



## “Shriram City Union Finance Q1FY17 Results Conference Call”

**July 29, 2016**



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*Shriram City Union Finance  
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**Moderator:** Ladies and gentlemen good day and welcome to Shriram City Union Finance Q1 FY17 Results 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 ‘\*’ and then ‘0’ on your touchtone telephone. I now hand the conference over to Mr. Karan Singh from JM Financial. Thank you and over to you sir.

**Karan Singh:** Thank you, good morning everybody and welcome to discuss Shriram City Union’s earnings call. To discuss the first quarter results, we have on the call Mrs. Subhasri Sriram, who is the Executive Director and CFO. May I request Mrs. Sriram to take us through the financial highlights, subsequent to which we can open the floor for Q&A session. Over to you, ma’am.

**Subhasri Sriram:** Thank you Karan. Good morning to one and all. I am sure by now you would have gone through the results. Let me just give you brief highlights. On a standalone basis, Shriram City for the quarter ended June recorded a 15.4% growth in Income from Operations, which is now at Rs. 1,053 crores and this on a quarter-on-quarter basis translates to an 8% growth. Net Interest Income for the quarter stood at 686 crores, up from 573 crores during the same period last year, recording a 19.7% growth on an annualized basis. Pre-provision profits stood at 414 crores, up by 21.3% on a year-on-basis. NPAs are continued to be recognized at 150 days past due as per the statutory requirement and the gross NPA for June 2016 is now at 5.11% as compared to 5.15% in March 2016. Non-gold NPA percentage was around 5.4% and gold loans at 3.63%. There is a marginal improvement over previous quarter where the total gross NPA was at 5.15% and non-gold gross NPA was at 5.44%. In the revised norms, Provision Coverage Ratios are 71.4% resulting in a net NPA at 1.46% as against 1.56% in the previous quarter. Write-offs during the quarter were to the extent of 85 crores as against Rs. 76 crores during the same period the previous year. Profit before tax is now at 278.36 crores and profit after tax at Rs. 181.79 crores.

During the quarter ended June 2016, we were at 17% growth in asset under management on a year-on-year basis and AUM now stands at Rs. 20,473 crores out of which, non-gold AUM recorded a 21% growth. For the quarter, asset under management grew by 4.58% and non-gold portfolio grew by 6.72%. During the previous quarter ended June 2015, the growth in total AUM was at 4.59 and out of which, non-gold book grew by 3.65. As against this quarter, our growth has been around 6.72%. Product-wise mix of asset under management continues to be dominated by small enterprise finance loan which is now at 55% of the total book; two-wheeler at 18%, gold loans at 16% and auto and personal loans 6% each. Disbursements recorded a 27% growth on a year-on-year basis and were at Rs. 5,398 crores for the quarter.

Yield on assets as at June 2016 is at 21.04% as compared to 21.35% in June 2015. Net Interest Margin for June 2016 was at 13.71% as against 13.41% in June 2015. Cost of borrowing as of June 2016 is at 10.07% as against 10.89% in the previous year. Rs. 14,778 crores are the total

borrowings as on date with bank borrowing constituting 56% of the total borrowings. Market borrowings 14%, retail borrowing including outstanding public issue of NCDs which is around 3% is now at 30% of total borrowings. 49% of the borrowings are with floating rate of interest and in addition, we have 7% of our borrowings which is at semi fixed rate, largely constituting the bank loans which have now moved to MCLR-based borrowing. Weighted average tenure of the borrowing is now at 22 months as of June 2016. There has been no significant change in number of branches nor has there been any change in the headcount during this quarter.

On our subsidiary, Shriram Housing, Assets under Management as at June 2016 is at 1,517 crores, a growth of 19% on a quarter-on-quarter basis and the same stood at Rs. 885 crores as at June 2015, a 72% growth on a year-on year basis. Total disbursements during the quarter were at Rs. 321 crores, out of which 219 crores were to retail home finance segment. Of the total Assets under Management of Rs. 1,517 crores, Rs. 178 crores is in non-retail book. Average lending rate continued to be over 16% and significant percentage of the book is from affordable housing mortgage business with a pan-India outlook.

The company currently is operating out of 79 branches. Gross NPA is at 3.95% as compared to 2.76% in March 2016. Among several companies that received permission to exercise SARFAESI as a loan recovery option through a government order during December last year. SHFL is also one of the beneficiaries. Post that, the management decided that they would exercise this option in case if customers' ability to repay was doubtful. In order to do that, the delinquency had to be 90 days past due and thereafter notice has been given and there was a waiting period for further 60 days before the company could look at constructive repossession. It is on account of these, in 255 cases constituting Rs. 35.15 crores as non-performing asset as on March 2016, SARFAESI has been initiated. Out of the above, 12 have been resolved, in 9 the company has received constructive possession and for the balance, legal proceedings are on.

On account of this initiative, NPA resolution which was around 15% during previous quarters reduced to 4% this quarter. The management is confident that not only permanent resolution of the delinquent cases would happen at the earliest, but it will also ensure there are no further slippages as the message is very clear that the company does not tolerate delays and defaults. While management is seized of the matter, it was also important to note that this is not systemic and therefore not prevalent across branches. Large numbers of delinquent loans are in the states of Tamil Nadu, AP and Maharashtra, hence all appropriate corrective action measures have been initiated. The company continues to maintain a coverage ratio over 28% well above the NHB requirement and this alone constituted around 2.3 crores incremental provisioning for this quarter. Profit after tax for the quarter is at Rs. 5.2 crores as against 5.7 crores the previous year.

The clear focus on affordable home loan segment with leaning towards Tier-2 and Tier-3 markets ensures Shriram Housing continues to see high growth potential and will be largely

unaffected by the excess housing supply seen in big cities and increased competition seen in LAP and large ticket loans in construction finance segment. It is important to add years that the current book of non-retail business is 100% standard and with no delays in payment till date. Thank you all. Happy to answer your questions. Over to you Karan.

**Moderator:** Thank you. We will now begin with the question and answer session. We take the first question from the line of Sunil Tirumalai from Credit Suisse, please go ahead.

**Sunil Tirumalai:** Thank you very much for the opportunity. Ma'am, I have a couple of questions. Firstly, on the housing subsidiary, I did not get the link between you getting the SARFAESI benefits and the NPAs going up. What caused the NPA to shoot up so much this quarter?

