



“Shriram City Union Finance Limited Q1 FY2018 Earnings Conference Call”

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- Moderator:** Ladies and gentlemen good day and welcome to Shriram City Union Finance Limited Q1 FY2018 earnings conference call hosted by JM Financial. 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nikhil Walecha from JM Financial. Thank you and over to you Sir!
- Nikhil Walecha:** Thank you. Good morning everybody and welcome to Shriram City Union’s earnings call to discuss the Q1 FY2018 results. To discuss the results we have on the call, Mr. Ramasubramanian Chandrasekar, who is ED and CFO and Mr. Y.S. Chakravarti who is ED and CEO. May I request the management team to take us through the financial highlights subsequent to which we can open the floor for Q&A session? Over to you Sir!
- Y. S. Chakravarti:** Good morning ladies and gentlemen this is Chakravarti here. Good morning. Thank you for joining us today for the call. This is for the Q1 ended June 2017 earnings call. During this quarter, we have recorded a 17.5% growth in AUM as compared to June 2016 and AUM now is at Rs. 24053 Crores.
- Non-gold portfolio has recorded a growth of about 18.1% and on a quarterly basis the AUM grew by 4% and non-gold grew by 3.5%. Small Enterprise Finance portfolio continues to remain the largest contributing segment at 54.6% of the total AUM. This segment has recorded a 17.3% growth on a year-on-year basis. Two wheelers currently constitute 17%, loan against gold 15%, personal loans at 7% and auto loans at 6%.
- Disbursements for the quarter stood at Rs. 5799 Crores, growth of 7.4% as compared to the previous year. 40% of disbursements are in Small Enterprise Finance portfolio. As per regulatory requirement NPA is recognized at 120 days past due basis as compared to 150 DPD in previous year that is June 2016. Gross NPA at 120 DPD in June 2017 is at 6.76%, coverage has been made at 73.76% and net NPA is at 1.77% at June 2017.
- Moving to the detailed financials from standalone basis Shriram City for the quarter ended June 2017 has recorded a 15.6% growth as compared to quarter ended June 2016 and income from operations and the same stood at Rs. 1218 Crores as compared to Rs. 1053 Crores for the quarter ended June 2016.
- Interest expenses for the quarter ended June 2017 was up by 9.4% and stood at Rs. 402 Crores as of June 2017 compared to Rs. 367 Crores in June 2016. Cost of borrowing for the quarter ended June 2017 was at 9.31% down from 10.07% from the same period previous

year. Total borrowing as of June 2017 was at Rs. 17500 Crores, out of which bank borrowings constituted 56%, retail borrowings including public issue of NCD is 24% and market borrowings by way of NCD placed to its institutions and commercial paper at 20%. 50% borrowings are with fixed rate of interest, 25% at semi fixed rates that is linked to MCLR of banks and 16% are floating rate borrowing.

Net interest income grew by 18.9% and as of June 2017 stood at Rs. 18016 Crores as against Rs. 686 Crores on quarter ended June 2016. Personnel expenses increased by 14.9% on a year-on-year basis and were at Rs. 158 Crores for the quarter.

Operating expenses were at Rs. 162 Crores, which is 18.6% increase over previous year. Pre-provision profit as of June 2017 was at Rs.498 Crores, an increase at 20.2% as compared to June 2016 and 15.1% as compared to previous quarter ended March 2017.

As mentioned earlier as per statutory requirements, we have moved NPA recognition norm at 120 days DPD, which in the corresponding previous year was at 150-day DPD basis. Gross NPA as of June 2017 stood at Rs.1605 Crores translating to 6.76%. Continuing the conservative basis of provisioning policy undertaken by the Shriram Group, we have provided coverage of 73.8% and the net NPA is at 1.77%.

During the quarter write off were at Rs.138 Crores as compared to Rs.141 Crores in previous quarter. Provisions and write offs together for a year was at Rs.199.8 Crores. Profit before tax stood at Rs.297.81 Crores up from 278.36 Crores in June thereby recording a 7% YOY growth.

