



“Shriram City Union Finance Limited Q2 FY2017 Results Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Shriram City Union Finance Limited Q2 FY2017 Results 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 “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I would now hand the conference over to Mr. Karan Singh from JM Financial. Thank you and over to you Mr. Singh!

Karan Singh: Thank you. Good afternoon everybody and welcome to Shriram City Union’s Earnings Call to discuss the second quarter results. To discuss the results we have on the call Ms. Subhasri Sriram, who is the Executive Director and CFO. May I request Ms. Subhasri Sriram to take us through the financial highlights subsequent to which we can open the floor for Q&A session? Over to you Madam!

Subhasri Sriram: Thank you Karan. Good afternoon all. First let me extend warm Diwali wishes and a Happy New Year to all the people who are going to start this New Year in the next couple of days. I think our Diwali is starting and hopefully, we have started the Diwali yesterday itself, celebrations have started here.

On a standalone basis Shriram City for the quarter ended September recorded an 18% growth in income from operations, which is now at Rs.1115 Crores and this translates to about a 6% growth on a quarter on quarter basis. Net interest income for the quarter stood at 735 Crores from Rs.601 Crores during the same period last year.

This is a growth of 22.3% on an annual basis. Pre-provision profits are now at Rs.453 Crores, up by 29.3%. NPA continues to be recognized at 150 days past due. This is as per the statutory requirement and the gross NPA for September 2016 is now at 4.96% as compared to 5.11% in June 2016.

Non-gold NPA was at 5.4% and gold loans at 2.42%. Provision coverage ratio is at 72.76 and provisions for non-gold portfolio are at 74.9, and gold loan portfolio at 45.2%. Net NPA as of September 2016 is at 1.35% as against 1.46% in the previous quarter.

Write offs during the quarter were to the extent of Rs.115 Crores as against Rs.85 Crores during the same period the previous year. Profit before tax stood at 313.49 Crores and profit after tax at Rs.204 Crores.

During the quarter end of September, we have had a 17.8% growth under assets management on year on year basis and AUM is now at Rs.21390 Crores and non-gold AUM recorded at 27% growth. For the quarter, AUM grew by 4.5% and non-gold portfolio grew by 6.3%. During the previous year, quarter ended September 2015 the growth in total AUM was at 3.9% and non-gold AUM grew at 2.5%.

Product wise mix of AUM continues to be dominated by to small enterprise finance, our main product, which is now at 56% of the book. Two-wheeler continues to be at 18%, gold is now at 14%, auto loan and personal loans together at 6% each. Disbursements recorded a 23% growth on a year on year basis and for the quarter end of September 2016; disbursements were at Rs.5567 Crores, out of which, small enterprise finance segment, disbursement constituted 47%.

Yield on assets as per quarter ended September 2016 stood at 21.31% as compared to 21.22% in September 2015. Net interest income for the quarter was at 14.05% as against 13.5% in September 2015. Cost of borrowing as of September 2016 is at 10.06% as against 10.67% in the previous year. Rs.15470 Crores was the total bank borrowing constituting 56%, market borrowing 15%, retail borrowing including outstanding public issue NCDs is at 29%.

46% of borrowing are with floating interest rates, 9% borrowing comes from banks under MCLR borrowing rate, which we consider as semi-fixed and weighted average borrowing is at 20.2 months as of September 2016. There has been no significant change in number of branches and headcount during this quarter. We are currently operating out of 980-odd branches and employee count around 25658.

On our subsidiary, Shriram Housing, Assets under Management as of September 2016 are at Rs.1753 Crores, a growth of 15.5% on a quarter-on-quarter basis. The same stood at 1001 Crores as of September 2015, a 75% growth on year-on-year basis. Total disbursements during the quarter were at 332 Crores out of which 2666 Crores was to retail home finance segment. This segment is at an all time high for this business, both in terms of overall disbursements and growth in retail disbursements.

Of the total asset under management of Rs.1753 Crores, 243 Crores is in non-retail book. Average lending rate continues to be over 16% and significant percentage of the book is from the affordable housing mortgage business with a pan India outlook. The company is currently operating out of 84 branches.

