"Shriram City Union Finance Limited Q4 FY-21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY21 earnings conference call of Shriram City Union Finance Limited 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 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 Agarwal from PhillipCapital (India) Private Limited. Thank you and over to you, sir.

Pradeep Agarwal: Thank you Faizan. Good morning everyone and welcome to Quarter 4 FY21 earnings call of Shriram City Union Finance. To discuss the results we have with us, Mr. Y S Chakravarti – MD and CEO, Mr. R Chandrasekar – ED and CFO, Mr. Ravi Subramanian – MD and CEO, Shriram Housing Finance, and Mr. Jai Singh Ponde – Head, Investor Relations. I would now like to hand over the call to Mr. Chakravarti for his opening remarks. Over to you sir.

Y S Chakravarti: Good morning, ladies and gentlemen and welcome to the Quarter 4 and FY21 earnings call of Shriram City Union Finance. We have declared our results for the quarter last Friday and I hope all of you had the opportunity to peruse them as well as the related investor presentation which we have put up on our website. The presentation is also available on the website of the stock exchanges.

Before I talk about the performance of the company, I take this opportunity to express the hope that all of you are in good health and taking adequate safety precautions in these troubled times. Most of us were under the impression late last year that the pandemic has been conquered and we are safe, but as can be seen, the disease continues to be rampant, and the onus is on all of us to be doubly careful about preventing ourselves and our loved ones the second time around.

We at the Shriram Group are following all safety protocols across all our offices and I hope for a return to normalcy soon. Hopefully, the vaccination would become available to a large part of our population.

Also, with a very sad heart I have to inform you that we have lost about 16 of our colleagues due to the pandemic. Most of them are under the age of 45 and we are all saddened by that and about 900 of my colleagues right now are in various stages undergoing treatment across the country. We are all praying for their safety and wellbeing and we are also committed to taking care of the families that are affected by this pandemic.

Coming back to business, despite the debilitating impact that the epidemic has had on the economy, we have been able to manage to hold our own in FY21. Disbursements have bounced back to grow 21.3% YoY and 6% sequentially. SME loans, which is a mainstay of our business saw a disbursement growth of about 74% sequentially. New two-wheeler loan disbursements saw a growth of 30.3% YoY. As I had mentioned in my earlier interactions with you that once adequately priced funding was easier to come by, we would recommence growing our personal and auto loan books and we saw that happening in this quarter. In fact, personal loan disbursement in Q4 was one of our highest. FY21 disbursements also include about 153 crores of restructured loans which is about 0.52% of our AUM which was also on the lines of my earlier guidance.

On the ex-gratia relief mandated by the Government of India on account of interest-on-interest, we have extended this relief to all borrowers not covered under the first tranche. Consequently, we had a financial impact of about 11 crores in Q4 which would otherwise have been added to our bottom line.

The AUM grew by 1.7% YoY and sequentially growth was strong at 3.6%. The QoQ growth was notable because of the fact that we had already logged in our festive season business in the previous quarter. The Q4 AUM growth was therefore more secular and not concentrated in two-wheelers alone.

We introduced one new product and one new variant of an existing product in Q4. LAP was introduced as a new product and will help us break into the slightly higher ticket and longer tenor loans. Micro loans were introduced as part of MSME loans. We have maintained our loan yields at 20%. Our net interest margin too remained strong at over 12%.

Opex was higher by 5.8% sequentially because of the uptick in business activity, more specifically a higher disbursement as well as also the efficient collection efforts. Opex was however lower by 9.5% over last year.

We did well on the resource raising front too. We have mobilized about 5,119 crores in the quarter. This is representing our highest ever raising of liabilities in any quarter. These funds came with a weighted average tenor of 38 months and were priced at an average of 9.09%. Our borrowing cost for FY21 was 8.76% versus 9.36% in FY20. A program of Market Linked Debentures which we had initiated in Q3 gained considerable traction in Q4 and we have raised 1,188 crores through this product in the quarter.

Our family of retail depositors, many of them second and third generation investors with us continued to repose their faith and trust in us. Our Retail Fixed Deposit database base has grown by 37.81% YoY. And now as of today, the retail FDs comprised 22% of our liabilities. At the beginning of Q4 we had thought we could shed some excess liquidity that we had carried until then. However the subsequent resurgence of COVID-19 prompted a rethink on this and also a slightly lower disbursement in the month of April. So, we are carrying backup liquidity of about 4,029 crores as of the end of the year and continue to do so.

I had guided earlier that restructuring of loans will not affect Shriram City much. This has been borne out by a sum of 153 crores in the form of advances restructure and RBI's COVID Resolution as I said earlier. The other regulatory recommendation that is pertaining to ECLGS, we have sanctioned and disbursed about 76 crores as on date under ECLGS Scheme.