Profit after tax stood at Rs.193.86 Crores from Rs.181.79 Crores during the previous year ending June 2016 recording a 6.6% growth on YOY basis. There has been no significant change in the number of branches or headcount during the quarter. We are currently operating out of 998 branches and the employee count is 26831 people. That gentlemen is my brief, and before we move into question and answer session ladies and gentlemen I would like to request you not to pose any questions on the proposed merger of IDFC and Shriram and please limit the call to the earnings for the quarter. Thank you so much.

Moderator:

Thank you. Ladies and gentlemen we will now begin with the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. We take the first question from the line of Nagraj Chandrasekar from Laburnum Capital. Please go ahead.

Nagraj Chandrasekar: Good morning. Thank you for taking my question. I wanted to ask on the continued higher write offs this quarter, what segment or geographies or end customer businesses are these concentrated in?

Y. S. Chakravarti: No specific product. In fact one product that actually we have received the write off one is auto segment. Basically as of now we fund mostly used tractor and used trucks, so we still have effect of demonetisation lingering there, one. Two is wherever accounts reach almost 100% provisioning or where we feel that the recovery is going the long run process, we prefer to write off rather than take a provision for that because this offers a tax advantage. So basically certain contracts where we felt that the recovery process is going to be long drawn out, we have taken a call that to write them off. As regards geographies, south is the major business, so obviously the write offs also come from the south.

Nagraj Chandrasekar: Disbursement growth on the last conference call you had guided to reaching a run rate of Rs.2800 to Rs.3000 Crores in the SME business, you must have had some weakness in the last month because of the weakness and demand pre-GST rule out just why you able to reach that Rs.2800 Crores to Rs.3000 Crores run rate in the first two months and then you saw a slowdown in the last month, is that something like what actually transpired or what really has led to this kind of slowdown again in SME disbursement?

Y. S. Chakravarti: Primarily, there are multiple reasons. One reason is the business was affected in Tamil Nadu, which is one of a major states because of the issues on registration and the Tamil Nadu High Court's direction not to allow any mortgage or registration of properties, which were not in approved layouts, which actually affected major regions in Tamil Nadu. We had an impact even in Chennai City. So that is one of the effects where Tamil Nadu has got impacted and of course both the lingering effects of demonetization and also the pre-jitters on GST, all of them actually have affected the business particularly in June and I see that a little bit in current month.

Nagraj Chandrasekar: Just a follow up on that, as you are in one month into this quarter post the rollout of GST, what changes are you seeing in terms of customer segments, in terms of demand and where there could be stresses and it was very early, but just any thoughts on this?

Y. S. Chakravarti: People are not still as clear on the GST impact. They are still uncertain about what the impact is going to be and they are still uncertain on expansion of businesses, but we see some working capital demand coming up because they have to pay upfront and then wait for reimbursement, so we do see some working capital requirements coming up, but people are keeping on hold the expansion of businesses. So the June slowdown in demand has continued in July also.

Nagraj Chandrasekar: Thank you.

Y. S. Chakravarti: Thank you so much.

Moderator: Thank you. We take the next question from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: My question is on the borrowing cost and margins, so our borrowing cost for the quarter has come down quite significantly, but we do not see that advantage still coming in terms of margin, so is it that there is still a lot of interest income reversal happening or may be it is just around the corner and we would see that from the next quarter?

Y. S. Chakravarti: Digant I will let Chandrasekar, the CFO answer the question.

R. Chandrasekar: Basically the cost of borrowings is coming down because our retail portfolio is coming down, which is slightly higher cost and second thing also we are getting into more market borrowings, which is slightly cheaper, so we hope with the current trend these borrowing cost will be at this level or it may come down because our retail focus is coming down and the cost will come down, and another point is because the cost is coming down the income is steady, so the NIMs have improved.

