



“Shriram City Union Finance Limited Q2 FY2018 Results Earnings Conference Call”

November 03, 2017



**ANALYST: MR. NIKHIL WALECHA – JM FINANCIAL
INSTITUTIONAL SECURITIES LIMITED**

**MANAGEMENT: MR. RAMASUBRAMANIAN CHANDRASEKAR – CHIEF
FINANCIAL OFFICER - SHRIRAM CITY UNION FINANCE
LIMITED
MR. Y. S. CHAKRAVARTI –CHIEF OPERATING OFFICER-
SHRIRAM CITY UNION FINANCE LIMITED**

Moderator: Good morning ladies and gentlemen, welcome to the Shriram City Union Finance Q2 FY2018 results earnings conference call hosted by JM Financial Institutional 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 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 Q2 FY2018 results. To discuss the results we have on the call, Mr. Ramasubramanian Chandrasekar, who is CFO and Mr. Y.S. Chakravarti who is COO. 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: Morning. This is Chakravarti here. Good morning, ladies and gentlemen, and I have my colleague, Mr. Chandrasekar, with me.

Before I review the highlights, I am sure the investor presentation is up on the site, and I am sure most of you would have gone through the same.

So from my perspective, I will just give you some of the highlights that I feel for the quarter and half year this far. And then after that we will take questions from you.

The highlights from my side are as follows: we maintained our AUM growth similar to Q1 at 16.4%, and our disbursements are better than Q1, and we have grown 10.2% on the disbursement side year-on-year. Our yields have improved 37 basis points in comparison to June 2017 and now are at 21.01%. Specific highlight in my view is the opex and personnel expenses, which is constant at 5.42%. And as a consequence of this, the cost-income ratio compared to June has dropped 119 basis points, and is now at 38.01%.

Having said this, an area for more work from our side would be continuing to work with the customers and our team, and on changing the mindset and educating the importance of adhering to the RBI prudential norms of NPA provisions. But to be fair, for both my customers and my team, we have got our grip around the 180 DPD and 150 DPD. Meaning thereby, that the portfolio in these buckets is reducing and as a consequence, the 120 DPD and 90 DPD looks a little elevated. This does not necessarily mean there are no roll-forwards. However, we will continue to work on the same and are confident that we will be

reflecting similar performance as we go forward as similar performance as per the 180 DPD and 150 DPD bucket.

On the continuing impact of the demonetization, we have had a provisioning that have come up during Q1 and Q2 from some of those customers, for whom we had availed RBI dispensation during January 2017; however, except for some trickle effect that we may see during Q3, I think we should more or less presume that the impact is behind us. On GST, from July, we have started collecting the GST numbers from our customers as a mandatory item and realized too actually to our surprise that the compliance levels are quite high.

As far as the subsidiary, as such Shriram Housing Finance is concerned; they remain focused on the retail side of the book. Construction finance, which is largely supported by the Piramal infrastructure does not continue anymore. As a consequence, the AUM and disbursement in construction finance have shrunk.

As a consequence, Q2 last year, we did a total business of Rs.332 Crores in Shriram Housing Finance, out of which Rs.66 crores was from construction finance. For the Q2 FY 2018, we have disbursed Rs.121 Crores, out of which only Rs.4 Crores was construction finance. We have also reduced the LAP content, which was Rs.136 Crores in Q2 last year and which is only Rs.72 crores now.

This is because the focus now has totally shifted. We have shifted our focus totally to a retail segment of the home loans, both through our DSA and the DST. So Nikhil and that is the highlights from my side. Now we are open for questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Kunal Shah from Edelweiss. Securities. Please go ahead.

Kunal Shah: Yes, so two questions. Firstly, in terms of growth, was there any major disruption because of GST or maybe because of the merger announcement? And how do we see it maybe in terms of more formalization of this entire economy? And given our strength on the business loan side or the SME side, how do we see maybe when on this kind of a base we will get back to more than 25% plus growth trajectory, given the potential, which is there? And the second question is with respect to credit cost. So it has been running quite high. So this quarter also, the write-offs were on the higher side. So when do we see it stabilizing ex the transitioning impact which would be there in Q4? So are we done with the larger part of the write-offs and we should see credit cost stabilizing?

Y. S. Chakravarti: Okay, let me take the questions in your order. On the impact of GST and merger we are talking about; let me put it to rest once for all. The merger has no impact on any of our regular activities. Basically, it was business as usual from day one, and if it has happened it would have been good, if it has not happened, it is still good. That is not an issue there. And no impact on the team at all and for the kind information of all the ladies and gentlemen that are present on the call, I would like to focus on the earnings of the quarter rather than on what is done and dusted with. So as far as business is concerned no impact again. Now on the GST, initially, there was some impact in the sense that people have stopped stocking, so they put their expansion plans on hold. And they had some liquidity issues in the initial period. But I think we have more or less settled on the GST front, as far as our disbursement is concerned. I do not think that will be a factor anymore. Now on the credit cost, I think.