Gross NPA is at 3.48% as compared to 3.95% in the previous quarter. As reported in the previous call, Shriram Housing was also one of the beneficiaries of SARFAESI and the

company has taken efforts to exercise this option as and when required and in this effort, as of September, the company has taken symbolic possession of 189 cases, which is to the tune of 75.5 Crores and out of which 173 cases notice has been issued for physical possession and we have received orders for 12 cases. We are actually taken physical possession of three cases. NPAs are reduced, and NPA resolution which was more towards the SARFAESI efforts in the current quarter has gone up to 21.18% and that is the significant reason that we are able to arrest the NPA.

The company continues to maintain the coverage ratio of 29%, which is well over the minimum regulatory requirement. Profit after tax for the quarter is at 10.1 Crore as against 8 Crore the previous year.

With a clear focus on affordable home loan segment and leaning towards tier two and tier three markets, Shriram Housing continues to see high growth potential and will largely be focusing on its market share in these segments and probably will not be so much affected from a boom or a sluggish market seen in the big city.

This retail segment consists of a LAP and mortgage loans and the wholesale loan is largely in the construction segment and in this, the company has seen nil delinquency and entire asset is in standard mode. Thank you so much Karan.

Moderator: Thank you. We have the first question from line of Kunal Shah from Edelweiss Securities. Please go ahead.

Kunal Shah: Congratulations Madam. A decent set of numbers. So firstly in terms of the funding costs, okay, just wanted to get a sense - the overall wholesale rates have been coming off a lot. So I think overall in terms of the reported cost of borrowings, we have not seen any significant improvement, so when do we see in terms of the re-pricing of liabilities happening?

Subhasri Sriram: I would probably say that sequentially the cost of funds is coming down. We are seeing quarter-on-quarter improvements while the company continues to focus on the assets and liability mix with banks, probably Public Sector bank borrowings and public deposits. I would probably say in about a couple of quarters, you will see a lot more significant change in the liability mix while we are making efforts to shift a little bit more towards market borrowings and restrict probably our bank borrowing to about 50% - 52% from the current 56%. That is why you will probably see the cost of funds coming down. It is fact that the banks predominantly have not moved their lending rates in the last couple of quarters while RBI rate changes are rapid and we hope to see changes effect in the coming quarter, that is when the bank borrowing rates will see a shift downward. In public deposits, effective,

October, we have reduced our coupon rate and we are able to access the bond market, both in terms of NCD and CP. We are able to get a good deal.

Kunal Shah: So when do we see this shift also and what would be the target may be in terms of the mix between the banks as well as on the bond market, we have seen most of the NBFC switching significantly towards the bond market and getting this advantage. I think for us it has not been that significant as of now.

Subhasri Sriram: Correct, we are working towards doing it. I think you will see that change more visible by end of March, two more quarters. As and when the bank liability matures the refinance will be proportion of bank and public market borrowings.

Kunal Shah: The other thing was with respect to growth, so I think most of the segments are looking up now in terms of disbursement traction as well as AUM traction, so finally overall in terms of macro environment, are we seeing things to be relatively better, where in we would be pretty comfortable of growing 20%? May be even on the gold loans there is some improvement, but when do we expect to see the, may be AUM growth coming back? Still today may be it is in the negative trajectory, okay, so I think whether we expect this to happen over next two quarters and on the business loan as well as on the two-wheelers and all are we pretty compatible in the environment and we believe the 20% plus growth could be achieved by the end of this fiscal?

Subhasri Sriram: As far as the growth, I think, much of it is happening because as I have been saying that we have, from the management side from the company, we have been working at it, for last, I think the team has been working at it for the last one year, we have been looking at separate initiatives and in terms of product credit underwriting process and market penetration and we are quite conscious that we have the branch and the manpower, it is time that we take the maximum advantage of the two. I would say the SME growth is largely the effort put in from our branches. I do not think it has become easier for them with support from the macroeconomic condition. I think the amount of work they need to put in is significantly more and it is a lot of sweat to make this happen. As far as the gold loan business is concerned, while we continue to be focused, we try to take advantage of the infrastructure we already have and the expertise we have developed in the segment, but we will continue to be watchful, at the end of the day it is a commodity business and we are watchful of the gold price and market sentiments in and around the gold price and therefore, while the disbursements are picking up, as you rightly pointed out, the assets under management is seen negative even this quarter. I think that is more of a result of the gold price movement, where customers are getting back to shorter duration loans, multiple times pledging and to see this stay and continue to bring more customers then, yes, we are waiting the efforts, but I am not certain it will completely turn around the 20% in gold loan in the next two

quarters. The rest of the products both in terms of SME and two-wheeler, we could probably say with assurance that we are working to grow and a lot of efforts are put in these, confident about the market right now and the team is working and conscious about it.

