresh borrowings, which we expect things are moving in quite a reasonable pace at this point of time. So that money we will be using it for disbursement.
- Ankur Jain:** Right. Sir, I have one more question on basically Shriram Housing Finance. Now when I read about the business of Shriram Housing Finance and the customer profile that you cater to it, it seemed very much within your circle of competence, the customer profile and the territories which you were targeting. But the business did not perform in the past few years to the expectations that it is only after a couple of CEO changes and CFO changes, which happened in the company, and now we are seeing results which are different, which are very healthy. So I just wanted to understand from you on the strategy part that how is the current practice different from earlier practice? And could you please give some color on what exactly happened earlier? I mean was there some corporate governance issue that led to the attrition at top level? I just wanted to understand this part better.

- Y.S. Chakravarti:** Yes. Got it. There is no corporate governance issue at all. It is just that the methodology that was chosen by the earlier CEO was different, whereas the current CEO, he has also been with us for a long time, Ravi Subramanian, the current CEO, who is handling this business, who was handling our business loans out of Mumbai earlier. So he is a veteran of the industry. I mean, earlier CEO has chosen a strategy to go to the market with a direct selling team, DSA team. Whereas after Ravi coming in, he has actually realized that it is better for him to work with the existing setup, leverage on the strength of SCUF, the SCUF network, the STFC, Shriram Transport Finance network and work through those offices and he also cut down on some of the direct sales team because he felt that it is better to have a combination of small DSAs and a few direct sales heads. So he changed the entire approach to the business and which is producing results, both in terms of volume as well as delinquency.
- Ankur Jain:** Okay. So is it right to say that in the earlier practice, the customers were basically approached directly, and they were new customers, they were not from the existing STFC base and now it is basically a cross-selling into STFC and SCUF?
- Y.S. Chakravarti:** No, it is not just existing customers. See, the advantage when you leverage on your existing infrastructure is, one, your costs are lower; two, you will get a lot of references from your existing customers. The existing customer may not take a loan, but you also get references from the customers, which is always much better than going out and doing a cold calling and trying to sell a loan.
- Ankur Jain:** Right. Sir, just one in the MSME segment. So because of the COVID issue, do you see that a large part of our MSME business, which is to Kirana stores and do you see a long-term trend where that business could move to organized retail and the e-commerce players? And that produces some amount of stress, and how the company is in a position to be in there?
- Y.S. Chakravarti:** No, I do not see that happening any soon, e-commerce players. It should be probably the e-commerce players and the local kirana stores may get into a partnership is what my feeling is and that is what I feel. Another point is a large I mean, the large players, the large big players like your Metro or your Bestbuys or Walmart kind of guys, are actually working on plans to work with the local kirana stores much more closely. I think if we are living with COVID for, let us assume, next couple of years or three years or four years, I am sure people would want to go to your local kirana store and buy rather than going to a mall or a market.
- Moderator:** Thank you. The next question is from the line of Gopinath from KNR Investment. Please go ahead.