Kunal Shah: Just on growth side, so maybe given the potential when would we see ourselves to be like more than 25% growth trajectory?

Y. S. Chakravarti: That I would not like to comment on that, but I can tell you one thing. For the financial year, in the half year, second half of the year, we are looking at anywhere between 18% and 20% growth in the AUM, but probably also in 2019, we will see 20% is something which I think we will be able to achieve comfortably. As you are saying more than 25%, I wouldn't like to comment on that right now. The other one is on the credit cost side. As I was saying earlier in my call, see, the customer segment, that is actually handled in SME funding. It is a given that there will be cash flow disruptions in the small businesses. There will be ups and downs in these businesses, and customers are bound to slip up in payments. It does not mean that they are willful defaulter. If you look at my speech, when we have transitioned from 180 to 150 and 150 to 120, both my team and the customer, both of them are, as I said, accustomed to the window that is provided by RBI earlier and also because of simple fact that the cash flows would be erratic in these businesses. Now because the regulator has changed it, I cannot go back and put pressure on the customer to find money and do this. Some of the mindset of our team is not that. So we are trying to educate customers, talk to them, and let them know the importance of keeping up to the NPA norms. And I think now we have a fair handle on the 180 DPD, 150 DPD buckets. For example, the 150 DPD bucket as of March 2017 is 6.16 and today it is at 5.40. So similar things will happen with both 120 and when we move to 90. Probably it will take us a year or so to indicate our teams and talk to our customers, try to change the mindset of both my team and the customer saying why it is important. We are an organization where we would like to convince the customer and the team rather than say, this is 90 days so you have to be on 90 days. Even if I force that, it is not going to work. It is only going to worsen my relationship with my customer because the customer's financial position is such that you cannot overnight transform the behavior of the customer or his business. I am not looking at

actually, as far as stabilization is concerned, I think Q3, and so far October month has been good. So the indications are that Q3 would be much better than Q2.

Kunal Shah: Thanks a lot Sir.

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

Digant Haria: Sir on this two-wheeler financing portfolio, Sir this quarter we saw that at least I think August and September always two-wheeler somewhere reported their lifetime high sales, but we have just reported like 1% kind of quarter-on-quarter growth so like is that growth in primary sales is not translating into growth in the two wheeler financing portfolio?

Y. S. Chakravarti: Manufacturers, Digant, there is always an anomaly between the manufacturers' numbers and dealer sales numbers, okay? I will give a small example. In October, okay, we have closed October with 150000 plus number of two-wheelers. I hope you are getting my point, Digant.

Digant Haria: Yes Sir, it means that it will come but it will come with the delay that is the primary sale, the sale has...

Y. S. Chakravarti: Coming from the manufactures dispatch whereas my number comes from dealer point sales.

Digant Haria: Right. Now I got it.

Y. S. Chakravarti: We have actually year-on-year, just October itself, we had a 15% increase, last year October, we did about 110,000 two-wheelers and this October, we did 151,000 two wheelers. It is about close to 40% increase year-on-year. So yes, this lag will be there between the manufacturer's number and my number.

Digant Haria: Right Sir. Sir got it. And Sir on the SME just to that previous question that some of these companies in fact came out saying that the demand for LAP product has actually gone up in that SME kind of customers because that is the only form of formal financing, which they can do, so Sir are we also seeing something similar that at least that demand when SME is going back now?

Y. S. Chakravarti: See demand is there but then we have also become very choosy like there are certain sectors and there is definitely demand but there are certain factors we are not touching even now. So anything related to construction sector, there is lot of demand for money, but which I do

not want to get into right now. We have been staying away right from the demonetisation days, and we would like to stay away from it for some more time.

Digant Haria: All right Sir, that is it from my end. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Dhaval Gada from Sundaram AMC. Please go ahead.

Dhaval Gada: Thanks for the opportunity. Couple of questions Sir. Firstly, could you give some colour of what is happening in personal loan segment, I mean we have seen elevated level of NPAs in this segment and net NPA is almost 0% so it is in 100% written of, so I mean is that the credit cost we had built into the product while disbursing or it is something that when we are looking at correcting or underwriting?