On the credit rating front, during Q4 CRISIL has reaffirmed our AA rating while upgrading our rating outlook to "Stable".

On the credit cost side, credit cost continues to moderate and was at 2.25% for the quarter and below 3% for the year. We are confident of maintaining these levels at least for some time, more so once the economy returns to normalcy.

Similarly, asset quality continued to improve with Stage 3 gross delinquencies coming in at 6.3% versus 6.46% in Q3 and 7.9% a year ago. We also enhanced our Stage 3 provision coverage ratio to 53.24%. Considering that the country and the economy continue their battle with the pandemic, COVID related provisioning has been enhanced this quarter and which is now at 709 crores.

As far as moratorium customers are concerned, the behavior of customers who have availed moratorium versus my regular customers as of today, is almost on similar lines. The Stage 3 for both sets of customers is around 6 (+) percentage, not significantly different.

Collections, as I said have improved consistently from Q1 to Q4 almost close to, even in the month of April, the first 3 – 3 ½ weeks was good for recovery, only in the last four or five days of April there was a slight fall in collections. But unfortunately, compared to last time, the impact on employees is also high this year. So, in the last week of April, as I said, there was some impact on collections because of this. So, I expect this to continue probably for another 2-3 weeks into May also. I expect things to improve post 2nd-3rd week of May considerably, so that's the reason why I am not moving away from my credit cost budget. More so, we are also very careful on disbursements compared to last financial year. We did not even know how the impact of lockdown will pan out earlier but if there is a cashflow visibility, we will lend, that includes our existing customers, otherwise we will go slow in the first 2-3 weeks of May. So, a point to note is that the disbursements will be totally based on cash flow visibility only and we will take a conservative view on disbursements for the first three weeks of May.

As I said, I am not seeing a very bullish Quarter 1. We had a rolling budget process for this year, and we will revisit our budgets in Q2 once we see how Q1 pans out. As I said, that's also one reason why we are also carrying a liquidity buffer of about 4,000 crores. I suppose what is critical is the ROA levels which continues at over 3.1% and I am also of the view that we should actually better that for FY22 as we will not have a moratorium related aspect or write backs of interest income hopefully this year.

What it also good to note this in these tough times is that my leverage is still around 3.15 times, and our Tier-1 capital is at 28.64%. We have our Housing Book performing far superior compared to the past, while overall 90+ DPD is a mere 1.9% as of March 2021 which has dropped from 2.4% as of March 2020. This is 1.9% for the book that we have generated during the last two years. Actually, the book that was generated in the last two years the 30+ is extremely low at 0.4%. So, we are extremely happy what we have done in our housing book, we have done a very good job during a tough year and I have Mr. Ravi Subramanian who is MD and CEO of Housing Finance also with us and we will answer any questions relating to housing. He will take questions relating to housing.

With this I conclude my opening remarks and I would also like to tell you that we are also in talks with a few hospitals to make sure that we will also get all our employees vaccinated. And as far as Shriram Housing is concerned, they have also announced that they will provide free vaccination to all its affordable housing customers.

Now we are open for the Q&A session, ladies and gentlemen.

Moderator: Thank you very much we will now begin the question-and-answer session. The first question is from the line of Nishant Shah from Macquarie. Please go ahead.

Nishant Shah: Wishing a speedy recovery to all your employees. I am a little new to the company, so some very basic questions from me. You have given your AUM mix by geography and a big chunk of that AUM comes from South India. Could you give us the state-wise mix as well, like how much from AP Telangana, how much from Tamil Nadu, how much from Kerala? So that's question number one. And question number two within the SME book you do micro small and medium enterprises. Could you give us a gradient of the ticket sizes that you operate and like what would be the median ticket size for say a micro loan? How much would it be for a small enterprise? Not just like the overall blended thing for the whole SME piece, but like a little more of a drill down, if you could provide it, that could be helpful? Those are my two questions.

Y S Chakravarti: As far as the south share is concerned, Kerala is negligible. It's majorly between AP and Tamil Nadu. See, again it differs from product to product. If you look at two-wheeler, it will be around 30% between AP Telangana and Tamil Nadu which is almost equal, probably about 15% each. On the SME side, Tamil Nadu will have close to about 18%-20% of the book and Andhra Telangana should be having about 25% to 30% of the book. So, about 50%-55% of the book comes from these two States for SME. As far as the ticket sizes are concerned, micro is from between say a 1 to 5 lakh, medium would be between 5 to 25 lakh and anything above 25 lakhs is classified for us as a large ticket.