**Subhasri Sriram:** See, as I explained, typically during quarters if there are customers tending to be in the 90 plus scale, there is an effort to arrest the delinquency and also if there is a customer who is 90 plus during the end of the quarter, there are efforts to get the account for better resolution and bring it back to standard. This would be an ongoing process where a customer slips to 60 days, 90 days then there is one EMI collection and coming back again as this would be a long drawn process. Wherever we found where the customers paying, re-paying capacity has been strained in the last two years, we have done vintage of this portfolio – most of these are loans which are 2 years plus and we looked at it; this is going to be a long drawn process where in the last 2 years the customer repaying capacity has got strained. So we looked at the time of loan sanction and therefore, the management felt it was appropriate to go towards repossession and there are certain procedures and as for SARFAESI, the customer needs to be 90 days past due before we can enforce SARFAESI option. And thereafter, after serving the notice, there is a 60-day wait period before which we can proceed to the next level. As I explained typically 15% of the portfolio which is non-standard is resolved over the next quarter. Current quarter June 2016, the resolution was only 4% and largely the effort was not to get one EMI from the customer and keep it below 90 or 2 EMIs below 60, but it was more towards complete resolution and the company has initiated more in terms of SARFAESI rather than a temporary resolution. At this early stage of the organization, we wanted to make sure we have those processes in place for SARFAESI because this is prerequisite for the home finance segment and we wanted to see whether this was effective in wherever we were in terms of execution and wherever the customer was strained and it was slipping towards 90 days, the effort was more to go through a legal recovery process rather than on bilateral resolution.

**Sunil Tirumalai:** Okay, that was helpful. So basically what you are saying is that, what we see now as the 4% kind of NPA is the true reflection of the underlying customer profile in the absence of any additional efforts from your end?

**Subhasri Sriram:** No, this is very clear. Typically this should be well below 2 and we are confident that both the efforts, one is the SARFAESI and corporate resolution. Second, as we also saw that some of the delinquent loans or large portions of delinquent loans are sort of considered to two or three



stage and there are certain specific reasons behind them and not because of being state specific. It is more to do with changes in structures and place and other things, which the management has addressed and they are very sure that by next quarter and this happened during April quarter, there was not enough time to complete the change of processes which we should be completing before September.

**Sunil Tirumalai:** Okay, so I think my question is, is not it probably wise to take a pause and consider whether the customer segment that we are targeting and the process of origination or assessment is that to be reviewed because we are growing fast?

**Subashri Sriram:** This is why we were very clear that this is not across all states. So there is no specific concern on the segment which we operate in. It was only largely isolated to specific locations where certain processes and certain changes have been implemented in the last quarter.

**Sunil Tirumalai:** Are you also aware of whether these are restricted to certain locations? Are you aware of any localized factors that are driving this kind of a stress?

**Subashri Sriram:** It is true is that Chennai we have had huge impact of the floods, it was a delayed impact because some of the businessmen who could pay one or two EMIs in order to ensure the NPAs to well below 90 days by March could not continue. Their cash flow got strained further and in June, some of them have slipped to NPA. So there has been a little bit of increase, not little bit. I think the significant increase has been in city of Chennai which we are very serious of it, and appropriate action has been taken there.

**Sunil Tirumalai:** And secondly on the gold portfolios, so what is the strategy, is that of focus or is it more opportunistic, you know depending on how the prices move and just wanted to get your thoughts on that?

**Subhasri Sriram:** We continue to be focused, but we are also equally aware about the product structure, but at this point in time; we continue to exercise caution and there are opportunities for redemptions and auctions and we are encouraging customer for settlement. But if in terms of growth in business, we will continue to exercise caution, we will continue to be watchful for changes in gold price and customer behavior changes. But nevertheless, our branches which are in gold loan will continue to serve customers and we are not in any way reducing our interest or management effort in gold loans. It is not something we are right now contemplating, we will watch for some for time.

**Sunil Tirumalai:** Okay and lastly any outlook on overall loan growth and your cost-to-income ratio please? Thank you.

**Subhasri Sriram:** On growth, I think we still continue to be confident over the minimum 15% threshold. Hopefully, we should get closer to 20%. As regards cost-to-income ratio, as we had indicated earlier, during the year, we will see sub 40. But I think in March 2017, when there will be a

requirement of income reversal and other reasons, optically my cost-to-income might go back to again over 40. But in long term, I think we have room for growth without incremental expenses and therefore in the long run we will get the benefit of scale.

**Moderator:** Thank you. We take the next question from the line of Karthik Chellappa from Buena Vista Fund. Please go ahead.

**Karthik Chellappa:** Yeah, thank you for the opportunity. Madam. A few questions. Madam my first question was on the personal loans we seem to be growing this segment quite aggressively, this year it grew almost 75% year-on-year and 15% QoQ. What is the nature of these loans and why are we growing this segment aggressively?

**Subhasri Sriram:** I will just begin in terms of personal loan growth which was a question from Karthik Chellappa. We have had a 65% growth year-on-year. But in terms of quantum of amount, this is a 200 crore increase in AUM - from a 1000 crores book it is 1200 crores book approximately and as we have been saying personal loan is not a product which is off the shelf, we do not market it outside actively. It is largely to our existing customers, to those customers who have completed their tenure, 2-wheeler customers. The ticket sizes are well below 1 lakh at max about 1.5 lakhs. These are 1-2 year loans. So this with increased volume of expired or concluded contracts in 2-wheeler loans in the last 3-4 years. I think we will see a little more traction in the 2-wheeler portfolio in the personal loan book. As we have more customers' database available there will be more opportunities for cross sell. This could be an active product in the coming year.

**Karthik Chellappa:** What is likely to be the yield of this product?

**Subhasri Sriram:** The lending rate varies from 24%–30%

**Karthik Chellappa:** Okay, so we will still continue to grow this book and the growth might optically be higher than the overall AUM because of the low base?

**Subhasri Sriram:** Correct and will also be shorter duration, may not be a very long duration as such.

**Karthik Chellappa:** Ok and are the credit losses in the segment comparable to our overall credit loss?

**Subhasri Sriram:** Marginally higher but since this being unsecured loan, the effort of recovery and sometimes the cost of recovery would be lot more, but on the yield side, on the spread, we definitely get better than other products.

**Karthik Chellappa:** Ok, great. On the second question is on housing, so the way I understand it is because we wanted to take advantage of the SARFAESI provision, this quarter we accelerated reorganization of some NPAs but it is just that the resolution of some of them took some time.

So that is why the NPA looks optically high and the provision amount is also quite chunky, is that the way to understand it?

**Subhasri Sriram:** Let me clarify. We did not recognize anything which was not 90 days overdue. But in the past if they were at, say in the month of May at 60 days, the effort is taken by the management to encourage the customers to not go beyond 90 days before June and one EMI at least is selected to keep the customer outside the non-standard category and therefore the reporting to other agencies is restricted. We encouraged the customers to be a standard asset. This time around or from last quarter, end of March itself, our effort was complete resolution rather than a partial resolution and the only way to do complete resolution is to go for a SARFAESI. Instead of giving a temporary recovery of one EMI and always keeping it in 1-2 buckets outstanding, we have looked at certain customers, certain segments that we would rather have a complete settlement. That is why it takes little more than one quarter, that is what we have seen effect of that in the gross NPA.