Y. S. Chakravarti: Dhaval can you repeat the question please?

Dhaval Gada: Yes sure. I will do that Sir. The question was I mean couple of questions. First was on personal loan segment I mean the gross NPA seems to be at a very elevated level and the fact that 100% written of in the portfolio, so just trying to understand is that like sort of credit cost that we have built into the product and is it priced adequately is what the question was and if not have we taken some changes in the underwriting standards given that is the segment that we are growing relatively faster so? The second question was again asset quality Sir. What gives you the confidence that we are behind some qualitative colour that we have behind the GST impact and we will be able to meet the 18% to 20% AUM guidance, so just growth by asset quality?

Y. S. Chakravarti: On the PL side, okay, we write-off 100% of the PL because it is an unsecured book, the first factor is because it is an unsecured book, right now it is taken on 100%, right? And as 60% of my PL book today, the disbursements in PL today comes through a cross-sell. And the remaining is open market PL. So my average ticket size of the PL is about 1 lakh, 110,000, right? And it is adequately priced. It is definitely adequately priced. I do not see a cause for concern in this because now, more and more of my PL business are happening through my cross-sell to an existing customer. So I do not see lot of issues there.

Dhaval Gada: What is the delinquency when gross NPA difference between cross sell and non-cross sell PL?

Y. S. Chakravarti: It is basically almost same. That should be about close to 100, 110 basis points difference. It would not be more than that because end of the day, all my PL, even though it is unsecured, it is guaranteed by an employee. There is a personal guarantee of a colleague as a borrower,

right? All PL. So that works as a lever for my collection assets. Now on your second question I am a little bit confused because you are talking about asset quality, GST and then disbursement?

Dhaval Gada: Yes, so I was trying to understand when we will sort of look to grow, sort of beyond the current levels if we find the environment to be very conducive, so I am just trying to understand what gives you the confidence that on asset quality, things has stabilized and it is likely to improve and therefore we are focusing more on growth just trying to tie both the ends?

Y. S. Chakravarti: See, on the asset quality side, as I told you, we are seeing stabilization in our collection efforts. And we have also seen that actually, September, October has been good for our collection team. When we look at and when we talk to the team, projections that they give to us for the collection is based on their interactions with customers. So all the teams seems to be positive and it is also shown in the collection that has happened in the month of October, one. Two is, I think the confusion over GST most of it is gone now. See people have reconciled that they may have to probably become a little more formal or their tax outgo may increase a little bit. But I think more or less, reconciled to the fact that they have to go through the GST. And the short-term liquidity issues, I think, for most of businesses, have been taken care of. And that's what I am looking at. And probably, given that it has the government's spending on infrastructure, there is a trickle, if it trickles down, I am sure we can look for good years ahead. Apart from all this, also, the composition scheme under GST would be very beneficial to my set of customers.

Dhaval Gada: Sure. Sir, just one last data-keeping question. I mean, what would be the impact when we migrate to 90 DPD? And what is in the best of years historically? What has been the lowest gross NPA number on 90 DPD? I mean, if you would have tracked that probably in the last five to seven years, what would that number is on a lowest best scenario?

Y. S. Chakravarti: That is five, six years of NPA number. But we expect it to be around 9%-odd when we move to 90. See, right now, I think we are at 9.3%. I think we expect to keep it at that level.

Dhaval Gada: Okay. And in the best of years, how much improvement can one expect in this number?

Y. S. Chakravarti: Sorry?

Dhaval Gada: I am saying when the environment improves and as growth recovers and asset quality stabilizes, collection efficiency improves, what kind of improvement, I mean, we can expect on this 9.3%?

- Y. S. Chakravarti:** I think it is very difficult to get back to that right now. See, thing is it will take me about a year to give you a correct answer. Because as I said earlier in my highlights, see the thing is that for me to go back to my customer and my team and convince them or impress upon them the importance of rolling back. And also see it also has to be dependent on the customer's business model and the improvement in their cash flows. It is just not that I can go to him today and say, well, Sir, have they changed my NPA now it is 120 you had to be current at 90. It is not going to improve his cash flow. Unless his cash flow is this, he was not going to pay me. So for me or he has to stop some other payment and pay me, which will take me, I think, a fair amount of time to convince the customer to get back to this. So about a year later, I can give you this answer this question.
- Dhaval Gada:** Thanks for it.
- Moderator:** Thank you. The next question is from the line of Piran Engineer from Motilal Oswal Securities. Please go ahead.
- Piran Engineer:** Just a couple of questions. Firstly, on this two-wheeler thing, our disbursement growth has been slow and then you said, in October, jumped 30%, 40%. So what exactly caused this? Or has this been across-the-board for all other financials, too?
- Y. S. Chakravarti:** These are results of this actual season. Typically, your Dasara and Diwali are the bonanza months for markets in North and West.
- Piran Engineer:** Okay. So because last year Diwali was in November and this year it slipped into October. So that is the reason for this 30%, 40% growth?
- Y. S. Chakravarti:** Yes.
- Piran Engineer:** Okay. But otherwise, how do you think growth is going to trend? Because I know you said that you will do 18%, 20% AUM growth this year, but if I just do my back-of-the-envelope calculations, disbursements have to grow 27%, 28% in the second half. So is that likely?
- Y. S. Chakravarti:** Second half, typically, for two-wheeler business, is the best part and year-on-year; so far, we have grown by good 11.5%. I am sure we'll be able to reach that number that I have mentioned.
- Piran Engineer:** Okay. Got it. Sir, one more thing, we did that engagement with Mackenzie last year on MSME loan sourcing in all non-South geographies. I think it was more pertaining to the Northern geographies. How is that trending? And when do we see the impact of that on the numbers both on the opex front as well as on the growth front?