Nishant Shah: One follow-up question here. There are some other kinds of universal banks that are talking about now diversifying to South India targeting AP and Telangana specifically and more or less the same kind of ticket sizes that you operate. How confident are we, what are our moats exactly which will prevent some kind of market share erosion? Because when banks come in, they have the kind of cost of funds advantage, and they can compete on the pricing. Could you articulate a little bit more about our understanding, our moats, the captive customer pool that we have, just to give us some clarity as to how you can continue to keep withstanding the competitive pressure from new banks as well.

Y S Chakravarti: If you look at AP Telangana and Tamil Nadu all the banks in the country have presence in these two states. You name any bank. Other than probably the new SFBs and probably the newer banks like Ujjivan or IDFC, rest all the banks have their presence here. And south is definitely a market that all of these banks were operating since years.

Nishant Shah: I am specifically referring to the ones you mentioned, like the Ujjivans, the Bandhans of the world who probably want to have a little more diversification in their AUM. They want to explore new geographies. So, these are the kind of typical banks which target the same kind of ticket size customers as you. Obviously, you will not have the same kind of competition from the HDFCs or ICICIs of the world.

Y S Chakravarti: See, if you are asking me about moat, I think I can tell you, one thing is in these two states we are operating from about close to 600 + point of presence. We have more than 600 points of presence in these states, one. Two, particularly semi-urban, rural area majority of these branches, our point of presence is located. Three, as of today the market size is so big that a few players coming in and trying to get in I am not worried that they are going to come in and snatch away my business because there's a lot of scope for other players also to come in. There is enough and more market growth available, opportunity available for players to come and do business. The moat side is basically probably the 30 years of on-ground presence in more than 600 + points of network in these two states. I think these are the things that probably will help us fend off competition.

Moderator: The next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund.

Vivek Ramakrishnan: It's heartening to note that SCUF continues to be a company with a heart and hope your employees get well soon. I have one question for you on the LAP side. LAP has often been a mispriced asset in the market. Why would you get into that asset especially because the tenors are long, is it to do something with the coordination strategy? And the second question is sorry a longer question, and since Mr. Ravi Subramanian is on the call, what are the steps that the company has taken that has seen such a dramatic turnaround in performance? We also notice that yields are extremely high, which would lead us to believe it's a riskier segment and how is it weathering the pandemic and why do you feel that it will weather it well? And the last question to Mr. Ravi Subramanian also is that the cost income is extremely high. So, your pre-provision profits are pretty low, so you have to maintain asset quality well. So, if you could just give us a strategy change and why this change is going to be effective going forward?

Y S Chakravarti: Let me answer your first question and then I will ask Ravi to answer your next two questions. As far as LAP is concerned, we have been getting lot of requests from our existing customers for longer tenor product. See, more than a pricing, it is also customers have been requesting us for longer tenor product, whereas if you look at my SME lending, the average tenor is around 36-40 months. But we were also not comfortable with longer tenor products, so we took our time, we did pilots in various areas and then when we found that we were comfortable with the results, we have actually introduced it as a product across the country. Otherwise, we would have gone into LAP long time back. The idea is that we actually ran a pilot for almost a year before we formally launched this as a product. And the ideal ticket size that we are looking at is around 30-35 lakhs and max tenor capped at 84 months. So, the other two questions Ravi, would you please step in?