Digant Haria: I think I will ask this question a little differently that will we pass this borrowing cost advantage completely or we would retain some of it?

Y. S. Chakravarti: We do not, Digant, I think I have answered that question. This is Chakravarti here. The question of passing, I may or may not in the sense, we are moving in different segments of SME, so obviously the yields are going to be a little compressed there, so for which probably we should be able to compensate the compression on yield with reduction in the borrowing cost, but passing it on directly to every product segment - no.

Digant Haria: All right. Thanks that is helpful Sir. The second question is which of these segments do you see contributing the most to our growth in the next nine months, will it to be two wheelers, will it to be gold or will it be SME, in terms of growth rate?

Y. S. Chakravarti: SME definitely, gold actually is picking up now that the market has become steady and the customers are coming back, in the beginning of the last quarter I said we would be happy if gold remains flat, but as of now it looks like gold is steady and we may grow there. The only concern there is the Rs.20000 limit cash disbursement per customer, but for which we are now working on alternatives where now we have systems ready for where we can do an instant transfer of money to the customer's account, so that we are trying to work on this

challenge. Two-wheeler we will grow steadily, in two-wheeler quarter on quarter we have grown by 12% this quarter, what we are looking at is probably by financial year ending we should be growing by anywhere between 15% and 17% in two-wheelers.

- Digant Haria:** That is it from my side. Thank you and all the best.
- Y. S. Chakravarti:** Typically the first quarter business is always slow for all products for us actually.
- Digant Haria:** Right Sir. Thank you.
- Moderator:** Thank you. We take the next question from the line of Giriraj Daga from K M Visaria. Please go ahead.
- Giriraj Daga:** Good morning team. First question is just a clarification on this Chennai you said the property registration where we are right now like has the problem sorted out or it still there?
- Y. S. Chakravarti:** High Court has put an order that all layouts prior to 2014 can be registered now.
- Giriraj Daga:** So this came in like in the beginning of July or now this High Court order?
- Y. S. Chakravarti:** High Court order was in somewhere in mid of June.
- Giriraj Daga:** So post that have we started seeing some traction there?
- Y. S. Chakravarti:** Yes.
- Giriraj Daga:** Understood. My second question is related to our housing finance segment, if we see that overall disbursement has slowdown and even the NPA has picked up, so would you like to throw some light there what were the reasons and how do you see the panning out in rest of the FY2018?
- Y. S. Chakravarti:** The Housing Finance company has taken a conscious decision to move away from LAP and construction finance. So if you look at it the construction finance portfolio has come down, the growth is negative and it was 90% year-on-year and 58%, 60% quarter-on-quarter, whereas the retail business has picked up in the current quarter and the focus will be on the retail side of the business only, so that is what has contributed to it and then there is also almost close to about Rs.250 Crores of attrition in the book in the last quarter. This actually contributed to a drop of about 8%. Out of this Rs.268 Crores almost close to Rs.120 Crores was and construction finance. So as a consequence the overall book has degrown and as a percentage the NPAs have gone up. In fact on the retail book side yes we do still have the effects of demonetisation on the retail book, still not yet come back to normal.