Kunal Shah: So proposition of business loans and two wheelers would be going up so the trend in terms of arising this proposition would continue.

Subhasri Sriram: Yes. While we continue to be interested in Gold, growth of gold will largely depend upon the market sentiments and the price movement on the commodity.

Kunal Shah: Lastly in terms of the cross sell which we are targeting so, any update on that may be are we seeing the increase in the cross selling between most of the product segments customers at all?

Subhasri Sriram: Yes, I think as I said in the earlier call, we are working at it, but right now I cannot say that we have reached a level of efficiency or complete pan India, but definitely it is heartening to see that we are seeing some traction wherever we have fetched it out, and we are confident of the huge opportunity before us with number of customers we have, and the customer contacts we have established over the years and we see a huge potential, huge opportunity there, but it is right now in a very small pile. Even then results there are very heartening, so we are quite confident that this should take us long in a big way.

Kunal Shah: Thanks a lot and all the best for the future quarters.

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

Digant Haria: Can we get, you know the breakup of AUMs that come out of traditional market and the new markets in both your two-wheeler and SME?

Subhasri Sriram: About 60 to 70% business comes from the traditional market that is AP, Tamil Nadu, and Maharashtra as far as two-wheeler business is concerned, but as far as SME it is about little over 75%, which is from traditional market, 20 to 25% come from non-traditional market.

Digant Haria: Okay, so we are not seeing a significant shift as yet right, so the growth is coming out of our traditional markets also and it is not that the non-traditional markets are contributing more to the growth?

Subhasri Sriram: Good that you pointed this out, but I have been saying this for some time that the business growth will come from both traditional and non-traditional. It is not as if we have exhausted

or reached the saturation in our traditional market. There is a lot of stream left and we are very confident that the growth will continue to come from our traditional market, which includes AP, Telangana, Tamil Nadu, and Maharashtra and while we will invest in efforts that we are put in over the last five to six years, developing of our market in North, Central and Western India will start becoming more relevant to us in the SME business too in the coming quarters. While it was largely relevant in our two-wheeler business, now you will see more action and more business coming from those markets too in the coming couple of quarters.

Digant Haria:

My second question is mainly on this that we saw lot of operating leverage coming and cost to income has declined quite well by around 330 basis points and then you know we have already reached 38 and if I remember last year we used to guide that operating efficiencies can actually take us down to 38, so it is fair to assume that you have reached that peak already or you think there is more room left in operating leverage or operating efficiencies to play out?

Subhasri Sriram:

Definitely, we still have room for improving the efficiency, but it is also that we had the festival season and more business coming in. I would probably expect the cost to be to be in the higher end in the next two quarters because when the new business is getting originated there will be amount of origination cost and others. So we expect the cost income actually to hover over around 38% to 40% and it would actually grow 40% on March 2017 when there will be a shift from 150 to 120 and you will have a bit of depression in our income on account of income reverse and others, but in terms of absolute rupee term, yes the cost will probably remain stable and increase at just not more than 10% but business will be much higher than that.

Digant Haria:

With this good monsoon there is at least, we all think that there would be some revival towards FY2018 so if that plays out are we geared for more than 20% kind of growth because I think we are doing 18% AUM growth even without the macros or anything actually improving?

Subhasri Sriram:

I would say yes that is what we are targeting right now, so all our preparation in terms of infrastructure, the manpower is all to provide and look at growth over 20%, but I would keep my fingers cross in terms of the macro economic conditions.

Digant Haria:

Fine and then my last question is I missed, I could not hear that correctly that we took possession of around 175 houses in this quarter as we had access to SARFAESI, what was the total amount under contention?