Ravi Subramanian: Yes, I will step in, thanks Chakravarti. One was on what changed, two was cost-efficiencies and three was PPOP. So, what changed? Well, actually, when we got into this organization in 2018 end, we did a few things which were transformatory. One of them was that we built a very strong management team, a strong management team which is capable of taking this organization to 15,000 to 20,000 crores and not just to 2000 to 3000 crores. Now that has its obvious impact. Apart from that we brainstormed, and we looked at our distribution and we decided to take a couple of very strong steps on that front. We were in about 88 branches and in about 17-18 states. We cut that down and said, we are going to focus on only 6 key states. And that was because even if you look around, no affordable housing finance company has actually dominated pan India upfront. People have grown from one state to the other and slowly started adding distribution. So, we cut down to what we would believe our strengths are and we started focusing on AP Telangana, Karnataka, Tamil Nadu, Maharashtra, Gujarat, and Rajasthan as the key states. These are the states where either SCUF was very, very strong or these were the states where affordable housing as a segment or housing as a segment existed in a well-defined manner and the portfolio across these geographies, we used analytics to figure out how the portfolio in competition was performing and we figured out that in these six states is where we can actually grow sensibly. We took a few transactional calls in terms of de-centralizing side, because self-employed segment, that touch-and-feel with a customer is a lot more important. A salaried customer you can underwrite centrally but self-employed is a lot more complicated. So, we de-centralized credit and hence we rebuilt the credit capacity and talent at the regions. Use of technology in terms of scoring, in terms of integration with the bureaus and a few others, use of digital technologies kind of helped us. And the other big change was that we really got down to focusing on collections and we went after collections with a passion, and we ran collections like a business and that also has its impact on our overall results. The other large thing that we did, and which was also transformatory was that we redefined the customer segment that we want to be in, rather than be in the same business across the country. We said, look in the South, the three states of South where SCUF dominates, SCUF understands the customer segment, the bottom of the pyramid in those geographies very well. So, we decided that we will be only in affordable housing in those three states. And in the states of Maharashtra and Delhi, we decided to be more than the mid-market rather than low cost housing. So, today we are a diversified housing finance company wherein we are dominant players in affordable in the three states of South and Rajasthan and we are in the mid-segment in the other geographies. And all this has its obvious impact. Now, these were the changes. As far as the cost efficiency is concerned, look, we are a small housing finance company at this point in time. We grew from 2,300 to almost 4,000 crores this year, wherein most of the growth has come in the last six months, because of the COVID impact in the first six months of last year. And that is the reason why our average AUM is more skewed towards last year's AUM than the current AUM and hence the denominator when you calculate the cost efficiency and all, it doesn't really pan out this particular year. If you go back and look at the way we measure our cost efficiencies, last year we spent about 112 crores. This year we spent 116 crores, last year we originated about 1100 crores, this year we originated 2100 crores. To me that's the biggest example of cost efficiency. Without even spending a rupee more, I have originated almost double the business and I have grown my AUM about 70%, which means that if I manage my costs well this year and don't blow it, my cost efficiencies for FY21-FY22 are already taken care of. And if you look at my cost to AUM which was around 5.5% last year, that's dropped to about 4.6 or thereabouts this year. Next year, we are looking at the same trajectory, I can already predict that it's going down to about 3.5-3.6. So, cost efficiencies come with scale and I am sure at some point in time, these will all settle in. Irrespective at this point in time, SHFL is actually delivering a 2.5% ROA which will soon go up to 2.7 to 2.8 next year and maybe beyond in the coming years. The other reason why my NIMs are probably lower than what you would imagine is because my leverage is about closer to 6. And that has an adverse impact on the cost of funds. This year with a new capital coming in from SCUF, with NHB funding, hopefully we should get this year, my cost of funds will drop dramatically and that will also have a significant impact on the cost of funds. So, my submission is we are in the growth phase. We are in an investment phase and I think once we achieve economies of scale, which will be closer to 5,000 to 5,500 crores is when all our ratios will settle. We will get 2% to 3% ROA and when we get 2%-3% ROA will be in the 15% to 18% ROE range. Does that answer the question?

Vivek Ramakrishnan: Extremely well. There was this one more sub question and it's in terms of the riskiness of this segment, I mean, your yield on customers is very high. So, how is the customer segment, given that it's a pandemic…

Ravi Subramanian: Let me give you a perspective on that. My NPAs in the new book is 0.07% for the book originated in the last 27 months is 0.07%. I have about 4 or 5 accounts which are NPAs out of the 2,800-2,900 crores that I have on book. And that's about under 2 crores. And it's not only about NPA because sometimes your growth can kind of camouflage the delinquency, right? Even if you look at the vintages, the portfolio performance is actually brilliant. In fact, it would probably dwarf all the other HFCs that are operational at this point in time. Despite the COVID numbers, my new book 30 DPD is at somewhere around 0.6%. So, that shows that the changes in the strategy in the segment that we have done have obviously paid off. Now how things pan out from here because the second wave of COVID and other things, is anybody's guess, but that's something which the industry will go through. But, as of now I think, our numbers have panned out very well. The new book bounces are under 9-9.5% and which kind of just lends itself beautifully to a growth. My cost of credit has dropped from 1.3% last year to 0.8% this year and if things go the same way, it'll drop to even around 0.6% next year. Things are looking good, the segment change has paid off and I am in a diversified segment now, as I said, affordable housing in a few markets and mid-segment in a few markets, that helps me build scale and profitability at the same time and also it helps me hedge my bets against any adverse performance in a particular segment.

Moderator: The next question is from the line of Prashant Sridhar from SBI mutual fund.

Prashant Sridhar: If we have to break up the disbursements in Q4 and Q3, how do we look at it? How much would be to stressed customers or customers in zero plus?

Y S Chakravarti: Sorry. Other than the restructured accounts, we don't advance any money to any customer who is a stressed or who is in arrears.

Prashant Sridhar: And arrears you mean, any zero plus account?

Y S Chakravarti: Any zero plus account.

Prashant Sridhar: If you could give us some feedback on what you are hearing from your customers in the last month or so in terms of capacity utilization or not being able to operate, especially on the SME side. And just an addition, if you would give us a Stage 2 numbers in the NBFC and the HFC?