- Y. S. Chakravarti:** At least three more years down the line.
- Piran Engineer:** Three more years?
- Y. S. Chakravarti:** You need to understand that if it has to significantly impact on the numbers. South today still contributes about 75% - 80% of my SME business.
- Piran Engineer:** I am sorry how much?
- Y. S. Chakravarti:** 75% to 80% of my business comes from south and Maharashtra. So for a significant impact, that means to make a significant impact, it will take a minimum of three years for the marketing.
- Piran Engineer:** Okay. Got it. Sir, and just lastly, I know we have spoken a lot about asset quality, but the write-off trend is really alarming. I mean, two years back, the quarterly write-offs used to be like Rs.75 Crores, Rs.80 Crores and now it has doubled. So where can we see this going forward? Or are we seeing a reversal or are we seeing write-backs basically? Can you just throw some light on how to think of write-offs?
- R. Chandrasekar:** Basically, if you look at the asset quality, I think we see ultimate risk is the same and the asset quality is still good. What happened is up to the demonetization, there was a slip and most of the small traders business community, there is a slip for Q3, and in Q3 we took the disposition benefit. Q4, the things became normal. And now the quality is now returning. It is just because the effect is because of the demonetization and that GST, because these are all smaller businessmen in small town.
- Piran Engineer:** Okay Sir Thank you very much and all the best.
- Moderator:** Thank you. The next question is from the line of Shubhranshu Mishra from Motilal Oswal Securities. Please go ahead.
- Shubhranshu Mishra:** Thank you for the opportunity. Last quarter you mentioned about disbursements in new trajectories like UP and Bihar, so just want to know YTD how much has been in the disbursement in these two territories as well as you spoke about getting into urban market, so just wanted to understand your split between urban, rural and semi-urban in your AUM right now?
- Y. S. Chakravarti:** My urban market is still miniscule. We are a very little market -- and mean, we are trying -- we made a small beginning, but it is not that we want to factor is if we get into an urban market. Our yields are getting compressed. So we are wary of going aggressively into the

urban market today. Okay and the data that you asked for, Mr. Jai Singh will take care of the data and send you the data.

Shubhranshu Mishra: Sure Sir. In terms of aspiration Sir, how do we look at your urban market contribution say two to three years from now Sir? How much of contribution to the AUM?

Y. S. Chakravarti: Probably about 10%. We are not looking more than that. By urban market I mean to say that the metros or I would say the top 10-15 towns in the country.

Shubhranshu Mishra: Right, sure Sir and just one housekeeping question Sir. What would the quantum of liabilities is coming up for reprising in second half Sir?

Y. S. Chakravarti: What would be the liabilities coming up for reduction, is that what you are asking?

Shubhranshu Mishra: Re-pricing Sir.

Y. S. Chakravarti: Re-pricing, okay. What would be the liabilities coming up for re-pricing?

R. Chandrasekar: No, actually, if you look at the bank loans, basically, we have three types of borrowings. On this bank loan and markets borrowings and retail borrowings. So retail borrowing, I think we have reduced the interest rate by 0.5%.

Shubhranshu Mishra: The cost of fund should remain similar Sir. So the cost of one should remain similar in the second half?

R. Chandrasekar: Cost of funds actually going forward, it will remain static, also marginal reduction.

Shubhranshu Mishra: Right Sir. Sure Sir.

Y. S. Chakravarti: Again, I think if you want me to predict what RBI is going to do is difficult.

R. Chandrasekar: So far, we have reduced cost. It has come down to 50 basis points from 7.27 to 6.7. We have been static.

Shubhranshu Mishra: Sure Sir. Thank you so much for time Sir.