- Giriraj Daga:** Understood, retail also we saw 40% degrowth in disbursement year-on-year?
- Y. S. Chakravarti:** Year-on-year yes, so quarter-on-quarter they have grown by about 16%.
- Giriraj Daga:** In terms of the number what kind of retail disbursement we are looking overall?
- Y. S. Chakravarti:** For the Housing Finance Company?
- Giriraj Daga:** Yes.
- Y. S. Chakravarti:** We are looking at about Rs.500 Crores per quarter.
- Giriraj Daga:** Rs.500 Crores per quarter. Just to get it, last quarter Rs.129 Crores?
- Y. S. Chakravarti:** Rs.130 Crores, sorry it is for the remaining three quarters.
- Giriraj Daga:** My last question is related to your SME segment like you mentioned that people are actually migrating to this GST thing, so just like to understand that what kind of or what percentage of customers are moving to GST and ideally what is the background and coming from the background is obviously from the fact that if they start coming on to the formal line of the business with data and books of accounts and other things, will we able to retain those customers?
- Y. S. Chakravarti:** I think I have answered this question enough number of times, but let me again answer this again. It is not that all my 100% of my customers are not in the tax net or their numbers are not available. The question here is that it is not whether the data is available or not. The question is that whether you can reach the customer or not. So customers moving into disclosure regime and data being available I do not think see it as a threat from a business. Second is if you ask what kind of customers are moving, probably anybody who is above twenty lacs has to move there, but then people are also setting up multiple shops in the family's name then try to be out of the net, but then at the same time there are also lot of facilitation agencies coming up where you can go into the centres and the centres will help and filing the GST returns. In fact, I met somebody in Hyderabad the other day and he is setting up something like about 40 centers in small clusters, where these centres will be helping the small entrepreneurs to file their GST returns. So there is a lot of work being done, but I think it will take, I do not know, probably another two, three months before the whole things to get streamlined. There are lot of my customers are also still under a lot of confusion how to go about it, what to do about it. There is also a fear that if we do not file then they have a problem so they are also searching so wherever we meet customers we are trying to guide them to the across agency that can help them.

- Giriraj Daga:** Understood. Just a followup in terms of reach what you mentioned, what our understanding is that the SFB, Small Finance Bank, they must be in the similar routes what you have right or else no?
- Y. S. Chakravarti:** No, but how many of the Small Finance Banks have a reach.
- Giriraj Daga:** They are building obviously what we hear then I think that we are building that reach.
- Y. S. Chakravarti:** Yes, but it will take them a long time. He just cannot build. This business is not about just building up opening a shop and then this come and take money from me.
- Giriraj Daga:** I appreciate that fact. Thanks a lot and all the best.
- Moderator:** Thank you. We take the next question from the line of Karthik Chellappa from Buena Vista Fund. Please go ahead.
- Karthik Chellappa:** Thank you very much for the opportunity. What was the number of two wheeler vehicles that we financed this quarter?
- Y. S. Chakravarti:** This is approximately about 225000.
- Karthik Chellappa:** Okay, so that means in terms of number of vehicles it was down year-on-year because I believe first quarter last year we did 233000.
- Y. S. Chakravarti:** Correct. Disbursement is up by 12% because we have consciously moved away from certain manufacturers. We kept our funding in with the certain manufacturers away, some of the models we moved away and then moved into scooters one of the segments have been focussed on the scooters, so the ticket sizes have gone up.
- Karthik Chellappa:** What is the extent of overlap in your two-wheeler customer base with the likes of Cholamandalam or L&T Finance or for that matter even TVS Credit or Hero Fincorp?
- Y. S. Chakravarti:** Before I answer it Karthik, a small correction. We have done about 242000 two wheelers, my number was wrong not 224, 242.
- Karthik Chellappa:** So the volume is 4%?
- Y. S. Chakravarti:** It is more or less flat.
- Karthik Chellappa:** Okay.