Y S Chakravarti: To answer the question, people were actually getting back to 100% of their capacities. Most of the businesses customers that we were in touch with, it's only in the last week of April that there is an apprehension, there is some slowdown because people were not coming out. I would say, selective lockdowns, partial lockdowns, so as of April end not much of a noise, but we will have to see how this month pans on. In the sense, affecting their productivity, I have not heard much as of April end. So, this week should determine how much it is going to get affected.

As far as Stage 2 is concerned I think we are at 7.93% in Stage 2. I think HFC, Ravi your Stage 2 is…

Ravi Subramanian: My 1 DPD is about 7.2%. My 30 to 90 which is my Stage 2 is about 3.2% and balance is my Stage 3.

Moderator: The next question is from the line of Anand Bhavnani from White Oak Capital.

Anand Bhavnani: My first question is on the growth; in last quarter you gave a guidance that we can grow in about 17%-18%. Now the wave two has struck. So, how are you now thinking of growth? If you can give us some sense on it?

Y S Chakravarti: I already in my opening remarks itself I have told you that as of now I am having a rolling budget. So, my growth will depend on how the Quarter 1 pans out. The idea here is, if you look at my April disbursement, it is off by about 20%-25% compared to my normal month. So, I would like to wait out and see how May pans out and then probably get back to you at the end of Q1. If the curve flattens out as expected in the second-third weeks of May then probably for the rest of the year, our guidance growth should be good.

Anand Bhavnani: One clarification, in response to an earlier participant's question, you mentioned that we don't advance money to a customer who is zero+. So, is it right to say that we have done zero top-up loans or zero net off loans in the last year, except for the restructured book?

Y S Chakravarti: There are two ways to look at this. One is, top-up loan of a customer who is our regular customer, we do a top-up loan but to customers who have completed 60%-70% of their existing loan and who have been regular and no arrears in the account. The question from him was that am I funding a customer who has money due to the company.

Anand Bhavnani: So, we do top-ups.

Y S Chakravarti: We do top-ups. It's not that we don't do top-ups, but we do not do a top-up to stressed customer.

Anand Bhavnani: With regards to our housing book, I see that disbursements were much higher this year, but our other income is quite lower in compared to disbursements. Can you reconcile the difference? Like, the disbursements are about 94.8% but other income is up 20%. So, what could explain the difference?

Ravi Subramanian: The other income largely is income due to direct assignment and a large chunk of the other income is income because of direct assignment. That's kind of remained stable between FY20 and FY21. And if I look at the income apart from that, that's grown. If I look at only the income excluding the direct assignment, that's grown 45% year-on-year.

Anand Bhavnani: What could be the quantum of direct assignment in FY20 and FY21 for housing business?

Ravi Subramanian: The direct assignment in FY20 was about 300 cross, 294 crores to be precise. And in FY21 it was 304 crores.

Anand Bhavnani: So, the lower direct assignment this year, is it due to market dynamics or was it our own focus to grow our book and hence we did lower. What would explain?

Ravi Subramanian: See, direct assignment is a means to liquidity for us. So, as long as we have good enough liquidity, we would not do too much of direct assignment. So, going forward, we do not want to assign more than 300-350 crores a year so that we keep our assigned pool around 10% to 12% of our total book. As of now, out of 3900 crores that we have of AUM about close to 500 crores is assigned out. We should want to keep it in the range of about 10% to 15% and not more than that. So, progressively you will actually see our direct assignment quantum either remaining static or coming down.

Anand Bhavnani: Last question on our gold book. I see your gold book has remained almost flattish for the entire year despite gold price being high. Is it that you are seeing very high competition and that is forcing us to avoid doing business in this gold finance book? If you can elaborate a bit on that sir?

Y S Chakravarti: No, it's nothing to do with competition. Gold loan prices have also plateaued off quite steeply if you would recollect. It had gone up initially, but it has also come down quite steeply. It's nothing to do with that. It is just that, as I said, we are focused only in 3-4 states of the country. We have just opened up some gold loan in the north of the country which is very early days for us to look at any traction there. We just started there. Nothing specific. It's just that most of our business comes through word of mouth or through our referrals, through our existing customer. We don't advertise or we don't push, we don't do a lot of marketing activity. We have actually planned to do it starting this financial year, but we have held it off for now. We will see how this pandemic pans out and then start pushing for it.

Moderator: The next question is from the line of Umang Shah from HSBC Securities.