**Karthik Chellappa:** Is it reasonable then to assume that this 4% NPA is more or less like a near term high, in terms of NPA ratio?

**Subhasri Sriram:** Sure. Yes, that is the way it should be seen and the resolution should come in soon to get this out of the way.

**Karthik Chellappa:** Related to that, if look at our LAP book, although it is of a very low base, at least in the last 2 years based on the annual report disclosure it is almost grown 7 times. Does not that pace look too fast, too quick?

**Subhasri Sriram:** You are talking about Shriram Housing?

**Karthik Chellappa:** Yes, Shriram Housing?

**Subhasri Sriram:** In Shriram Housing, about Rs. 178 crores is non-construction, which is builder finance or construction finance. Also technically it might be qualified as LAP but they are all moving towards the home loan segment sooner than when we expect. So this is for a very small base, largely working towards converting it into Retail finance. So I do not think we are too worried about that growth pace.

**Karthik Chellappa:** Ok and a question on 2-wheelers madam, as you would know that the current ruling party, as part of their manifesto has as in their manifesto promised like a free scooter or so for working women and to subsidize up to 50%, although the current budget does not seem to have any provision for that on a 2 to 3-year view. Can this disintermediate you and can that impact demand for especially the scooter segment of your portfolio in Tamil Nadu?

**Subhasri Sriram:** I really do not expect that at all. First I do not expect what is the level of project revision on the government side. Leaving that aside, the segment which we are catering to, the segment which



the government will support I think will probably have no comparison. This probably will impact MFIs rather than companies like us. We are not financing the very poor not even in the case of a 2-wheeler.

**Karthik Chellappa:** But everybody is going to be eligible for this loan, irrespective of class, right?

**Subhasri Sriram:** Not everybody. There are certain criteria and actually it is not for all.

**Karthik Chellappa:** Ok got it. One house keeping question madam, can I get the comparable 120 day NPA, 90 day NPA for this quarter?

**Subhasri Sriram:** I do not have it at the moment. Karthik, I can definitely provide later. We can get back to you.

**Karthik Chellappa:** Okay great. Just one more follow up. On the yesterday's AGM I notice that one of the items in the special resolution is borrowing up to say 30,000 crores. Apart from let us say a 10,000 crores of private placement of commercial paper, now we are at 20,000 crores AUM and about 14,000-15,000 crores of borrowings, do we really need such a high limit or is that a reflection that you are now lot more comfortable with the growth over the next 2-3 years?

**Subhasri Sriram:** You are reading too much between the lines. These are typically enabling resolutions. I mean, though we would love to exhaust and use this limit at the earliest but I do not think it is an immediate reflection. It is not a reflection of immediate consumption.

**Karthik Chellappa:** Okay. It is more a normal course of business thing?

**Subhasri Sriram:** Yes and this is an enabling resolution. So normally if limit permits the prudent method is to get a second higher approval rather than having a very expensive EGM. So we will typically have a slightly higher leverage. But nevertheless yes, I agree with you, we should look to exhaust this limit and come back to you for an approval.

**Moderator:** Thank you. We will take the next question from the line of Anil Tulsiram from ValueQuest. Please go ahead.

**Anil Tulsiram:** Ma'am, I have 3 questions, all relating to gold loans. First our gross NPA in gold now stands at 3.6% which appears to be far higher when compared to our peer. So is it because of the collection efficiency or because of the high-end non-duration, what exactly is the reason for higher the gross NPA?

**Subhasri Sriram:** You are talking about Shriram City or Shriram Housing?

**Anil Tulsiram:** Shriram City gold loans.



- Subhasri Sriram:** I cannot say we are talking about a collection efficiency in gold loan. I would probably say that the way the probably rest of the gold loan companies are looking at much shorter and complete engagement, I honestly do not have an answer why others are lower. But I think this seems to be our within our control for expectations at 150 DPD level and based on our past track record. There is no jump in the sector.
- Anil Tulsiram:** Because their NPA stands between 1%-2% and ours is around 3.6%. So that is what I am trying to understand.
- Subhasri Sriram:** I am sorry. You are not very audible.
- Anil Tulsiram:** What I am saying is our peer's gold gross NPA stands at 1 to 2%...
- Subhasri Sriram:** 1%-2% while we are at 3.63%?
- Anil Tulsiram:** Yes.
- Subhasri Sriram:** I do not have answer for that. I will definitely look at it and if there is any room for us to improve our processes to bring down the gross NPLs, we will definitely take this up. But I can assure you that our losses are not anywhere close to this number. We have customers who have past dues where we have not gone and exercised our auction procedure immediately. We will probably refer them far quicker in the auction process.
- Anil Tulsiram:** Sure and my next question is one of your peers has reduced the loan duration to 3 to 9 months and the reason cited is to protect against the gold volatility. Do you have any such plans or you want to stick to one year only?
- Subhasri Sriram:** While we do have one year, I think we also have schemes for 3 and 6 months but the reality is that a typical gold loan customer prefers a longer duration or I would not call a longer duration but at least prefers an option with the longer duration with the borrower having right to redeem as and when he chooses. So we are not looking at our customer with 3 months and chasing him within the end of 3 months 90 days for payment and movement, I think this is not the preference of the customers we deal with. So while we do have options for 3 and 6 and 9 months in our offerings to customers, the typical behavior is more towards one year. Our competitors I understand also have option where 3 months' tenor is used more to attract a lower lending rate preference to customers. So in case the customer does not exercise the same within 15 days or within one month the interest rates then starts moving upwards. So this is more a marketing initiatives of some of the gold loans companies; It is also a way of attracting footprints into the branch. Well I think with our level of multiproduct offering in the branch, the level of transparency and the way we deal with customers this product really does not augur well with our segment of customers.