- Subhasri Sriram:** Yes. Out of the 189 cases of all the possession we had 173 we had the right to have physical possession and out of which we actually taken position of three cases.
- Digant Haria:** Three cases only?
- Subhasri Sriram:** And order has been received for 12 cases.
- Digant Haria:** This is largely responsible for the reduction in NPAs in the housing book?
- Subhasri Sriram:** This is I would say the gross NPA has come down largely because now that the team was familiar about how to go about SARFAESI and their efforts and the results and the situation, I think the customer going beyond 90 has actually been arrested now, so I would say more in terms of asset quality and not converting the stressed asset to recovery process.
- Digant Haria:** That is it from my side. Thank you Madam.
- Moderator:** Thank you. 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. Firstly Madam wish you and the team at Shriram City Union Finance a Happy and Prosperous Diwali. My first question is on our two wheeler business if I were to look at the disbursements this quarter it has not grown much quarter on quarter, in fact it actually flat, why have we not seen the impact of the festival season retails yet in disbursements and any color on how October is doing as far as the two wheeler business is concerned?
- Subhasri Sriram:** Unfortunately till October 2015, it would say it was more non-festival business, which was happening. In the last week with Dhanteras and others we actually expect the business to catch up and I suppose the customer segment were waiting for some benefit freebies during Diwali and people most likely will postpone their purchase decision just before Diwali, they will prefer the Diwali purchase where they expect some amount of freebies so we will actually get to see the festival business well at this point in time. We will probably know first week of November when we will actually get to see the business uplinked.
- Karthik Chellappa:** So in your opinion September per se has been kind of lukewarm from a festive season point of view?
- Subhasri Sriram:** First week of November no festival, even the Dussehra was in October. December also there were no festivals to facilitate any business type of activity, so we actually will see the, Diwali and Dussehra coming in the same month, actually a little bit of speed for us, last

year we had in it in two different months, that is what I recall, so this time in both I expect the festival business to spill over to November and we will actually see some traction there.

Karthik Chellappa: Okay, got it and my second question is our other expenditure which saw at 19% year on year growth and almost 10% sequential quarter on quarter growth, what would be driving this growth?

Subhasri Sriram: Expenses?

Karthik Chellappa: Other expenses.

Subhasri Sriram: As we have said, we have engaged with a consultancy firm to guidance and help us through multiple initiatives with reference to credit engine and cross terms and there have been certain expenses prepayments which have been incurred during this quarter, but obviously were not there in September 2015 quarter, so that is about little short of Rs.7 Crores, so that has been one expense, which is not comparable, I cannot point as an one time expense, but not an expense, which is comparable on an year on year basis.

Karthik Chellappa: And this amount was around Rs.7 Crores?

Subhasri Sriram: Little short of Rs.7 Crores.

Karthik Chellappa: So this is not going to be there in the next quarter?

Subhasri Sriram: It will be, it may not be a Rs.7 Crores, it might be Rs.3 Crores, Rs.3.5 Crores, but it will continue for another three quarters at least.

Karthik Chellappa: Okay got it and can I have the NPL ratio based on 120 days and 90 days?

Subhasri Sriram: 120 is about 6.12% and 90 is about 7.94%. This is including gold. If you were to exclude gold it will be about 8.09% 90 days and 6.44% 120 days.

Karthik Chellappa: 120 days, so it has come down from the previous quarter?

Subhasri Sriram: Yes, across buckets we have seen improvement, even in 180 days what was 3.3% has dropped down to 3.22%.

Karthik Chellappa: Lastly, if I look at the write offs this quarter as a percentage of our loans it has inched up quite a bit, I think it is around 2% plus whereas the last previous five quarters it used to be sub 2%, any reason why the write off have risen this quarter?