Umang Shah: I just had one question. If I just zoom out on the company's performance, let's say three years have passed. Clearly, we have seen a marked improvement in the asset quality starting let's say from FY19 till FY21 notwithstanding COVID as well. And the improvement is seen across all the business lines. And this is also the period which coincides with a period of practically no growth. For three years our balance sheet is pretty much, AUMs have been about 28,000 to 30,000 odd crores. They have been hovering around that. If you could just throw some light that, has this been something more like a conscious consolidation and what changes at the portfolio level or the underwriting level the company has undertaken? Ravi has already spoken about the housing portfolio, but at the standalone entity level have we changed certain things? And how sustainable this improvement is likely to be even as we accelerate growth in the coming years? That is my question

Y S Chakravarti: See Umang, probably the minimal growth or slow growth in the AUM is driven by a lot of other factors in the last few years starting with your demonetization to a lot of the NBFC crisis to last year's pandemic. But one thing that we have started consciously, and we have focused on was improvement in the collection process and also educating the customers, which is actually work over a period of time which is bearing fruits now. That's the reason I think, why you are seeing this steady improvement in the delinquencies. For particularly a business like ours, which is catering mostly to underserved underbanked segments and working in semi-urban and rural areas, we need to have a very strong collection backbone which we have focused on building in the last few years. And I think, this infrastructure that we have built will take care of any growth that you can see going forward in the AUM side. As far as credit underwriting is concerned, no, there is not too much of a change in our underwriting parameters. We are sticking to what we know we can do well and what we are good at and we will continue to do that.

Umang Shah: So, basically even once we get back to whatever 15%-20% sort of growth rates, maybe in FY22 or the year later, we are confident of maintaining asset quality, assuming that obviously there are no disruptions.

Y S Chakravarti: Yes. 100%.

Moderator: The next question is from the line of Lokesh Mallya from SBI Funds Management.

Lokesh Mallya: What will be the total amount of top-up loans disbursed during this quarter and what will be the amount of loans disbursed to existing customers versus new customers in this quarter?

Y S Chakravarti: Existing customers would be about 30%-35% of the disbursement. Top-ups, I would say, roughly about 4% or 5% of the SME disbursement.

Lokesh Mallya: Just one more thing. I could not get the 1+ DPD for SCUF. I think for Shriram Housing Ravi mentioned it is 7.2%. What would be the 1+ DPD for Shriram City?

R Chandrasekar: The stage 1 is 85 stage 2 is 7.93, stage 3 is 6.36.

Lokesh Mallya: The stage 1 would include the standard, so the 0 to 30 would be how much in that?

R Chandrasekar: Zero will be 60% and 1 to 30 will be 26%.

Moderator: The next question is from the line of Kunal Shah from ICICI Securities.

Kunal Shah: In terms of the disbursements, so over the past two quarters we have been seeing some correction on the business loans and personal loans as well. So, are we getting more comfortable out there and should we see the personal loans maybe from here on, the trajectory would be quite different than what we saw it say in Q4 or Q2 of last year? So, how would that be? And same with SME, again it has picked up, so no doubt there would be some disruption because of the second wave, but how should we look at both these segments as such in terms of the growth over the next 18 to 24 months?

Y S Chakravarti: Notwithstanding the second wave, I think we should see at least 700-800 crores of quarterly disbursement in personal loan. And actually, SME book probably if things turn back to normal by June, I think we should grow at, at least 19% to 20% quarter-on-quarter minimum.

Kunal Shah: And maybe in terms of the cannibalization between the LAP and SME, is it like the same SME pool customers are taking a slightly longer tenor and when it gets to a more secured segment, should we see that it is getting placed with LAP or that would be altogether a different segment which are looking at?

Y S Chakravarti: There could be a slight overlap, Kunal, but nothing significant.

Kunal Shah: And in terms of housing finance, so definitely scaling up pretty well. Equity infusion, what could be the kind of equity infusion we have taken the proposals out there? When should we expect and what would be the plan in terms of maybe supporting the growth with respect to equity infusion over the next 18 to 24 months?

Ravi Subramanian: So Kunal, the SCUF Board has approved 500 crores of equity infusion into the housing finance business over a period of two years depending on the need. As of now, this month we are looking at an infusion of 200 crores into SHFL which should suffice for about a year plus and then depending on how the company grows, depending on how COVID pans out and its impact on our growth, etc., we will take a call year from now in terms of when the balance has to come in. But the Board has approved a 500 crores equity infusion of which 200 should come in now.

Moderator: The next question is from the line of Dipanjan Ghosh from Kotak.

Dipanjan Ghosh: Just few more questions on the housing side. So, on the growth trajectory how should we think about it? So, on one end we find the story of under penetration in the market and on the other end we keep on hearing that there has been an increase in competitive intensity. So, how are you exactly forecasting growth in your numbers? And there is another question on the housing piece which is, you mentioned something on the collection as a part of your transformation journey. So, just wanted to get some more details as to exactly what have you done because of which your 1+ or even the NPLs number tend to be so low in the new book?