- Anil Tulsiram:** One last question, now the microfinance ticket size is increasing every year. So going forward do you see a scenario where microfinance loan start impacting our gold loans?
- Subhasri Sriram:** Microfinance and gold loans. I do not know how these coexist. If there is such a conflict it should be in a very small grammages of gold rather than larger ones which we deal with. I do not expect a microfinance customer having large quantum of gold and that is not the segment we operate with. This is probably more in-line with the pawn brokers where 1-2-3 grams of gold are being on with small earrings and stuff like that which is not a segment we operate.
- Moderator:** Thank you. We will take the next question from the line of Anita Rangat from HSBC Bank. Please go ahead.
- Anita Rangat:** My question is that in Q1 write-offs are typically high, it is almost like half of last year's write-off or even more is slightly more than that. So what is the reason for such high write-offs because your gross NPAs are actually in the same level as March, so just wanted to understand that?
- Subhasri Sriram:** You are talking about?
- Anita Rangat:** Shriram City Union.
- Subhasri Sriram:** So my write-off is 85 crores while last time it was 73 crores. Where do you talk about 50% last year?
- Anita Rangat:** Sir this quarter as compared to the whole of last year?
- Subhasri Sriram:** Whole of last year is 300 crores.
- Anita Rangat:** Overall provisions in write-offs, I am saying. About 136 crores and full of last year was about 256 crores, in the presentation I am looking at.
- Subhasri Sriram:** Sorry come again. Can you please repeat?
- Anita Rangat:** Overall provisions in write-offs for FY16 was 256 crores and June...
- Subhasri Sriram:** 73 crores, you are talking about year as a whole write-off?
- Anita Rangat:** Provisions and write-offs put together. I am talking about 256 crores last year and this year Q1 it is about 136 crores. While you cross NPA levels are the same from March to June.
- Subhasri Sriram:** I do not have it. Quarter end that we are talking about, it is not here.



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- Anita Rangat:** Yes, this quarter is almost more than half of last year in terms of provisions and write-offs, so incrementally are you doing more write-offs is what I am trying to understand?
- Subhasri Sriram:** Last year provisions and write-offs were 616 crores, year as a whole. The 256 which you are talking about is only for the quarter. We had a onetime provisioning coverage changing from 180 to 150. So you are talking about 136 vis-à-vis 615 crores.
- Anita Rangat:** Understood. I think I was wrong there. My second question is as you move towards 120 days do you see this provision remaining like, gross NPAs remaining elevated at this level?
- Subhasri Sriram:** At 120 days the gross NPA will go up further.
- Anita Rangat:** But at net level you will still like have this kind of healthy provision cover?
- Subhasri Sriram:** Yes, net NPA will largely remain closer to this.
- Anita Rangat:** And what would be the stock of repossessed asset at the end of this quarter?
- Subhasri Sriram:** I do not have the numbers of the cuff but repossession is largely done only in 2-wheeler loan and at best we can do about 3000 vehicles, approximately about 3000 vehicles in the yards.
- Moderator:** Thank you. We take the next question from the line of Janhvi Goradia from Motilal Oswal Asset Management. Please go ahead.
- Jhanvi Goradia:** So on this recognition from 180 to 150 days, so I am assuming that a lot of recognition that happened in the March end quarter would have been reversed because these are not real losses, so the customers who slipped would have paid in this quarter. So could you give us a fair sense of if there are say 100 customers who slipped what is the ratio of the recoveries that have happened and what are the provision write backs that we have seen because of this?
- Subhasri Sriram:** You are talking about a flow backward and then a reversal on account of it below 150, I do not have number off the cuff, but let me also tell you while we have been growing with net inflow backwards and slippages, the net has been only an increase and marginally we were able to address it. Recoveries would be probably about 150 odd crores which have moved through from last quarter being substandard to this quarter being standard.
- Jhanvi Goradia:** 150 crores of recoveries you are saying?
- Subhasri Sriram:** Product recovery we are talking of flow backward.
- Jhanvi Goradia:** Right. So in terms of number of customers if you can get some idea what percentage are you able to, are the customers are able to come back to being standard?

- Subhasri Sriram:** I do not have the number ma'am but it not large in considering the number of customers we deal with. This has been a little bit and our concern for couple of quarters has been that the customer's ability to flow back and to be standard is not as encouraging as it was couple of years ago. So actually what we have been seeing is a trend that customers who slipped at best are able to maintain their slippage and it has not moved to being worse – they are able to hold their own and are able to come back to settle the loan. Only after their monthly commitments are over and only after their agreed repayment dates are complete do they continue to pay the same amount of EMIs which are used to pay as running dues, for couple of more months before which when they are eligible for closure.
- Moderator:** Thank you. We take the next question from the line of Digant Haria from Antique Stoke Broking. Please go ahead.
- Digant Haria:** Our growth rates have steadily inched up from which was 16%-17% last year, we are closer to 19% on the overall portfolio also. Can we build this kind of number for the full year?
- Subhasri Sriram:** I would tend to agree. Obviously the 1<sup>st</sup> quarter is not so great but we have done fairly better than the last quarter. Some of it can also be on account of the 1<sup>st</sup> quarter last year not being so great. But nevertheless I think at least internally yes, there is amount of enthusiasm and I think we are pretty confident that what we have seen now is likely to continue.
- Digant Haria:** Alright and if you can give me the break up in terms of your 2-wheeler and SME contribution and growth coming out of traditional market and the new market?
- Subhasri Sriram:** 2-wheeler's dependence on Andhra Pradesh and Tamil Nadu is significantly getting lower on a quarter-on-quarter basis. I would say today excluding AP, Tamil Nadu the rest of the business is probably close to 60%. From an 80%-90% in Andhra, Tamil Nadu we are now reduced to 40% for 2-wheeler business. We have market leadership even in many of our nontraditional markets like Punjab, Haryana, Rajasthan . As far as SME business or small enterprise finance loan book is concerned, our AUM is largely coming from our traditional market, AP, Tamil Nadu and Maharashtra contributing more than 80% of the flow and out of which 10% will come from Gujarat, Madhya Pradesh and Karnataka and another 10% coming from this rest of the states.
- Digant Haria:** So it is 2-wheeler where we have really scaled up outside traditional markets of Andhra Pradesh, Tamil Nadu?
- Subhasri Sriram:** It has been a whole 5-year effort so it is not something which happened overnight, so it is more than 5 years since we have consciously built our branch network outside of these 2 states and the whole objective was to build infrastructure, the teams, get the process in place. That is why we are right now well positioned to launch other products in these states.



- Digant Haria:** And so this slightly better growth expectations that we internally now have is largely because of growth accelerating in the nontraditional markets or it will be a similar mix?
- Subhasri Sriram:** Our 2-wheeler business continues to show very healthy growth across the states. We have opportunities coming in both deeper and wider. As far as the Small Enterprise Finance portfolio is concerned I think the team is getting in place. Our ability to reach more customers, turnaround time, our return on efforts, all of these have been significantly improving in the last couple of quarters and we expect to see this traction in the coming quarters as well.
- Digant Haria:** And lastly, I think last con-call we said that once you migrate to 120 days for this year RoA should be close to 2.5-2.6 kind of a range. So we are good with that kind of a range?
- Subhasri Sriram:** Yes, very much.
- Digant Haria:** And then lastly one data point in the housing finance subsidiary, what is the incremental ticket size in the individual and non-individual segment?
- Subhasri Sriram:** In the mortgage finance we continue to be in the 10-15 lakhs category. In the construction finance the ticket sizes vary because there are very few deals we do, so I think the largest we have done is 25 crores.
- Digant Haria:** And what would be the breakdown of say home loans, LAP and builder loans if I have to use that kind of a segmentation?
- Subhasri Sriram:** As I said the 172-178 crores book is in nonretail but within the retail off the cuff I do not have a break up between mortgage and LAP. I think that. LAP is about 342 crores.
- Digant Haria:** So this 342 crores is retail LAP, right, so loans givens against housing?
- Subhasri Sriram:** 170 crores is top up loans and 827 crores is home loans.
- Digant Haria:** Can you repeat, 827 crores is home loans and...
- Subhasri Sriram:** 342 is LAP, 170 is top up, 177 or 178 is construction finance.
- Moderator:** Thank you. We take the next question from the line of Umang Shah from Emkay Global. Please go ahead.
- Umang Shah:** I just wanted to confirm during your opening remarks you mentioned that the process realignment that we are doing in the housing finance business is not complete and probably will get completed by August-September, is that correct?