- Gopinath:** Sir, this is regarding the 10 to 15 basis points of excess write-off at the maximum that you are talking about in a longer run, maybe in five to six quarters, like that. It is completely contra to what market perception is. How are we getting that confidence that businesses will be as usual and we will be able to collect most of the provisioning that we are providing for?
- Y.S. Chakravarti:** I have never agreed with market for your information, number one. Number two is, this confidence is coming from the feedback that I get from my team down the level. This is basically for the last, right from the start of the lockdown to today, I am on call every single day with my teams, not my one down, but the calls happen to the branch managers. So this is the feedback that I have from my team at the ground level and the ground level teams are involved, engaged in meeting customers on a continuous basis. So it stems from the fact that most of my customers are engaged in trading or service industry and post lockdown, they are quickly back to their businesses and they are able to generate some sort of an income in their businesses. My exposure to manufacturing is less than 10%, and that is where I see stress rather than on the other segments.
- Moderator:** Thank you. The next question is from the line of Vikas Radhakrishnan from Citibank. Please go ahead.
- Vikas R:** I just have a couple of questions. One is, under the extended moratorium period allowed by RBI, what percentage of the portfolio receivables are you going to allow moratorium for from your borrowers, number one? The second thing is, on the collection efficiency, while these are still early days, I assume the ALM table that has been laid out for the March quarter assumes a 90% collection efficiency. So what would be the actual collection or the expected collection efficiency that you can relatively expect over the next three months? And lastly, what is the outlook for new disbursement or fresh disbursement that you are looking at for the next three months?
- Y.S. Chakravarti:** This is one question and you are taking, okay, as I said, the outlook on the disbursement side is, see, probably May was a lot of pending demand that has got snapped up and so we were able to do those 50,000 two-wheeler, I am not sure. But definitely, on the two-wheeler side, I see good demand coming back. Gold loan, some demand picking up. Personal loans have a lot of demand, but still I want to hold on for some more time before I start disbursing personal loan. Preowned two-wheelers, we are getting a lot of inquiries on that. So hopefully, we should be ending up with about next two months, let me put it this way, June, July, we should be able to end up with anywhere between Rs.600 Crores to Rs.750 Crores of disbursement, I mean, that is on a conservative scale. That is what I would aim at. Now on the collections side, as I said, including gold, May is 52%. So June as of today, the trend looks much better than May in June. So we could end up with about 60% in June and

probably reach my normal levels of efficiency by hopefully end of September. Normal levels of 90% plus efficiencies by end of September.

**Moderator:** Thank you. The next question is from the line of Bunty Chawla from IDBI Mutual Fund. Please go ahead.

**Bunty Chawla:** If I move to the slide 12. So in that, if you can throw some light on the auto loans because there has been a good amount of improvement from Q3 to Q4, 9%...

**Y.S. Chakravarti:** Bunty, that is basically because, as I have mentioned earlier our preowned two-wheeler loans were clubbed with auto loans, which we will rectify in the next quarter. We will separate them out, the auto and the pre-owned. Most of the disbursement has happened in preowned two-wheelers and delinquency in the preowned two-wheeler loans is pretty good. So that is the reason why you have that drop of from 11.63% to 5.4%. If it is auto loans alone, there is not too much of a drop on there. So we will separate them out in the next quarter.

**Bunty Chawla:** Okay. The change of the definition kind of thing.

**Y.S. Chakravarti:** Exactly.

**Bunty Chawla:** Okay. And sir, if you can share same number for the moratorium according to the product-wise, if it is possible for you?

**Y.S. Chakravarti:** In percentages?

**Bunty Chawla:** Yes, in percentages.

**Y.S. Chakravarti:** Yes, see moratorium today, SME, about 75% of the customers are in moratorium; two-wheeler is around 50% of the customers are in moratorium. That is as of May.

**Bunty Chawla:** May 30, 2020 you are saying?

**Y.S. Chakravarti:** Yes.

**Moderator:** Thank you. Due to time constraints, I would request the management to please give any closing comments.

**Y.S. Chakravarti:** One thing is we feel confident, particularly that SME should be able to cope up with the stress and should be able to come back to normal in a couple of months. As I said, we have very little exposure to manufacturing, and that may take a little more time because there are

different factors there. One factor specifically is that some of these businesses are dependent on migrant labor, so it depends on the migrant labor moving back or their ability to find the labor. Otherwise, I think COVID has given us a good perspective on how to handle stress positively and it has also given us an opportunity to rediscover ourselves and push our customers onto our digital platform for payments. In fact, as I have mentioned earlier, even in May, we had close to 400,000 customers, again, coming back and paying us money through a digital route, which used to be around 35,000, 40,000 on an average per month earlier. So that is one positive that has happened on this. One more factor I would like to tell you is that compared to April, we have 240,000 more customers have paid in May, which I feel is a positive sign. As I said, June collections were also better than May. So we hope to get back to our normal levels of collections pretty soon and as I said, disbursement, gold and two-wheeler, in another couple of months, we should be able to get back to our normal disbursement levels. SME, we will start in June, probably by September, October, we should be able to get back to our normal regular disbursement levels. Thank you for joining us today.

**Moderator:**

Thank you. On behalf of Kotak Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.