- Subhasri Sriram:** Nothing specific, I would not say there is any specific event, which has, triggered that.
- Karthik Chellappa:** It is in the normal course of business.
- Subhasri Sriram:** There is, I think, no specific loss or events which have happened to write off any large loans or any locationally, any regional loans.
- Karthik Chellappa:** Thank you Madam. Thank you very much and wish you all the best.
- Moderator:** Thank you. The next question is from the line of Kaushik Dhanuka from Dhan Commercial. Please go ahead.
- Kaushik Dhanuka:** I wanted to know the status of the McKinsey report, which you had deployed for restructuring?
- Subhasri Sriram:** McKinsey report for?
- Kaushik Dhanuka:** You had deployed McKinsey for restructuring right for Shriram Transport and Shriram City?
- Subhasri Sriram:** No that is not something Shriram City is engaged with McKinsey. We have not engaged with McKinsey for any restructuring of anything with Shriram Transport or Shriram City. Our engagement has been on a different level, more in business outlook point.
- Kaushik Dhanuka:** Like if you intend to increase your geographies of operations you foresee any conflict with a Piramal Group in their financial operations?
- Subhasri Sriram:** Geographical expansion and conflict with Piramal I am not sure how relevant because Piramals anyway do not have too much retail presence. So I do not see there is a geographical expansion that will have any competing conflicts with Piramal Enterprises.
- Kaushik Dhanuka:** Is there any understanding as to earmarking particular areas of operations with Piramal Group, no?
- Subhasri Sriram:** I mean as I said really, it does not matter, they are not retail.
- Kaushik Dhanuka:** But I believe they intend to go into retail right?
- Subhasri Sriram:** That probably where we are not yet and we have not discussed anything on that at this point of time.

- Kaushik Dhanuka:** Thanks a lot.
- Moderator:** Thank you. Next question is from the line of Umang Shah from Emkay Global. Please go ahead.
- Umang Shah:** Thanks for the opportunity, I just have two questions, one was I missed that number, I just wanted to confirm in the housing portfolio the non-retail housing book you mentioned was at around Rs.243 Crores is it?
- Subhasri Sriram:** Yes.
- Umang Shah:** Madam is there any internal cap, which the management has thought about beyond which the non-retail portion would not grow?
- Subhasri Sriram:** Non-retail, I think there is a natural or a regulatory cap of 75% for NHB refinance.
- Umang Shah:** That becomes like a natural cap.
- Subhasri Sriram:** We will try to operate within that.
- Umang Shah:** My last question is on margin, so obviously this quarter we have seen margins expand quite a bit mainly led by yields, where do you see yields sustaining and margin sustaining when we migrate to 120 days pass due NPL recognition and later on 90 days?
- Subhasri Sriram:** I am sorry, are you talking about on account of NPAs and yields on adjusted to NPLs?
- Umang Shah:** That is correct, so when on a sustainable basis we start recognizing NPLs on 120 and 90 eventually next year, do you think sustaining a 13%, 14% kind of margins is doable or you think sustainably margins will kind of trend down?
- Subhasri Sriram:** Definitely it has to move down at least for two more years that is March 2017 and March 2018, but I do expect post that when we have stabilized at 90 and we are certain about our credit loss not being at the NPA provisioning requirement of 90 actually we are going to see some amount of recovery for we have to provide on this, we will have to see the actual credit loss cost per product will be definitely lower, far lower than what has been provided for, our gross NPA maybe at 7%, 8%, it is not that there is a loss of 7%, 8%, it is only, at provisioning at this point of time while we probably have a coverage ratio of 70% right now and probably we should be able to sustain and not have any requirement for anymore additional provisioning to 60, but initially there might be for two more years so March 2017 until March 2018 there might be this one time blip whether you do it on March last quarter.