Ravi Subramanian: So, let me answer the first question. In terms of growth numbers, we are currently at about 3,900 odd crores, so let's say 4,000. Before the second wave hit, we had plans to go to about 5,500 crores FY22 and maybe another 40% growth in the year after that. That will be restated now, and we will take a call on that, as YSC said, towards maybe the end of this quarter, because disbursals have definitely been impacted and market has been impacted, everybody has been impacted. So, that's one. Two, as far as the market opportunity is concerned, look, there are enough market segments to be tapped in India. And today India is a large enough market for multiple and maybe even more HFCs to coexist. The segments that we operate in which is typically in the 15-16 lakhs kind of a ticket size and the self-employed segment, is not much of an interest for banks directly. So, banks don't really go after these segments with a 7% home loan debt. And also, the expenses of dealing with this segment are much higher than what a bank can typically afford. So, given our skills, given our expertise, given our background, given our track record in this space, we will be continuing to focus on this segment. And if a bank tries to take over these loans which happens across all these years, we have a fairly comprehensive retention mechanism to hold back that particular customer. We look at the customer value, the way that customer has performed, the profit contribution, and then kind of just hold onto the customer if we want to hold onto the customer. As far as collections is concerned, I think collections is a daily business. Collections is a business where, once you let go of a week, you have lost the customer. So, we have put in place a fairly intense pre-calling mechanism, a fairly intense delinquency calling mechanism, preview calling. and we also have a fairly intense daily monitoring of the collections teams. It's not only that, we also have a fairly intense legal process wherein we start the legal process just as the customer is about to hit NPA levels. And given that the threat of SARFAESI is very efficient, we do use that quite liberally. So, it's a bit of process changes, a bit of MIS, a bit of daily tracking, a bit of senior management involvement and most importantly talent enhancement in that particularly.

Dipanjan Ghosh: A small follow-up. I understand that obviously the banks or the larger lending institutions operating at 7%-8% would probably not chase the 14%-15% yield customers, but how do you see that ripple effect panning out. For example, the 7%-8% tries to chase the 9%-10%.

Ravi Subramanian: I will give you some number. Maybe that will give you a bit of an idea in terms of how its panned out. My customer fore-closure and part-closure, all put together is roughly about 9% for the year. So, now if you just look at that number and apply it to the overall base, it's not something which is worrying. I also am cognizant of the fact that it becomes difficult to hold on to a certain set of customers forever. So, you will have to make sure that while you go about with your retention strategies and protecting your customer, you also have to beef up your acquisition machinery so that over a period of time, what you gain is more than what you lose.

Dipanjan Ghosh: One question to Mr. Chakravarti. What will be your hit rate in the personal loan segment? Out of your overall customer base where you are cross selling, what is the untapped opportunity? When you say that 7000-8000 crores of quarterly disbursements, where do you see it coming from?

Y S Chakravarti: No, I said 700 to 800 crores.

Dipanjan Ghosh: Sorry 700 to 800 crores.

Y S Chakravarti: 100% of it will come from my existing customers. So, to be honest with you, today my hit rate is about, out of the eligible customer base, my hit rate is around 6%-7%. If I hit about 6%- 7%, I'll do about 800 crores.

Moderator: The next question is from the line of Jignesh Shial from Emkay Global.

Jignesh Shial: Though I had a couple of questions on housing but more or less, it has been sorted out this time. So, thanks for that. But on the personal loan segment side, I had a question that we had a surge in NPAs happening previously a couple of years ago and then again, we moderated that particular book. And now we are again seeing a surge happening on the personal loan segment side. So, is this to a different customer segment or is there any difference in the way how we are sourcing these products? If you can give some color on how this particular book is shaping up? That is my first question.

Y S Chakravarti: Jignesh, simply the difference is, earlier the personal loan was totally a market product. In the sense, it was sold in the open market. Whereas today it is a 100% in-house, existing customer, who fulfills certain criteria, who is offered this loan. So, today it is a customer whose credit history with me is proven, is getting the personal loan.

Jignesh Shial: Now we can say the incremental origination is happening, that is to the existing customers only, where their track record has been there with you and only to them, we are lending right now, right?

Y S Chakravarti: Exactly.

Jignesh Shial: My second question is, you already mentioned that you have been giving, probably I might have missed out, but you said that to the healthier customer we have been doing top-ups also. Can you quantify it, how much of this top-up would be going on? Will it be to almost like, just a ballpark number, 20% of the customer base or 15% or 25% or something like that?

Y S Chakravarti: On an average, on a monthly disbursement it will be around 4%-5% of the monthly disbursement.

Jignesh Shial: It's only that much, it's not very high.

Y S Chakravarti: No, not a very high number.

Jignesh Shial: Thirdly, we have been struggling earlier when growth was not coming back, but that was more to do with liquidity issues rather than a customer base itself. So, any colors you want to give? And say, for example, this lockdown obviously you highlighted if it extends further, disbursements will be decided based on the collection efficiency. But anything that you yourself can give a color on how we are differentiated compared to what, or probably SCUF has been say two years ago and what it is right now on the liability book side, which gives us a little more confidence that if the situation say remains bad for a couple of more weeks or so then how we are little bit different? I understand that definitely there will be some impact on disbursement but if you give some color on liquidity profile, how we are different in last 18 or 24 months or so? If you can give some color on that?