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

Nischint Chawathe: A couple of questions. One was on the 90 DPD I know you gave guidance. But just curious you said that between the second and the fourth quarter, the number should kind of broadly

remain similar. Now you also made a commentary that in other business environment is improving, collections should pick up. So am I reading too much into the numbers or how should kind of one look at these 2 statements?

Y. S. Chakravarti: I did not get you, sorry.

Nischint Chawathe: You made two statements. One is that collections are improving, so possibly going forward, your GNPA will reduce. At the same time, when it came to guidance of 90-day NPLs you said that you currently have 9.3 and you may possibly end the year with 9.3. I mean, I would logically assume that if collections are improving, this number should go down to some extent.

Y. S. Chakravarti: No, see, what I meant was that my 90 day DPD, whether now or when I move to 90, there is not going to be a dramatic change in the numbers. Okay? Today, I think we are at something like 9% odd, and I think it is probably between 50 basis points plus or minus it should remain there, even when we move to 90 days. What I said was it will take me about at least a year for me to get a hold on the 90-bucket.

Nischint Chawathe: Okay, okay. So your broad collections could improve but maybe it does not get reflected on the 90-day bucket in the first year itself. Is that the way I should read it?

Y. S. Chakravarti: Exactly.

Nischint Chawathe: Any guidance that you would want to give in that backdrop on the coverage ratios?

Y. S. Chakravarti: Yes.

Nischint Chawathe: On the NPA coverage ratio, if you want to give guidance.

R. Chandrasekar: Today, the coverage ratio is 78%. In Q4, we have planned and budgeted to bring it down to 61%, 60% to 61%.

Nischint Chawathe: Okay. So to that extent, I think last year we saw or last two years, we saw that somewhere in the third and fourth quarter numbers get affected. Possibly the impact should be much lower or there should not be an impact because of this transition. Is that the way I should read it?

Y. S. Chakravarti: Yes.

- Nischint Chawathe:** Sure. Again on the write-off, if you could give some guidance what your normalized write-off would be because last two three quarters have been high at around 2.5%-2.7%, so any normalized write-off guidance if you could give that would be helpful?
- Y. S. Chakravarti:** Yes, basically, because we ought to understand that ours is basically a retail business. But our total ultimate credit loss, we expect somewhere around 2.6% to 2.7%. This is what we expect going forward.
- Nischint Chawathe:** And that will include part of it is write-off and part of it is provisions?
- Y. S. Chakravarti:** Yes.
- Nischint Chawathe:** Sure and the other thing is we saw slight increase in yields this quarter any specific reason for that?
- Y. S. Chakravarti:** Increase in?
- Nischint Chawathe:** Increase in yields?
- Y. S. Chakravarti:** Yes, basically, increase in yield, it has varied some, last quarter, there was some small increase in yield in gold loan. So it is off a small base. In fact, the 50 basis points plus or minus will always be there, because of the mix because of Personal Loans, so many mix are there. So actually, we expect our yield should be around between somewhere between 20 and 20.5. But this quarter, it has jumped because of some gold loans increased interest of 100 basis points.
- Nischint Chawathe:** Was there any specific increase in P&L interest or anything of that sort?
- Y. S. Chakravarti:** We have not seen change.
- Nischint Chawathe:** Okay, Sir one just final point was that on the monthly trends in growth and collections because any sense it would give us to how July, August and September was, if there is an improvement trajectory or how things were that would reach us to helpful, kind of sort of more qualitative comment?
- Y. S. Chakravarti:** Sorry.
- Nischint Chawathe:** If you can break the quarter into each of the three months and give a qualitative comment in terms of how growth and collections were in those quarter, in those months that would be helpful I mean we have seen the entire quarterly performance, but I would except that there

would have been a fair amount of variation between the first and the third month so maybe some comment from your side on this would be helpful.

Y. S. Chakravarti: Yes, okay. As it refers to the growth, I think consequently, Q3, Q4 and Q1; the growth was around 10%. And it pushes to this quality as we told you 180 bucket, 150 bucket, I think there is no on 120-bucket, DPD, there is, but with reference to July, August, and September on a monthly basis it is an improvement. It is much improved compared to Q1.

R. Chandrasekar: What I would do I will ask Jai to contact get in touch with you and send you the data.

Nischint Chawathe: Sure, that will be good. Just one small final question if I can squeeze in how many of your customers especially on the business loan segment, would have a facility from some of the other banks as well?

Y. S. Chakravarti: Probably about close to 40%, 35% to 40%.

Nischint Chawathe: Great. Thank you very much and all the best.

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

Umang Shah: Thanks for the opportunity. I just had a couple of questions. One is if you could just give me the breakup for disbursements in our housing business? So the total of Rs.121 Crores, how much was retail and how much was construction finance.