- Subhasri Sriram:** That is true. The initiation started somewhere in April and change of people, position, processes, all is right now work in progress.
- Umang Shah:** So is it fair to assume that probably for one more quarter we may see some inch up in NPLs in the housing finance business?
- Subhasri Sriram:** It may inch up but complete resolution might not happen before September. But I am not sure that it will worsen further but it can get dramatically better under one quarter. We will see marginal improvement in this quarter and one more quarter thereafter will be better numbers.
- Umang Shah:** So this 4% NPA might look like a plateau for a quarter or two and then the improvement?
- Subhasri Sriram:** Yes, one quarter at least will be plateaued out and then we will see some improvement.
- Umang Shah:** Alright. Secondly on the standalone business, I mean the core City Union business, our NPLs have remained largely flat sequentially, could you also help us what are the trends on 180 DPD basis, is it an improving trend or how is it?
- Subhasri Sriram:** 180 yes, we did see a good amount of progress since we were able to do better than what we did last, from 3.57 this time around it has moved down to 3.3%.
- Umang Shah:** From 3.57 in Q4 to 3.3%?
- Subhasri Sriram:** Actually there was one earlier question about gold loan which was 3.16 has dropped down to 2.4. So the auctioning process has become better in 150 to 180. We are yet to project for 120 to 150 in terms of auction.
- Umang Shah:** Alright perfect and one last question, that in the housing finance business incremental NPLs that we have seen I am sorry if I have missed this, the large part of that is coming from Retail home loans only right?
- Subhasri Sriram:** Not large part, 100% coming from Retail home loan, everything other than construction finance. Construction finance there is no delinquency.
- Umang Shah:** And LAP also quality remains fairly steady?
- Subhasri Sriram:** All part of the retail book equally better or equally worse.
- Moderator:** Thank you. We take the next question from the line of Nishchint Chawathe from Kotak Securities. Please go ahead.
- Nishchint Chawathe:** I did not get the number of GNPLs on 180 days, was it 3.14 or was it 3.4?



- Subhasri Sriram:** Which one you are talking about?
- Nishchint Chawathe:** The NPLs
- Subhasri Sriram:** 3.3 and 3.57. 180 days is 3.3 as on June 2016 and it is 3.57 as on March 2016.
- Nishchint Chawathe:** Great. The other thing I wanted to check was on the coverage policy. Now in the last quarter you did mention that you are kind of doing a comprehensive assessment of that and you have some consultant etc. who have come in out there. So have you made a decision?
- Subhasri Sriram:** The work has sort of reasonably come to an end. But I think we are still consulting the teams and we will probably come back with something more concrete maybe in one quarter from now. But yes we have initiated and work has come to an end, we have put the assets to a test and across all products and we are reasonably confident about what will be the eventual losses and what are the expectations. But as far as looking at the accounting provisioning and coverage goes we will probably take a decision maybe in a month or two.
- Nishchint Chawathe:** And if I have to make a transition between 150-120 in terms of overall percentage I mean how much would broadly be the rise that you could kind of guide us?
- Subhasri Sriram:** Gross NPLs which is now at around 5% we expect it to be anywhere around 7%.
- Nishchint Chawathe:** Around 200 basis points rise in every movement of bucket?
- Subhasri Sriram:** Gross NPL movement. Well, we will have to see in 2 quarters from now, 3 quarters from now to see how it pans out.
- Nishchint Chawathe:** Sure. Can you share the numbers for segmental NPLs?
- Subhasri Sriram:** For the 150 DPD?
- Nishchint Chawathe:** Yes, so I think you shared for the gold loan, so I just wanted to check if you can share it for SME, personal and other segments?
- Subhasri Sriram:** 2-wheeler is 4.91, Auto is 6.45, personal loan is 5.89 and business loan is 5.38. So overall it is 5.40. The 150-day DPD gold is 3.63 and company as a whole it is 5.11.
- Nishchint Chawathe:** And finally could you give some guidance on the borrowing mix, how do you see that playing out? Is it going to be a lot more of bond borrowings this year or bank borrowings, how would the ratio look like may be by the end of the year?
- Subhasri Sriram:** Honestly it will be more towards bond and market, less towards retail, having said that between bank and bonds we are yet to see the bank move their rate. So at this point in time we



are still with a little bit of wait and watch to see how banks eventually settle down on the MCLR rate. While we have seen quite a bit of movements in some of the larger private banks and one or two public sector banks between their MCLR rate as in April to MCLR rate as at June, but once that road map is cleared we will consider our options. Our preference would be more towards bonds and in the case of longer duration we might shift looking at banks.

- Nishchint Chawathe:** Sure. Just one last question. What would be your market share in 2-wheelers?
- Subhasri Sriram:** In terms of amongst finance component we should be close to more than 25%.
- Nishchint Chawathe:** And this is on disbursement?
- Subhasri Sriram:** On disbursement and in terms of only vehicles which are financed out of the finance company.
- Moderator:** Thank you. We take the next question from the line of Mithun Soni from GeeCee Investments. Please go ahead.
- Mithun Soni:** One query. So basically to understand when we went out non-South regions, our strategy was we will do two years with 2-wheelers and then based on that database we will move up the value chain towards giving personal loans and SME and all that, am I correct?
- Subhasri Sriram:** Very much sir.
- Mithun Soni:** So just want to understand if we exclude the South what will be our complete database now and how much cross selling percentage we would have reached as of today? Would you be able to share the number of customer database and everything if possible?
- Subhasri Sriram:** I was briefing in one of our interactions I was told that it is about 1 to 1.11, that is very miniscule. Today cross selling I would say we are just starting, that is just probably we are just cross selling right now.
- Mithun Soni:** You are saying the cross selling today is only 1% odd?
- Subhasri Sriram:** 1 to 1x it is like one customer having one more loan extra.
- Mithun Soni:** Okay, 1x.
- Subhasri Sriram:** That is largely I am talking about in the nontraditional market.
- Mithun Soni:** And what is the normal in the traditional markets we usually see?
- Subhasri Sriram:** We at least hope to touch 2 and there is a lot of room for it and you are on dot that the management is now trying to improve on its cross sell capabilities. All technology initiatives

are at forefront right now. We will see a lot of activity and lot of improvement in that phase in the coming quarter.