Y S Chakravarti: On the liabilities side, earlier we were majorly dependent on the banks which has significantly reduced. And as I said in my opening remarks that today 22% of my liability is retail fixed deposit, which is actually, we are seeing now a very good traction in mobilizing deposits from the public, so that I don't have to depend on banks solely for my funding. And not only that, the other thing is as I said, we have raised close to 1200 crores last month on our market linked debentures. Plus, we are also now able to raise money between 8-to-10-year from some of the pension funds and also some of the institutions. So, I think on the liability side, if you ask me what changed last year to this year, I think we are much more comfortable, a lot more institutions that are coming forward to lend. And I think probably it is also because of the measures that the RBI and the Finance Ministry has taken. The confidence has come back into the banking system as we as to the institutions. Institutions like your SEBI or NABARD. We are able to raise money from these institutions and NABARD is also actively lending to NBFCs now. We are able to raise about 1000 crores in the month of March from NABARD. So, these are some of the changes that have happened in the last one year, which also gives us confidence that on the liability side we should not be facing any constraint.

Jignesh Shial: Lastly, this LAP book which we started sourcing now, origination now, is it under SCUF or it is housing?

Y S Chakravarti: It is under SCUF. There is a clear-cut Chinese wall between housing and SCUF as far as origination is concerned. And one more thing is in SCUF I think maximum tenor that we are looking at under LAP book is 84 months.

Jignesh Shial: Is it to the existing customers mostly or this is to anybody whoever is opting for it?

Y S Chakravarti: Nothing to do with existing customer. Actually, we are getting a lot of demand from the market and from existing customers which we thought we should look at. So, I would put it this way, there could be an overlap of say a 10%-15% between my earlier SME customer who wants a longer loan, I mean a larger tenor loan, because my SME loans we have capped at 60 months..

Jignesh Shial: And what will be the yield we will be generating on this LAP book?

Y S Chakravarti: Yield could be anywhere between 16% to 18%.

Jignesh Shial: And all will be for income generation purposes, right? No personal LAP or something?

Y S Chakravarti: No.

Jignesh Shial: It’s not generally to the SME customers only?

Y S Chakravarti: Mostly customer who are involved in business who want to probably enhance, say, their portion of capital or they are looking at a bridge capital or things like that.

Jignesh Shial: And this you said was there on a pilot basis, so now it will be available across all geographies, right?

Y S Chakravarti: All the geographies, yes.

Jignesh Shial: Thank you.

Y S Chakravarti: Gentlemen, I have a call at 1215.

Moderator: Can I take the last question?

Y S Chakravarti: Yes please. Because I need to take another call now. I need to login at any moment now. So, can we take the last question if you don't mind.

Moderator: Ladies and gentlemen, we will take one last question from the line of Chandrasekhar Sridhar from Fidelity International.

Chandrasekhar Sridhar: Just wanted to know what proportion of your customers have more than one loan at this point in time. That is question number one. And what is the portion of the capital employed that you are funding, question number two? And the last question is if I look at your expenses where they were, you ended this year at expenses over Opex as of FY19 itself, so is there some trajectory which you can help us on where the Opex closed? I mean this has coincided at a point where collections have continued to improve. So, I am just trying to understand what is the trajectory here?

Y S Chakravarti: To answer your last question first. I think we are sure that we will be able to hold it below 40%, the cost to income ratio, one. Two is, can you repeat your other question? Sorry, I just missed it.

Chandrasekhar Sridhar: What proportion of your customers have more than one loan from you?

Y S Chakravarti: See, it is like this. On a SME side, it will be a negligible percentage, probably about 3% to 4%. Overlap between two-wheeler, personal loan could be about 8% to 10% of the personal loan book where the customer may have a running two-wheeler loan.

Chandrasekhar Sridhar: And what is the portion of the capital employed in the business that you are funding yourself?

Y S Chakravarti: You want SME side?

Chandrasekhar Sridhar: When you are funding. So, where are you on the facts of lenders and what is the portion of the capital employed in total that you are funding?

Y S Chakravarti: For majority of the customers about 65% to 70% of the customers, we are the sole lender, and it could be anywhere from 15% to 20% of the total capital employed.

Chandrasekhar Sridhar: So, from a leverage perspective they are still getting a lot of their own money only.

Y S Chakravarti: Yes. Ladies and gentlemen, I am sorry, I need to go. I have a call lined up now. Please excuse me.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Pradeep Agarwal for closing comments.

Pradeep Agarwal: Thank you Faizaan. 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.

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