Y. S. Chakravarti: I think I have already given the number. Construction finance is only about I will give you that number. Rs.85 crores is retail; 22 is LAP; Rs.4 Crores is construction finance rest of it is top up.

Umang Shah: Okay Sir just wanted to understand one thing what is the broader strategy on the housing business because I mean I understand that the consumption finance book is kind of running off but it seems that the pure retail disbursements are also kind of slowing down a bit and at this size I mean we have been degrowing our AUMs for like three consecutive quarters, so how should one kind of read into this?

Y. S. Chakravarti: See, there is a total realignment of the team on to the retail segment of the business. That is basically the home loans. And we will be driving this through the combination of DSA and DST teams. Last quarter, we have actually brought on board about close to 300 people on the DST side. So product focus is retail home loans below 30 lakhs but up to 30 lakhs. And the strategy is a combination of DSA and DST teams.

- Umang Shah:** Right, I understood, Sir probably from FY2019 onwards is it a fair assumption to make that we get back onto some 50%-60% kind of growth rate that we used to see during FY2016-2017 or probably it will be more gradual initially?
- Y. S. Chakravarti:** Yes, I think that 50%, 60% will also depend on the uncertainty around the RERA. I hope by that time, all the issues with RERA would be over. And yes, then we can see that.
- Umang Shah:** Right so you would more confident about maybe a 20%-25% growth initially and if the markets are conducive probably scale up later.
- Y. S. Chakravarti:** Yes.
- Umang Shah:** Okay, fair point. Sir the second question which I had was I was just observing that our yields have consistently remained closer to 21% odd over past three years while we have already migrated from 180 to 120 days. Could you please share during this period how the unsecured portfolio has behaved? I mean, in terms of the share or the contribution. And what is also counterintuitive is that during the same period, our credit costs and loan write-offs have also kind of jumped up. So just want some perspective on this. Am I reading something wrong or is it that we are trying kind of taking a little more risk just too kind of maintain yields and probably that is resulting into higher credit costs for us?
- Y. S. Chakravarti:** Give me a second. See what I would like to point out here is that the yields have been stable for the last three years, right? It is not a function of my unsecured book going up. If you look at my book, I do not think there is a significant increase in my unsecured book, it did not, number one. Number two, the reason why my yields are stable are because of the customer segment that I address significantly. The customer segment that we address is one of the factors that we were able to hold our yields at that. Also the yields have nothing to do with the credit costs. It is not a function of credit costs. That 1%, 1.5% is not going to significantly deteriorate or improve my cost of credit. And it is also; you also have the benefit of the credit cycle.
- Umang Shah:** Right, so exactly my point. Interest rates have been falling for the last one, one-and-half years but our yields have been consistently high, so that is the reason why I asked this question, fair point. Just one last data point, what would be the share of our unsecured loans in overall loans now?
- Y. S. Chakravarti:** Unsecured loans in the overall book should be less than 10%.
- Umang Shah:** Less than 10%. Okay. All right. Thank you so much and all the best for future quarters.

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

Adesh Mehta: You mentioned early in the call that amongst your borrowers, the GST compliance is pretty high. So you would be having some number on it? How many of the customers?

Y. S. Chakravarti: When we did a tax check for October we found that almost 40% of the customers have registered under GST, which is a surprise for us. Looking at the customer segment that we address 40% is fairly high.

Adesh Mehta: Okay and the remaining 60% from what segment any commonality you can draw from those borrowers?

Y. S. Chakravarti: See, most of them would be under Rs.1 Crores turnovers. But even for the composite scheme, we are urging them to get their businesses registered. I think we are just waiting for some kind of a push or pressure to get registered.

Adesh Mehta: Okay and Sir in terms of your NPA numbers, Sir what could be your 120 DPD NPA last year in September 2016?

Y. S. Chakravarti: September 2016, it is about 6.91.

Adesh Mehta: 6.91, so it has been broadly flattish on a YOY basis on 120 DPD.

Y. S. Chakravarti: Yes.

Adesh Mehta: What could the NPA number beyond 150 DPD?

Y. S. Chakravarti: Sorry.

Adesh Mehta: On 150 days what we are with NPAs for this quarter?

Y. S. Chakravarti: 5.40.

Adesh Mehta: 5.40 and in the previous quarter Sir?

Y. S. Chakravarti: 5.8.

Adesh Mehta: Okay Sir. Thank you Sir. Wish you all the best. That is it from my side.

Adesh Mehta: Thank you Sir.