- Y. S. Chakravarti:** Again if you are asking about customer segment differentiation right?
- Karthik Chellappa:** Yes, the customer segment overlaps between your sell for the Chola, L&T or may be even TVS credit or Hero Fincorp?
- Y. S. Chakravarti:** I will take this in two parts. One is customer segment overlap between L&T, Chola and Shriram would be probably about 10% whereas with Hero and the TVS Credit more or less 60%, 70%.
- Karthik Chellappa:** The reason I asked this question is if I were to look at let say the numbers that Chola has done last quarter which is say about close to a lakh units and if I look at let us say what Hero Fincorp did last quarter which is like say around 1,80,000 unit. It seems to be that the gap between them and us has actually been steadily narrowing; they are actually doing decent size volume. So is it fair to say that their margin, they are chipping away at some of the growth, which would have otherwise approved to us?
- Y. S. Chakravarti:** As more number of players are coming obviously it will happen, but I would point out to one thing is if you look at my whole market, for instance Tamil Nadu, in some of the markets we are at 25%, 30% of the total sales, so we do not want to grow there, so we are not growing there. So my future growth I am looking at coming from Madhya Pradesh as I said UP and Bihar and related urban areas which actually growing steadily and the other point is when you look at Hero FinCorp obviously Hero Fincorp has an advantage so I do not think it is fair to compare to Hero Fincorp to start. They have an advantage and we have said they have done about about 180000 right.
- Karthik Chellappa:** Yes, for the quarter.
- Y. S. Chakravarti:** For the quarter whereas if you look at my numbers we have done about 100000 in Hero then out of the volume for Hero Fincorp probably about 100000 has come from metros and A list towns where I have a very little presence and in the next six months I will also be present in all these places, so going forward interesting time for all of us in metros now.
- Karthik Chellappa:** And you are guided for a target of about 15% to 17% for the two-wheeler segment this year?
- Y. S. Chakravarti:** Correct.
- Karthik Chellappa:** Sir and my second question is this quarter specifically like you mentioned it is a light quarter in both business loans and two wheeler loans, I noticed that our other expenditure is actually up 20% to 21% year-on-year what is driving that?

- Y. S. Chakravarti:** Other expenses or operating expenses.
- R. Chandrasekar:** You are talking about personal expense or opex?
- Karthik Chellappa:** Not employer benefits expenses. Personal expenses are only up 15%, but the other expenditure, which is like I think about Rs.154 Crores, is up almost 20% to 21%, so I thought in a seasonally low growth quarter, I am just wondering why that other expenses grew so fast?
- Y. S. Chakravarti:** Basically opex is what you were referring to?
- Karthik Chellappa:** Yes.
- R. Chandrasekar:** Opex is basically when there is increase in provisions because GST movement and because of the GST movement and dealer's payout and everything since we are going to decision taken by us is we will bear there are some provisions so basically I think once you see the Q2 I think things will be better.
- Karthik Chellappa:** Okay so there is one off in this basically then?
- R. Chandrasekar:** Exactly.
- Karthik Chellappa:** Sir then on the write offs for the last two quarters, which are running at about Rs.140 Crores the run rate as a percentage of our AUM or so is running higher than what our normal level is. You had alluded to auto loans earlier in your remarks. Apart from that in small enterprise finance or two-wheeler what is the level of write offs in the last two quarters compare to say our normal historical trend?
- R. Chandrasekar:** Actually what happened is post demonetisation if you see our write off last quarter our write off is 2.43 and this time it is 2.34, so there is in Q3 there was a dispensation benefit we had, so Q3 was the thing and January and February things started moving into normal and from the historical thing it went to 2.48 last quarter. Now it is at 2.34. Going forward with demonetisation issues getting settled down, I think our write off will come back to the original.
- Karthik Chellappa:** But original you mean 2% to 2.1% of our book?
- R. Chandrasekar:** Yes maybe it may take time. It may not happen because it will be 2.48. It has come to 2.34. So maybe we expect it to come further down in this quarter. So it was because of the demonetisation effect it takes some time to come back to normal. I will tell you, it is like this. Some of the customers who have not paid two months or three months installments

November, December, and January what happens it is all small business people, so they are able to pay the current installments after that, but this lag of two to three months will come back over a period of time.

Y.S. Chakravarti: Also because of the ageing of the portfolio some of the NPA funds because of ageing, we have decided to write them off rather than go into a state of 100% provision there. Rather than increase the provision, as I explained earlier, we have decided to write them off.

Karthik Chellappa: Got it. One housekeeping question; can I get the corresponding gross NPA percentage terms for 90 days?