**Mithun Soni:**

So I also have one more query. So let us say if we talk about just to understand little bit, if we take a case of MFIs, microfinance institutions what they are trying to do is progress their customers based on 1 or 2 years of their understanding of the customer who are higher ticket, one single borrower loan of 50,000-75,000. Same thing is also what we are doing wherein we are trying to get an understanding from the 2-wheeler and then progressing the customer. By any chance are we seeing these MFIs getting into our territory in terms of SME customer, is it the same customer? That is one. The second thing, if we have to take the complete value chain right from the MFI all the way up to our customer, is there any potential for us to capture the full value chain, this is more strategic question. Are you seeing anything like that way or not really?

**Subhasri Sriram:**

Answering the first part between MFIs and us, I really do not see that much of a conflict, just to say that we are not, anywhere even touching customers which are below poverty line or just about marginally above poverty line. Our customers are well above that, mixing business with profitability and actually being wealth creators. The other part of it to say that are we looking at the value chain of our customers as well, definitely is. That is the whole purpose of us looking at what else can we provide, the gold loan itself is one of the option. Can I give more than just a business loan, the other assets and other short term requirement of the businessman? Personal loan is one such product which we are looking at. 2-wheeler loan we are looking at. Probably the one segment which we are right now not active in is stock securities. Considering our customers profile from Tier-2 and Tier-3 we have not seen that being an active asset class but barring which I think we cover the entire asset class of customer in our space and we provide financing option against each one of them and the recent addition is our home loan section.

**Mithun Soni:**

Okay. So then in that case given that we have the customer and majority of this customer are our own customer like we will be the sole lender because most of the places in case of SME we would have security of some or the other asset, aren't you thinking of going for a small banking license or does it make sense for us to go for that because then you also are able to get the complete savings and accordingly create a value chain all together. Do you think that it logically makes sense or does not?

**Subhasri Sriram:**

With the current guidelines for SMEs what they are, I think the situation we are in as NBFC looks far more attractive and prospects are much better than to be an SFB, which probably is more appropriate for MFI or smaller NBFC because probably they were struggling to raise their debt or rating or access to funding. So it would have been an option. I would probably say that for Shriram this might not be the right choice.



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- Mithun Soni:** And my last question on this is that today you said the cross sell is about 1-1.1 or something, by when are you expecting this to touch 2?
- Subhasri Sriram:** I think it is a long journey. At this point we do not have very precise timeframe. As right now as we have said more preparatory work is right now going on in terms of technology, database alignment processes but convert that into business we probably it will take some more time.
- Mithun Soni:** And this database and everything will be ready in next 6 months?
- Subhasri Sriram:** Yes very much. If the database is ready just for sure cleaning up, allocating, targeting all lot of other will be done before we get on to the field where we set people on the field.
- Moderator:** Thank you. We take the next question from the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.
- Rahul Ranade:** Just coming up to this SARFAESI question actually, the point that we exercise the SARFAESI option than collecting just one EMI, is this process more of an objective process or was it subjective based on a borrower by borrower assessment of the situation?
- Subhasri Sriram:** Borrower by borrower. We had 255 such cases, and we looked at them line by line, agreement by agreement, borrower by borrower. Interactions were done. We have taken multiple feedback - both at branch and regional level before we initiated all of it. This is more an effort to test the process to the option available itself and therefore we have gone to a very elaborate mechanism before we embarked on this.
- Rahul Ranade:** And just a data point question how much of our AUM would be off balance sheet today?
- Subhasri Sriram:** For Shriram City
- Rahul Ranade:** Yes.
- Subhasri Sriram:** 2.15%.
- Rahul Ranade:** And just going to the gold loan, we were just discussing that we were not a competition to MFIs or rather MFIs are not a competition to us, what are the ticket sizes of our gold loans?
- Subhasri Sriram:** Gold loans varies about Rs. 40,000-50,000, which actually means we have the gold worth some Rs. 70,000.
- Rahul Ranade:** And how much of it would be in the one-year kind of a product even though we offer the 3 and 6 months?
- Subhasri Sriram:** Currently our average tenure of the stock holding period is about 6 to 7 months.



**Moderator:** Thank you. We take the next question from the line of Pradeep Agrawal from Phillip Capital. Please go ahead.

**Pradeep Agrawal:** Just two questions. One is in the last con-call you mentioned that we have been gradually working to increase the ticket size and tenure on the SME segments, so just wanted to know have you moved up in the process even in this quarter?

**Subhasri Sriram:** Yes obviously. There is definitely a clear look at tenure and the ticket size. Our reservations on larger ticket is probably for much larger ticket - I really mean the 25 lakhs or 50 lakhs not much larger and the reservations are limited. We are happy to look at those proposals, and thereby we are seeing small improvements in growth in ticket size and as a consequence of it the tenure will go up. We are not necessarily stretching for smaller loan longer duration, we understand that as the loan amount increases, it is appropriate to also look at slightly longer duration than the same 2 or 3 year loans.

**Pradeep Agrawal:** Okay. My second question is on margins, any outlook you would like to give in terms of yields or cost of funds going forward?

**Subhasri Sriram:** Cost of funds, I believe that there is still room for improvement both from the banking sector we should be able to get some more and some amount of mix in the liability profile will see some marginal reduction in cost of funds. As far as the lending rates we are not immediately looking at any lending rate reduction. However we were able to mix some change in the composition, there may be periods when the results might look slightly different than the previous quarter. But that is largely on account of mix change than company reducing lending rates. To answer your question this number what you are saying is, around this number is what we should be seeing for this year.

**Pradeep Agrawal:** Okay. What would be your incremental cost during the quarter, cost of funds, any number would you have?

**Subhasri Sriram:** Incremental cost of funds?

**Pradeep Agrawal:** Yes this quarter.

**Subhasri Sriram:** Banking is coming around 9.35% to 9.45%, bond market is around 8% and I think that is the large product we are talking.

**Moderator:** Thank you. We take the next question from the line of Amit Tulsiram and Individual Investor. Please go ahead.

**Anand Tulsiram:** It is Anand Tulsiram. I am just trying to understand how do we recognize NPA in gold finance. Am I correct to say, it is after expiry of 150 days after the one-year loan expiry?