- Moderator:** Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.
- Karthik Chellappa:** Thank you very much for the opportunity. Good morning Sir. My first question is on our write-off now if I look at our last 10 year or write-offs alone, not credit cost just write-offs alone have been in the region of 2% to 2.1%. Has that assumption changed for you right now?
- Y. S. Chakravarti:** No Karthik. I think we will be more or less around that 2.5% to 3% bracket only.
- Karthik Chellappa:** The 2.5% to 3% is overall credit cost, right Sir within that if write-off is about 2% to 2.1% that has not changed.
- Y. S. Chakravarti:** Yes.
- Karthik Chellappa:** My second question is on our funding cost if I look at it our fixed borrowing tenure right now is 12 months and it is probably the shortest tenure that we have had for a quite a while now given that almost Rs.9000 Crores is going to be re-priced in the next 12 months, why should not we expect a more aggressive drop in funding cost?
- Y. S. Chakravarti:** Yes, basically, the point is we have some market borrowing. We have some, but we will get into more bank borrowings and other things because the fixed deposit, which was high, it has come down, so going forward, it will be to that extent.
- Karthik Chellappa:** Sir, can we accept something in the region of at least let say with reference to the reprised fixed borrowings alone, should not we at least expect a 25-50 basis points reduction?
- Y. S. Chakravarti:** Possibly, I think the possibility is there.
- Karthik Chellappa:** Okay, great. And the third question is as far as our two-wheelers disbursements are concerned, although you highlighted October was very strong, given that the second quarter was a bit soft both on, let us say, Y-on-Y, which was let's say around 6%-odd, how will this growth look when it comes to South versus non-South, the disbursement growth in two-wheelers?
- Y. S. Chakravarti:** Disbursement growth in Two Wheeler obviously not will outstrip south.
- Karthik Chellappa:** By what margin will South be negative?
- Y. S. Chakravarti:** No, South would not be negative. See the pie is growing. The larger share will come from North.

- Karthik Chellappa:** So South should be somewhere in the region of let us 1% to 2% or 3% whereas North should be double-digit?
- Y. S. Chakravarti:** Growth? No, no, South also is growing, Karthik. South also is growing. The thing is on the larger pie, today, 60% of the disbursement comes from other than south.
- Karthik Chellappa:** 50%.
- Y. S. Chakravarti:** 60%.
- Karthik Chellappa:** 60%, okay, got it. And can I also have the number of vehicles financed in the second quarter?
- Y. S. Chakravarti:** You want the number of vehicles funded in the second quarter?
- Karthik Chellappa:** Yes.
- Y. S. Chakravarti:** Can we give him this number? It is 81000. Karthik I will just read out the number, 2.4 lakhs.
- Karthik Chellappa:** 2.4, so this was very, very similar to the first quarter because first quarter was like 242000.
- Y. S. Chakravarti:** Correct.
- Karthik Chellappa:** And Sir, lastly, you highlighted that your 90-day NPA right now is 9.3. Now this number was 9.5 in the first quarter of 2018, that is the previous quarter, which has actually shown a reduction. Why then did the 120-day DPD show a marginal rise from 6.8 to 6.9?
- Y. S. Chakravarti:** I do not know it was 9.08 in the first quarter.
- Karthik Chellappa:** It is 9.08, is it, okay? So 9.08 has gone to 9.3, 6.8 has gone to 6.9. Thank you very much. Wish you all the best.
- Moderator:** Thank you. We will take the next question from the line of Nikhil Walecha from JM Financial. Please go ahead.
- Nikhil Walecha:** Sir, my question is on AUM mix. Given that the two-wheeler proportion is slightly coming down and now we are also planning to move to urban market, so what would the steady-state AUM mix in, say, next two to three years?