Y. S. Chakravarti: Kartik, Jai Singh will come back to you on that.

Karthik Chellappa: Thank you very much Sir and wish you all the best.

Moderator: Thank you. We take the next question from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: What would be your ticket size in home loans?

Y. S. Chakravarti: Home loans right now it is around average ticket size is about Rs.13 lakhs.

Nischint Chawathe: How many of your loans qualify under the affordable housing definition of the government?

Y. S. Chakravarti: All the retail. Almost all the retail.

Nischint Chawathe: Have you claimed any benefits under the subsidy?

Y. S. Chakravarti: No.

Nischint Chawathe: And any specific reason?

Y. S. Chakravarti: I think basically it is cap on the spread.

Nischint Chawathe: I am talking to the CLSS scheme.

Y. S. Chakravarti: I think the guys are still working on it. Nothing specific why we have not done that part. I think they are still working on it.

Nischint Chawathe: Thank you.

Moderator: Thank you. We take the next question from the line of Adesh Mehta from Ambit Capital. Please go ahead.

Adesh Mehta: Sir just wanted to know that this Rs.20000 limit on cash disbursements how has that impacted your operations in gold loan business and how has that impacted the demand for gold loans as well?

Y. S. Chakravarti: Right now we have a mechanism where we are paying them Rs.20000 and the rest of the money being transferred to the bank account through IMPS. This has impacted gold loans and yes the growth has come off. In fact it should have grown at a much higher rate, but because of this there is an impact on the growth for us, so we were trying to minimize that through cheque payments and convincing the customer to accept RTGS transfers into their bank accounts. That is the reason why you see there is a growth quarter-on-quarter on the gold business.

Adesh Mehta: Sir say suppose there should be 100 walk-ins for gold loan business and you used to approve loans for say 90 of them right, so under this new rule how many of the customers actually end up taking gold loans from you?

Y. S. Chakravarti: Actually the walk-ins have increased. So now customers are moving from multiple gold loan companies because of this impact of Rs.20000. So walk-ins in fact have increased, so mostly we are able to convince customers who walk-in to accept payments into their bank through RTGS or IMPS. Now we have tied up for IMPS and we are able to transfer to Rs.1 lakh on the spot.

Adesh Mehta: So are we seeing cases where the customer is actually splitting up their gold ornaments and they are pledging it to say multiple gold loan companies if they are in dire need of cash?

Y. S. Chakravarti: Yes we are seeing that. We are seeing that and also since it is only an IMPS transfer we were able to convince them that since it is an instant credit they can go to the bank and try to withdraw the money. So most of the time we are able to convince the customers.

Adesh Mehta: Thank you Sir. All the best.

Moderator: Thank you. We take the next question from the line of Umang Shah from Emkay Global. Please go ahead.

Umang Shah: Good morning. Thanks for the opportunity. Most of my questions have been answered. I just need two data points. In our housing finance business what is the proportion of outstanding LAP in construction finance loans?

- Y. S. Chakravarti:** Construction finance is about Rs.131 Crores right now. LAP is almost nil now.
- Umang Shah:** The comment, which you made for this is it fair to assume that in construction finance business gradually this book will run down over a period of next let us say one to one and a half years?
- Y. S. Chakravarti:** Yes it should run down, but then we are also looking at setting up - sorry I did not mention this earlier - we have decided to recruit a separate specialized team for construction finance and not do this with the existing team. Right now the construction book the entire book was built by the team that is also doing the retail funding. So we have decided to move away from this and then build a specialized team, which will take another six months for us to build the team. Once that team is ready probably we may look at construction finance in a different way in the sense the construction finance for affordable housing.
- Umang Shah:** But it will happen on the same balance sheet of Shriram Housing Finance?
- Y. S. Chakravarti:** It will.
- Umang Shah:** Understand. So you mean to say that for the next two quarters we may see this book kind of running down and probably then gradually it might start picking up again?
- Y. S. Chakravarti:** Exactly.
- Umang Shah:** Got it Sir and Sir just wanted to confirm our write off number. This quarter was Rs.138 Crores?
- R. Chandrasekar:** Yes correct.
- Umang Shah:** This was around Rs.85 odd Crores in Q1 last year?
- R. Chandrasekar:** Yes correct.
- Umang Shah:** Thank you so much Sir and wish you all the best.
- Moderator:** Thank you. We take the next question from the line of Viral Shah from Credit Suisse. Please go ahead.
- Sunil Tirumalai:** This good morning. This is Sunil Tirumalai from Credit Suisse. Most of my questions have been answered Sir. You gave AUM or loan growth target for the two-wheeler business, but what are thinking about for the overall book in terms of growth by the end of the year?