- Umang Shah:** Correct, so fair to assume that March 2017 and March 2018 we would still be able to maintain 3% kind of ROAs plus minus 10 basis points even with whatever regulatory cost that we have to take?
- Subhasri Sriram:** March 2017 may not be possible, it might come down to maybe closer to 2.7 not, then 2.8 or 2.9, but by March 2018 we should be closer to 3.
- Umang Shah:** Perfect. Thank you so much and wish you all the best Madam.
- Moderator:** Thank you. We have the next question from the line of Cyrus Dadabhoy from Anand Rathi. Please go ahead.
- Cyrus Dadabhoy:** Thanks for giving me the opportunity and congrats on the great set of numbers Madam. Just wanted to understand the provisions or credit cost trend in the SME, auto and two-wheeler spaces because the reason I am asking is someone in the earlier question asked whether your SME clients are seeing any improvement in the working capital stuff in the macro overall and I am assuming there are not really seeing much improvement in the working capital cycles also, which you said is due to recovery now, so your recovery division is obviously now doing very well, so can we infer that the credit cost trend is not really declining for these three verticals?
- Subhasri Shriram:** Credit cost trend is, actual credit losses I do not think we have an issue, but if in terms of capability to pay on time or to get back from their defaults and I think as you rightly put in a lot of efforts going on in our recovery and that is sort of paying off and I think the reason the last couple of years while we were gone slow, our LTVs had improved, I think this also getting easier for our in terms of our recovery efforts, now we are more or less looking at loans, which are originated in 2013-2014 by which we had already moved in when the macroeconomic conditions stressed out, we had already moved into an more rigorous credit generating model. We were anticipating the customers will have the strain and we actually we have noticed that we had actually reduced the ticket size, tenures and all of it and that which is now coming for closure I think it is getting easier right now for us.
- Cyrus Dadabhoy:** Understood and just wanted some clarity or strategy on the gold loan piece that is obviously gone down in the AUM. Earlier gold loans used to be sort of very flexible in the AUM, what is the strategy on this and what is going to be the impact on the risk weighted assets?
- Subhasri Sriram:** I have continued to say that we are using our existing infrastructure, we are keen on optimizing the facility, which we have and therefore gold will continue to be a product, which we will concentrate on, but nevertheless we are conscious about the challenges which exist in terms of commodity price and we will focus on customer acquisition, loan

origination, but obviously we are conscious that AUM growth probably is not so much in our control and as you have seen in the past while the prices move down the tenures went up to eight to nine months and prices go upwards, the tenure is shortened, but then you will also see a lot more traffic of customers coming into the branch, so this is, I think is just a point of time when the price corrections that started people believing that the prices are going to stay at this level and for us t have a view about how this will behave I think we need a couple of more quarters and slowly more consistent steady price gold rate for at least one more quarter. Always this nagging point that is this for sure is this for good or we are going to see one more price correction the next two quarters.

Cyrus Dadabhoy: Madam could just I have two numbers, one is the RWA number and two is if could have some light on the credit cost in the SME vertical?

Subhasri Sriram: Risk weighted asset is 2560; the tier 1 capital is about 23.43%.

Cyrus Dadabhoy: 2560.

Subhasri Sriram: 2560 and 23.43% is the tier 1 capital.

Cyrus Dadabhoy: The credit cost if I could have for the SME please would that is possible?

Subhasri Sriram: You are talking of gross NPL numbers?

Cyrus Dadabhoy: No the actual credit cost that you compute?

Subhasri Sriram: We definitely hope to arrest it at about 2%.

Cyrus Dadabhoy: Under 2% okay, so it is currently also under 2%.

Subhasri Sriram: Yes.

Cyrus Dadabhoy: Thanks so much Madam, all the best.

Moderator: Thank you. Next question is from the line of Rehan Badha from Motilal Oswal Securities. Please go ahead.

Rehan Badha: Madam I have again a question on credit cost, so I recollect that in the last quarter of the last year Q4 of FY2016 when we shifted to 150 days recognition that particular quarter witnessed significant credit cost jump, so we witnessed credit cost for FY2015, which is a 2.8% going up to 3.3 in FY2016, so could you give us a sense of in FY2017 how much will this number be broadly a broad rate?