- Y. S. Chakravarti:** The AUM mix broadly will be we are looking at a 60% AUM from SME and 17% on two-wheeler and rest of it will be gold and auto.
- Nikhil Walecha:** Okay.
- Y. S. Chakravarti:** Gold will be 10%. 12%, 13% will be personal loan and auto together.
- Nikhil Walecha:** Thanks. That's all from my side.
- Moderator:** Thank you. The next question is from the line of Harshit Toshniwal from ICICI Securities. Please go ahead.
- Harshit Toshniwal:** Good morning. A couple of questions. Firstly, on write-offs, just want to know that is there any internal standards or guidelines, which you all follow with regards to writing off of the assets? So any base on the category of customers or something like that?
- Y. S. Chakravarti:** Yes, we actually whenever the provisions reach closer to 90% to 100%, we do it that is one. And secondly, whenever the business teams this is the case where the correction is not going to come. It will take a longer time. We take the write off.
- Harshit Toshniwal:** Okay and is it any which avails the write off number which you gave that is specifically for a particular, is this coming from SME portfolio most of it?
- Y. S. Chakravarti:** A majority of the business was 55%. So naturally, it will contribute to it and demonetization GST effect also is in this particular customer segment.
- Harshit Toshniwal:** And also sir, just want to know that qualitatively, more importantly, that how has this nature of our SME portfolio changed? I want to know any difference in the ticket size or the interest rates over the last one year? Is there any fundamental shift in the nature of our SME portfolio because during this past one year, competition has also increased significantly in your particular set of customers? Things have changed post demonetization, GST in the way they are doing the business, their connect with the banking channels. So just want to understand that is there any fundamental shift you are observing there, if I could know the ticket size or the tenure of the loans?
- Y. S. Chakravarti:** No, no, not in the ticket size. Ticket size actually has come down. And there is no significant change in the profile of the customer or anything. The only thing that I said earlier is that we are keeping away from trades of businesses related to the construction sector. That is the only change in the last one year. Other than that, there is nothing else.
- Harshit Toshniwal:** Okay Sir. Thanks a lot.

- Moderator:** Thank you. The next question is from the line of Sourabh Dhole from Trivantage Capital. Please go ahead.
- Sourabh Dhole:** Thanks for taking my question. I just want to know something about the impact of moving from 120 DPD to 90 DPD, the impact of this movement on your loan book growth, as well as on your margins?
- Moderator:** Sir the lines of the current participant seem to have dropped off. We will move on to the next that is from the line of Ashwin Balasubramanian from HSBC Asset Management. Please go ahead.
- Ashwin B:** I just wanted to know what would be the yield incrementally on your SME portfolio, which you would currently be doing at.
- Y. S. Chakravarti:** Incrementally?
- Ashwin B:** Yes, like as of now what you will be the yield at which you will be lending in the SME book?
- Y. S. Chakravarti:** See I think the blended yield would be around 20%.
- Ashwin B:** 20%, Sir I think in response to a previous question you said like 40% of your customers would be compliant with GST and 45% would also probably have other banking lines, so especially with this formalization happening post GST, do you see pressure on this 20% number because lot of other NBFCs and banks lend at much lower rates and given that the fair bit of compliance among your costumers even GST?
- Y. S. Chakravarti:** Yes, yes, today, as I said, my customers about 30%, 40% of customers have some lines from the bank, right? It is still required because of I think there are two factors that they come to me because of my reach, number one; number two, also the tax. The decision, which is given to them in 24 hours versus two weeks, four weeks there they would be willing to sacrifice the margin for a faster time.
- Ashwin B:** Okay, but with regard to other NBFCs would that competition potentially increase with GST coming through I mean the sense that, they also might have additionally?
- Y. S. Chakravarti:** Size is also so big, and we will probably look at today, will be worried about other NBFCs today.
- Ashwin B:** And at what portions the SME book will be unsecured or is it completely secured?

- Y. S. Chakravarti:** No, there is unsecured portion. There should be around 10%-12% unsecured.
- Ashwin B:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Dhaval Gada from Sundaram Asset Management Company. Please go ahead.
- Dhaval Gada:** Sir just one data keeping question, what is the bounce rate that you have seen in October versus maybe few months back, July or August?
- Y. S. Chakravarti:** It depends on product-to-product Dhaval. So on the SME the space is there actually.
- Dhaval Gada:** Sorry, on SME I missed it.
- Y. S. Chakravarti:** Onsite is almost similar.
- Dhaval Gada:** Okay. Fine Sir. Thanks.
- Moderator:** Thank you. Next question is from the line of Umang Shah from Emkay Global. Please go ahead.
- Umang Shah:** Thanks for the opportunity. Sir just a followup question; I just wanted to understand is there a difference in the way we classify unsecured because our FY2017 annual report disclosure shows closer to Rs.4500 Crores of unsecured loans which is probably shade below 20% as on March 2017, so is there a difference in classification when we report?
- Y. S. Chakravarti:** No, see it is like this. On our SME book I have about 10%-12% of my SME book is unsecured. My entire personal loan is unsecured. That is why something is like that.
- Umang Shah:** Okay, so then technically our unsecured book has a percentage of total should be closer to around 20%-odd?
- Y. S. Chakravarti:** Yes.
- Umang Shah:** All right. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Nikhil Walecha for his closing comments.
- 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.



Shriram City Union Finance Limited
November 02, 2017

Y. S. Chakravarti: Thank you so much.

Moderator: Thank you. Ladies and gentlemen, on behalf of JM Financial that concludes today's conference. Thank you for joining us. You may now disconnect your lines.