- Y. S. Chakravarti:** 18% to 20%.
- Sunil Tirumalai:** Right and also your margin outlook. You made some comments about funding cost can come down, but overall how many basis points of margin momentum should be factoring?
- Y. S. Chakravarti:** See funding cost we are not very optimistic right now on further reduction on the funding cost, but it could come down by 30 to 40 basis points at the best by the end of the year. I am not looking at even that I am not sure, but that is what we are hoping for. The incremental margin may not come from the reduction in funding cost because we are also looking at a slight compression in the yields in the sense that since the SME book we are also moving into a different segment, so the yields there could come down.
- Sunil Tirumalai:** Can you repeat what do you mean by different segment?
- Y. S. Chakravarti:** The more of financial market and into the digital market.
- Sunil Tirumalai:** So this is a different customer segment or it is just different kind of a loan?
- Y. S. Chakravarti:** Exactly. Different customer segments.
- Sunil Tirumalai:** You will be giving online loans.
- Y. S. Chakravarti:** Online and different customer segments where the financials are available, where the credit history is available and they have a course to substantiate their history.
- Sunil Tirumalai:** So this could lead to a meaningful compression in yields?
- Y. S. Chakravarti:** That depends on the volume that you are targeting. I am looking at about 10% of the disbursement over a period of the next three quarters.
- Sunil Tirumalai:** You already have the infrastructure for this built up.
- Y. S. Chakravarti:** Correct.
- Sunil Tirumalai:** Lastly on the opex can you quantify what can be seen as one off in this quarter's opex and which we should see as normalized number for the next quarter?
- R. Chandrasekar:** The amount will around Rs.10 Crores to Rs.12 Crores with the extra provisions, which we have created during this quarter, which will offset over the next quarter.
- Sunil Tirumalai:** Thank you very much.

- Moderator:** Thank you. We take the next question from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.
- Karthik Chellappa:** Thank you very much for the followup. Sir you had mentioned earlier that the registration of properties especially in TN without the approved layout now that High Court judgment that permitted the registration came in June is it?
- Y. S. Chakravarti:** Yes.
- Karthik Chellappa:** Now given that you had mentioned in your opening remarks that July is also pretty soft and your customers are still transitioning to the GST. If we are looking at an overall loan growth target of about 18% to 20% within which two wheeler is 15% to 17% and gold is expected to be kind of like stable that would mean that SME has to do a lot of the heavy lifting on that growth do you actually have enough visibility that in the second half the growth will revert back to a 20% plus range for SME?
- Y. S. Chakravarti:** Yes. Actually to answer your question Tamil Nadu actually has done well in July compared to the first quarter. In July Tamil Nadu has picked up and AP is coming along nicely, so in our major markets as you said heavy lifting is required and we are confident that we will be able to do that lifting.
- Karthik Chellappa:** As of now if we were to look at the write offs you said bulk of it is actually coming from the South? Within the South is there any specific region or this thing, which stands out?
- Y. S. Chakravarti:** No it is across the three states.
- Karthik Chellappa:** Thank you very much Sir.
- Moderator:** Thank you. We take the next question from the line of Sourabh Dhole from Trivantage Capital. Please go ahead.
- Sourabh Dhole:** Thanks for taking my question. Number one is during your opening remarks or during the course of the concall, you had mentioned that you would gradually be moving to the urban areas, so I just wanted to understand from you what is causing this shift in strategy or may be your new segment that you are trying to enter into because for most lenders we see that they gradually move from urban to rural that is the kind of movement that we see, so what is driving this particular strategy because that is a very overcrowded market?
- Y. S. Chakravarti:** You are right, but then the thing is that we actually very consciously in all our businesses including the first business, which is our chit fund business, we moved from smaller towns