- Subhasri Sriram:** As of now I do not think there will be much change.
- Rehan Badha:** It will be similar to FY2016 3.35 kind of credit cost?
- Subhasri Sriram:** Yes.
- Rehan Badha:** Thanks a lot.
- Moderator:** Thank you. Next question is from the line of Aditya Singhania from Enam Holdings. Please go ahead.
- Aditya Singhania:** Thanks, my questions have been answered.
- Moderator:** Thank you. We will move to the next question. Next question is from the line of Amit Ganatra from Invesco Asset Management Company. Please go ahead.
- Amit Ganatra:** My question is on asset quality, so over last, even if I compare as compared to second quarter 2016 or whether I compare it to fourth quarter 2016 in terms of that bucket each and every bucket of NPA whether it is 120 days, whether it is 90 days there seems to be significant improvement of almost 1% to 1.25% or 1.5% what is the reason for such as a short improvement over last six months any specific things that you would like to highlight?
- Subhasri Sriram:** Something which I think we have earlier talked about that when we moved to 150 I do not think we were looking at 150 at all and we always said that while March 2016 was 150 day recognition it was more an accounting compliance rather than a business team migrating to 150, it has been a process where people are getting to look at customer at 150, we have learnt it, now we at least are talking about 120, so hopefully the pain in March 2017 will be lesser than what we achieved in March 2016.
- Amit Ganatra:** Yes because if I look at so ideally if you were to use 10% of your coverage for every migration in the last, so by that logic actually even right now based on 120 days NPA, which you have just talked about your coverage is already 60% of that, so in that sense unless and until something changes very dramatically the migration pain should hardly be relevant this year as compared to what it was last year, is it that?
- Subhasri Sriram:** This is exactly what we are working to it, in fact if you recall that is what we had mentioned while 150 was painful because I think we were still holding on, but I think you have understood and I think there is a communication process which is working well and we should probably see the rest of the migration to 120 and 90 far less traumatic as it is than the 150 moment.

- Amit Ganatra:** Also there was a question on this disbursement on two wheelers, in presentation it is not disclosed, so what is the disbursement for two wheelers this quarter and previous year, I mean last year second quarter?
- Subhasri Sriram:** In terms of quantum?
- Amit Ganatra:** Yes, absolute amount of disbursement?
- Subhasri Sriram:** June 2016 was Rs.1009 Crores, actually September 2016 is Rs.1005 and September 2015 was Rs.792 Crores.
- Amit Ganatra:** Rs.792 Crores, would request anyways you provide the disbursement breakup, so would request to add this two-wheelers also as a part of that?
- Subhasri Sriram:** Sure.
- Amit Ganatra:** Yes because no point in asking right, it can be.
- Subhasri Sriram:** No problem.
- Amit Ganatra:** Thanks a lot, I have done, thanks.
- Moderator:** Thank you. Next question is from the line of Pradeep Agrawal from Phillip Capital Research. Please go ahead.
- Pradeep Agrawal:** Congratulations for good set of numbers, two questions, first is on the yield side, there has been significant improvement in the last two quarters on the yield side, so would like to know is there has been any change in pricing or it is more to do with the product mix?
- Subhasri Sriram:** Purely the product mix, there has been no change.
- Pradeep Agrawal:** Large part of that incremental growth in this quarter has come from the SME side if I look at the incremental AUM growth, so does that mean that the incremental yields on the SME is higher than what other segments have grown?
- Subhasri Sriram:** Between the products as in if the gold AUM drops I think the automatic beneficiary's overall yields go up, gold being a lower yield product.
- Pradeep Agrawal:** Okay, secondly on we have been highlighting earlier that on the SME side there has been increase in tenure as well as on the LTV's of which we have been targeting for quite

sometime, so would like to know as a trend how you have seen over the last two, three quarters in terms of your LTVs or tenures on the SME book?

Subhasri Sriram: On the tenures yes definitely, we are as I said early that we are looking at more three year plus. I mean it is not just not that we have gone to 7 and 10 years, 3, 4 and maybe close to 5 on a case to case basis is something which we have done quite regularly. As far as LTV is concerned I do not think it is a driver right now, when you are looking at SME financing we are not looking at something like an LTV to decide the loan amount and I do not think there is any shift here, if there is a collateral there are no specific shift in terms of some collateral value to the loan value, I think that continues to be taken.

Pradeep Agrawal: Maybe on the average ticket size have we increased that?

Subhasri Sriram: I would not say that, well we have increased or we empowered the branches for the ticket size in the traditional market, well the average ticket size continues to be still around sub Rs.10 lakh and that is largely on account of the newer regions now generating business at a much lower ticket size, so the average ticket size is still continues to be around Rs.1 million.

Pradeep Agrawal: So that growth, which we have seen, is largely to do with more customers or it is more of a renewal?

Subhasri Sriram: Customers in the newer regions and traditional market is customer cum a ticket size, a combination of both.

Pradeep Agrawal: That is it from my side. Thank you.