- Subhasri Sriram:** Yes that is right.
- Anand Tulsiram:** And most of the loans will be bullet payment structure.
- Subhasri Sriram:** Yes most of them.
- Anand Tulsiram:** Principal and interest together.
- Subhasri Sriram:** One year is if the customer will operate for one year. In case the customer will operate for 6 months, it is 6 months and 150 days. It is depending on what the customer has opted as a primary agreement at the time of drawal.
- Anand Tulsiram:** So is it fair to say that most of the customers opt for bullet payment structure principal interest together?
- Subhasri Sriram:** Most of it is yes. Well there are programs running EMI interest only with quarterly payment but typically yes, the bullet payment continues to be the most preferred product.
- Moderator:** Thank you. We take the next question from Milan Jain from Jeffries Group. Please go ahead.
- Nilanjan:** This is Nilanjan. Just wanted to hear your thoughts on the SME book which seems to be growing pretty rapidly. But is it a fair assumption therefore that at least in your view the NPA trajectory is lot better than what it was earlier and if you could kind of highlight which all segments do we kind of include within the broad ticket sizes and lastly if something turns into an NPA what is the recovery mechanism, vis-à-vis the collateral that you are talking against this? Thank you.
- Subhasri Sriram:** SME loans I think largely reflect our confidence about the market or lack of concern or lot of immediate worries about challenges in the macroeconomic condition. That is giving us the necessary push to both scale up in terms of larger ticket size, longer duration and in terms of composition it continues to be largely traders and service industry and only less than 10% is a manufacturing, even that is a very low end manufacturing with loan technology and low machinery investment. From a ticket size perspective we though do permit 2 lakhs, the average typical lower range is about 5 lakhs and the preferred option is 20-25 lakhs beyond which we do selective loans and with multiple levels of approval. As far as recovery process is concerned we do take property collateral but we do not try to enforce that as a first line of defense. The typical process is that we understand they are businessmen and we understand we are lower on priority in their ability to raise money and therefore the cash flows can have temporary challenges, we typically give some sign, we interact, we continue to engage with the customer and the last resort multiple recovery team, legal thereafter, typical arbitration proceedings are initiated and much later do we go for attachment. That is in cases where the borrower is either completely out of business or moving out of the current location. Until then we do not look at attachment as the line of defense.



**Nilanjan:** And I did not hear you on NPA just said it is little comfortable and I missed the NPA number that you gave for this?.

**Subhasri Sriram:** I did not say what NPA number, I actually said that economic conditions are less daunting that our growth is more encouraging today. Maybe you can correlate that as our fear on NPL or asset quality is much lower than it was one year ago.

**Nilanjan:** And then if you broadly break between let us say you talked about traders and services and manufacturing which is small which of these 3 do you think you are more comfortable today?

**Subhasri Sriram:** I cannot talk about what is comfortable. I can probably say what we attract is largely the traders. They have probably preferred companies like Shriram. So their funding requirements unmet by the banks, their inability to establish their margins and turnovers lead them naturally to come to NBFCs.

**Nilanjan:** And although you may not attract these customers, but what is your sense of NPAs on the manufacturing side and services actually rather than the traders?

**Subhasri Sriram:** I do not have the precise number with me, but I doubt there will be much difference.

**Nilanjan:** Sorry I did not get that.

**Subhasri Sriram:** I doubt there will be much difference between these segments but honestly I do not have the number right now. We have not seen this in terms of between SME we have not sliced it into traders, services and manufacturers.

**Moderator:** Thank you. We will take the next question from the line of Harsh Shah from JM Financial. Please go ahead.

**Harsh Shah:** I have a question on the housing subsidiary. So the debt equity ratio is just 2.8x while we have seen new players like Aspire also having the leverage 2 times of Shriram Housing. Any particular reason for not availing a higher leverage?

**Subhasri Sriram:** I think our growth has been gradual. I think the leverage is all in terms of how fast and how soon you want to grow. I am not sure about the other companies I would say Shriram has been maintaining actually very healthy 100% multiple when doubling up balance sheet every year I think close to that is something which we are comfortable with. Much faster growth, probably it will take a while for us to handle that. So I do not know about others but I think we are okay with the growth which we have been seeing in Shriram Housing.

**Harsh Shah:** Okay and another question is on NHB refinancing. So I believe you are not eligible for the NHB refinancing as of now because of the net NPA. So is that true?



- Subhasri Sriram:** As because our net NPA is over 2.5 for a fresh NHB refinancing we might not be eligible this quarter.
- Harsh Shah:** So do you plan to...?
- Subhasri Sriram:** But nothing on the existing NHB funding which we have got.
- Harsh Shah:** How much funding have you got from NHB still now?
- Subhasri Sriram:** 32 crores if I am right.
- Harsh Shah:** And any guidance on how much of your borrowings will be from NHB refinancing going ahead?
- Subhasri Sriram:** NHB refinance comes with lot of strings in terms of borrowers, in terms of margins we can maintain in the business. So I doubt that we will be able to depend on NHB refinancing in a very big way. If you were to lend at 15%-16% many of our customers go out of the NHB refinancing window. They are unable to access. So NHB is unlikely to be main source of funding in the near source. We will continue to use it in a small way but not likely to be principle funding option for us.
- Harsh Shah:** And one last question related to affordable housing segment. So how far have you gone to avail the credit link subsidy for the affordable housing segment like have you been pushing for customers to avail for subsidy or how is it?
- Subhasri Sriram:** Not so much yet. We are yet to go into getting the subsidy mode right now. We will reevaluate it. The margin is very small proportion.
- Moderator:** Thank you. We take the next question from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.
- Karthik Chellappa:** Just one question if I look this particular quarter given that personal loans and 2-wheeler loans have actually grown much better than the overall loan growth and these are high yielding segments why is it that our loan yield is actually down YoY?
- Subhasri Sriram:** I think one think which you will have to see it is like slight 6% growth is, whatever growth in 6% book, it is not going to move the needle very significantly Karthik. While I agree with 2-wheeler book but you would also have observed that my SME book growth will sort of take away all the growth you will see in the personal loan book.
- Karthik Chellappa:** But the SME yield is also higher than the average, right?