to the bigger towns. Once we were sure of the business model only and once we have the manpower. See yes urban is definitely an overcrowded market but then when we have a significant presence in the state say for Maharashtra you have a significant presence in the state including towns like Pune, Nagpur, and Aurangabad then Mumbai is the only town that is left and big numbers that are happening in Mumbai, so we may have to compromise on the pricing compared to the pricing model that I follow in say Satara or Ratnagiri, but then I think the volumes could make up for the compression in 100 to 200 basis points of margins in the urban area. With that in mind, we are moving into the urban areas now in the sense the metros.

Sourabh Dhole: Right and are there any particular pockets where you identified that these particular pockets are unaddressed by certain kind of lenders are you targeting any such particular pockets?

R. Chandrasekar: They are not pockets. Actually it is states we are targeting as I said, it is Bihar and Uttar Pradesh will be our focus states going forward.

Sourabh Dhole: Sir secondly on the gold finance business during our interactions post the Rs.20000 cash regulation a lot of lenders flagged this concern that gradually may be we might lose some amount of business to banks, so how has that fared so long because you said that the growth has definitely come off, so are we losing business to banks or it is the general downturn in sentiments?

Y. S. Chakravarti: We are not losing business to banks, I think, but whatever business we lost, we lost to the pawnbrokers.

Sourabh Dhole: Lost to the?

Y. S. Chakravarti: Pawn broking community and not to banks.

Sourabh Dhole: Sir lastly I think this question was raised earlier also about the 90 plus DPD even though you might just come back with the numbers later, so just to understand what is the general trend in the 90 plus DPD bucket in the last quarter?

R. Chandrasekar: 200 to 220 basis points addition.

Sourabh Dhole: You intend to move to 90 plus DPD GNPA recognition by the fourth quarter is it?

R. Chandrasekar: March 18 we will move.

Sourabh Dhole: Thank you so much Sir. Those were my questions.

- Moderator:** Thank you. We take the next question from the line of Rajat Jain from Principal Mutual Fund. Please go ahead.
- Rajat Jain:** Good morning Sir. I have a small question on the housing finance business. You mentioned that you are for the moment scaling down on the CF, construction finance business ultimately it may grow and on the LAP? Now this LAP, I presume is essentially is to business owners who have got a property as security, but underlying paying from the cash flows of the business now that is your area of strength, now why do you think that we are needing to shrink our LAP book given that you are already strong in that particular area?
- Y. S. Chakravarti:** LAP book what we have realized is that it is more of DSA game rather than DST game. Our direct sales team is focused on retail funding whereas this incremental business in LAP book is coming from DSA and we wanted to get away from it because we do have concerns on the LAP business where the valuations are getting stretched. The rates are getting squeezed and we thought we should focus on where our strength is.
- Rajat Jain:** I am just curious like what is your loan to value in this LAP that you were doing?
- Y. S. Chakravarti:** It is around 60%.
- Rajat Jain:** That will do. Thanks.
- Moderator:** Thank you. That was the last question. I now hand the floor over to Mr. Nikhil Walecha for his closing comments. Over to you!
- Nikhil Walecha:** On behalf of JM Financial, I would like to thank the senior management team of Shriram City Union Finance and all the participants for joining us on the call today. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of JM Financial that concludes this conference. Thank you for joining us. You may now disconnect your lines.