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

Adesh Mehta: Madam Congratulation on a very good set of numbers, in terms of employee count. What could our employee count be this quarter?

Subhasri Sriram: 25658.

Adesh Mehta: 25658 and what could that be the same period last year?

Subhasri Sriram: Around same number 25000, there is not much change, the last one-and-a-half years since I think March 2015 maybe give or take about 100, 150 employees.

- Adesh Mehta:** So then would it be fair to say that most of the operating efficiency, which we have seen this quarter, has come from freezing the employee hiring?
- Subhasri Sriram:** Pardon me.
- Adesh Mehta:** So basically our employee count for how long will it continue to remain at these levels, before we look to higher count?
- Subhasri Sriram:** It is a very important thing actually we are also conscious about it, currently well we might have a couple of more quarters at the employee level remaining same, but there might be some amount of shuffle where we are now looking at certain new incentive programs and appraisal models, but probably might have a result in some of our poor performing employees, some amount of shake out might happen and probably we were continue to be hiring, but probably overall numbers have not changed.
- Adesh Mehta:** Right Madam, so it would not go up from here on right, it will just?
- Subhasri Sriram:** Not for at least for couple of quarters because we still not finished in assessing the existing employees and some amount of work is going on that space and only when that is done we will look at addition to the total numbers and during this fiscal we hope to retain the numbers well there the composition might change.
- Adesh Mehta:** Assuming that the reshuffle happens right, if there is some shake out in the employees, what could be our growth rates?
- Subhasri Sriram:** This is no shake out, so let me not make it so dramatic. There are no shakeouts and I would like to let you know that we are identifying those who are with talent and where some of the reallocation may be done, and in fact we are also looking at aligning our back office ratio to field force ratio. We are also retraining people from the back office to field, so multiple initiatives are going on right now.
- Adesh Mehta:** So currently we are at around 25 employees per branch right?
- Subhasri Sriram:** 25000 divided by 1000 approximately, but actually you will see about 5, 10 employees to about 25 employees in a branch and then there is head office, regional office and all other support teams.
- Adesh Mehta:** So on an average going forward over the next two, three years how many employees per branch are we budgeting in?

- Subhasri Sriram:** I do not think we have that in the priority here, it is a question of product, so you will probably see as and when the branches introduce products. I have already mentioned that not all the branches offer all products, so these are branches which are for one product, two products or three products, so we are working towards increasing the efficiency at the branch and thereby this might well result in more people getting added to a branch. This is where the challenge is to do all this without increasing the manpower and this where we are talking about retraining our existing back office support team and other teams into the business side.
- Adesh Mehta:** Madam Final question how much growth can we do without increasing the employee force?
- Subhasri Sriram:** March 2017 is definitely without increasing man work force.
- Adesh Mehta:** How much?
- Subhasri Sriram:** 15% to 20% growth is not difficult and that I think beyond that we will probably take a call closer to the fourth quarter where we are also investing in technology and other initiatives, which probably will go further without adding people.
- Adesh Mehta:** Okay, thank you Madam that is it from my side.
- Moderator:** Thank you. The next question is from the line of Ankit Shah from Vallum Capital Advisors. Please go ahead.
- Ankit Shah:** Could you just provide the gross yield for segment wise?
- Subhasri Sriram:** Product level between products?
- Ankit Shah:** Yes yield numbers segment wise product wise?
- Subhasri Sriram:** We would probably look at about, business loan 15% to about 22%, 23%, gold is about 15% to 18%, two wheeler loan is about 24%, auto loan is about 24% - 27%, personal loan is 27% - 30%.
- Ankit Shah:** Thank you that is it from my side.
- Moderator:** Thank you. Well as there are no further questions I would like to hand the conference back to Mr. Karan Singh from JM Financial for any closing comments.



Shriram City Union Finance Limited
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Karan Singh: On behalf of JM Financial, I would like to thank Mrs. Subhasri Shriram of Shriram City Union Finance and all the participants for joining us on the call today. Thank you and good-bye.

Subhasri Sriram: Thank you all.

Moderator: Thank you very much. On behalf of JM Financial that concludes this conference. Thank you for joining us ladies and gentlemen you may now disconnect your lines.