- Subhasri Sriram:** And there is also to extend the timing of the loans and which period of the quarter the loans have been originated. So probably you are right that you will see these yields coming over a period of time. But to see an AUM growth in one quarter and see your yields move in that same quarter I think is a little bit unrealistic.
- Karthik Chellappa:** And in your view the impact of interest reversals on 150 days as oppose to 180 day in the same quarter last year did not have that much impact on the yield at least?
- Subhasri Sriram:** For this quarter.
- Karthik Chellappa:** Okay. Not that much of it, okay. Thank you.
- Subhasri Sriram:** This quarter we are 150 and 150 and our NPLs have actually come off. The income reversals have not been a very significant....
- Karthik Chellappa:** I actually meant year-on-year because 1<sup>st</sup> quarter last year was on 180 whereas we are on 150. So whether interest reversal on a year-on-year whether it had an impact on the yield?
- Subhasri Sriram:** It is not significant.
- Moderator:** Thank you. We take the next question from the line of Aditya Singhania from Enam Holdings. Please go ahead.
- Aditya Singhania:** Just wanted to check within the SEF business you mentioned that the non-chit areas, the sort of nontraditional areas are about 20% of the loan book. Was that the right number I picked up?
- Subhasri Sriram:** Nontraditional book for MSME loan, for the small enterprise book.
- Aditya Singhania:** That is right. So is that seeing a fairly accelerated growth I sort of remember that this was about 15% or so?
- Subhasri Sriram:** Yes we will see as I said earlier states like Gujarat, Madhya Pradesh, parts of Maharashtra which is not the Chit zone, we are seeing a very healthy growth there.
- Aditya Singhania:** And this is likely to continue?
- Subhasri Sriram:** This will likely to continue and probably two quarter from now we will be talking about North MSME loan books.
- Aditya Singhania:** So your two quarters now will be?
- Subhasri Sriram:** Talking about business in Small Enterprise Finance coming from Northern states too.



- Aditya Singhania:** Northern states as well?
- Subhasri Sriram:** North state, Delhi, Punjab, Haryana we will be getting there in the next two quarters.
- Aditya Singhania:** So as of now the growth is mostly from the Western states and ...?
- Subhasri Sriram:** West and South and a very small extend Central India, North is a very small book right now, hardly anything, just the pilot projects are going on right now.
- Aditya Singhania:** I have two questions related to this. So the chit areas then are growing at still about 14%-15% the traditional?
- Subhasri Sriram:** Very much.
- Aditya Singhania:** And you expect that to pick up during the remarks you made about your comfort on the sort of tenure and the underlying....
- Subhasri Sriram:** I expect so but we will have to see how much more how soon he can get there.
- Aditya Singhania:** I did not follow the last part, how soon...?
- Subhasri Sriram:** I am not sure how soon we can move to the growth trajectories.
- Aditya Singhania:** In the chit areas?
- Subhasri Sriram:** In the traditional market.
- Aditya Singhania:** And so the comments you made on being more comfortable with the tenure, etc., are relevant?
- Subhasri Sriram:** While we did quite a bit of disbursements in the previous year, our AUM growth was quite tepid. So today what we are confident about is, disbursement growth will actually translate to AUM growth. Not the way it was in the last 1-1.5 years.
- Aditya Singhania:** And some sense on the demand environment particular in the state of Andhra Pradesh or sort of Andhra Pradesh, Telangana which was a large sort of area for you?
- Subhasri Sriram:** Demand is very healthy but I think we would have to exercise caution in terms of this state's affordability and how that can have an impact in the business community, the tax requirement and the government requirements for funding. But just on a simple helicopter view development work is all around in Andhra Pradesh and Telangana. So it is not a city or not a town where there is no activities right now happening. But how much we take advantage of it and where we take advantage of it is I think our business team is well aware of it.



**Aditya Singhania:** So could we get a sense that if you were to get more confidence on those issues in the next 6-12 months could we see a pickup in growth per to happen again?

**Subhasri Sriram:** Yes, we have started seeing this. But I think we are also conscious just I said about gold rates we are also aware that the state is going through its own budget allocation and deficits and therefore with the tax requirements, we do not know how that works and we are also quite conscious about the GST if in case it is implemented, how these plans will pan out.

**Aditya Singhania:** So could we then infer if I take a 2-3 year outlook that while growth will remain reasonably high in this it will be driven more by the sort of non-chit, nontraditional areas?

**Subhasri Sriram:** Both. We will see both. It will be probably because it is also a very small size and non-chits will look faster growth but I can assure you that the AUM growth and the business numbers will largely be coming from the traditional market.

**Aditya Singhania:** Right and on the expenses side I wanted to get a sense and I think, you have been mentioning that you do not need further investments or infrastructure to sort of scale up the business but we still see a sort of mid-teens operating expenses growth. Should we expect this to taper from...?

**Subhasri Sriram:** Those are variable expense and business growth like your commissions, your dealer payouts, we will have to continue to keep growing.

**Aditya Singhania:** So we expect the expense growth to remain at this level?

**Subhasri Sriram:** That is right. Some of the expenses are only certain level expenses where you can get the benefit of scale but certain levels are expenses that are largely variable.

**Aditya Singhania:** So could you break up the expense base for us between sort of fixed in that sense where you do not need further increase and variable related to....

**Subhasri Sriram:** Like branches, branch infrastructure team, people may not be directly proportion to growth, it can be with a lag effect. Well, dealer payouts, commission, business development expenses will be very direct correlation to business growth.

**Aditya Singhania:** And broadly as a percentage of the total expense base what will be the variable proportion?

**Subhasri Sriram:** Variable proportion, the total OPEX alone probably the variable is I do not put the number but I can it is at least 50%.

**Aditya Singhania:** 50% of OPEX excluding salaries?

**Subhasri Sriram:** Right.



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- Moderator:** Thank you. We take the next question from the line of Sampat Kumar from IIFL. Please go ahead.
- Abhishek:** This is Abhishek here. Ma'am can you give us the yield for different businesses roughly?
- Subhasri Sriram:** I do not have it on records. Unfortunately, this is something which I haven't ready right now. Can I give you offline? At the end of the day I will give it you.
- Abhishek:** Okay and ma'am in the housing finance business, so all the discussion was basically around what the company is doing to arrest delinquencies and now SARFAESI is helping you etc. But in the first place the additions to NPL why is that as high because if I see peers in the same bracket, as somebody else also asked, the outstanding GNPLs are also not that high, as high as yours. Why is this addition?
- Subhasri Sriram:** I sort of explained earlier that earlier there would be a high level of delinquency resolution during the quarter, 15% of the opening delinquency would get resolved during the next quarter. This quarter it was only 4%.
- Abhishek:** That is the resolution, so...?
- Subhasri Sriram:** Which means the customers are moving, most companies will resolve and keep this at below 2%. If you do not encourage resolution and you wait for full recovery it is likely to move the gross NPL numbers.
- Abhishek:** Actually the question was that just the slippage, I mean...?
- Subhasri Sriram:** When I talking about resolution they are not necessarily 100% settlement, I am talking about bringing it to one EMI or two EMI down. So here we are trying to bring it to zero.
- Moderator:** Thank you. That was the last question. I now hand the conference over to Mr. Karan Singh for his closing comments.
- Karan Singh:** On behalf of JM Financial I would like to thank Mrs. Subhasri Sriram and all the participants for joining us on the call today. Thank you and good bye.
- Subhasri Sriram:** Thank you all.
- Moderator:** Thank you. On behalf of JM Financial that concludes this conference. Thank you for joining us and you may now disconnect your lines.