



“Q1FY13 Results Conference Call Of Shriram City Union Finance”

July 27, 2012



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Shriram City Union Finance Limited
July 27, 2012

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY'13 earnings conference call of Shriram City Union Finance hosted by JM Financial Institutional Securities Private Limited. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should need assistance during the conference call please signal for an operator by pressing "*" followed by "0" on your touchtone phone. Please note that the conference is being recorded. I would now like to hand the conference over to Mr. Karan Uberoi of JM Financial. Thank you and over to you Sir.

Karan Uberoi: Thank you Marina. Good evening everybody and welcome to Shriram City Union earnings call to discuss the first quarter FY'13 results. To discuss the results we have on the call was Ms. Subhasri Sriram, who is the Executive Director and CFO of Shriram City Union Finance. May I request Ms. Subhasri Sriram to take us through the financial highlights, subsequent to which we can open, the floor for the question and answer. Over to you madam.

Subhasri Sriram: Good evening. Thank you Karan. Good evening all. Thank you for joining and welcome to the earnings call to discuss on the performance for the Q1 FY'2013. Shriram City during the quarter ended June 30, 2012 recorded a topline growth of 62% and the same stood at 672 Crores contributed to the asset and management recorded on a year-on-year growth of 69%. The profit after tax for the quarter ended June 30, 2012 stood at Rs.103 Crores as against 80 Crores during the same period the previous year.

The asset under management as of March 31, 2012 stands at 14889 Crores with off book assets at 14.5 of the total area. The gross NPA is at 1.46%, which translates to Rs.186 Crores in absolute terms and the net NPA is at 0.034% thereby the coverage ratio being at 77%. The coverage ratio inclusive of the write off is at 83%. Considering the company has adopted changes in the provisioning and write off policy, I would like to take a minute and explain here - as an expectation of change in provisioning norms the company has decided to factor some of the expectations and plan for the same, therefore if you have to look at the gross NPA as it would be had the company had not considered the write off provided for the quarter, the number would stand at 1.98% as against 2.1% for the same period last year.

Also had we started looking at 90 + DPD the net NPA would have increased by only 20 Crores, where the gross NPA was over 100 Crores in a period where the balance sheet has increased by around 60%. The disbursement for the quarter ended June 30, 2012 was at Rs.4482 Crores, recording 85% year-on-year growth. The focus remains on the small

enterprise finance and disbursement in this segment has recorded a 78% growth year-on-year. The gross spread for the quarter ended June 30, 2012 stood at 10.48% and the next spread were at 4.29%.

The net interest margin in the total AUM stood at 10.4 as at June 30, 2012. The return on average networth stands at 23.13% and the return on average total assets at 3.09%. The book value as of June 30, 2012 is Rs.348.71 and EPS for the quarter ended June 30, 2012 is at 19.74. This has not been annualized. The capital adequacy ratio as of June 2012 is at 15.85% with tier I capital at 12.63%. The total on book borrowings as of June 30, 2012 is at around 10890 Crores and 56% of the borrowings are from the banks, 25% through mutual borrowings and market borrowings constitute 12% and public issue of NCD at 7%. During the quarter subsidiary Shriram Housing Finance Limited has reported a profit of 0.64 Crores and as of June 30, 2012, Shriram Housing Finance Limited has sanctioned Rs.47.96 Crores and has a disbursement of Rs.25.23 Crores. Shriram Housing Finance is operating out of 35 outlets as of June 30, 2012.

Thank you so much. With these initial remarks I will leave the forum for questions and I would happy to answer the same. Thank you so much.

Moderator: Thank you very much. The first question is from Ameya Sathe from JM Financial. Please go ahead.

Ameya Sathe: Madam, can you just explain the provisioning norms again, I could not get that?

Subhasri Shriram: The way I just explained, there are two points, one is to have a provisioning norm as per the RBI guidelines, which is the current guidelines of 180 days DPD, which is the current guidelines for nonbanking finance companies and there has been an expectation that order of the draft policy which was expecting for change in guidelines to 90 days, so this policy is yet to come in, so we have been looking at it and looking at providing for this period from 180 to 90, providing for the same that is where I explained that if you were to adopt a 90 day DPD, the net NPA on 90-day DPD from June 30, 2011 to June 30, 2012 has increased only by 20 Crores, so what we have done whereas on the gross NPA would have increased by about 100 Crores, so what we have adopted is to also provide for periods below 180 days that is where the provisioning and the write offs have happened.

Ameya Sathe: How much of the excess amount you have provided and how many days is 150 days or 120 days?

- Subhasri Shriram:** Basically we have gone by that is the reason that I am not giving it in product, it is either it is going by product-by-product and accordingly we have adopted stance providing for 150 days or 120 days or 90 days.
- Ameya Sathe:** Can you just tell us in the broad category?
- Subhasri Shriram:** Largely in the case of non-gold and non-business so, we have taken a quite aggressive position in terms of providing for the same. In terms of business loan, there has not been very stiff because one is the company has a lot of security and are not much of concern.
- Ameya Sathe:** Out of this total 88 Crores of provisioning first of all how much will be the standard asset provisioning?
- Subhasri Shriram:** Standard asset provisioning as on June 30, 2012 would be around 30 odd Crores.
- Ameya Sathe:** Out of the 88 Crores provisioning?
- Subhasri Shriram:** Cumulative.
- Ameya Sathe:** What it would for the quarter? Standard asset provisioning during the quarter have you made anything?
- Subhasri Shriram:** Yes definitely we have done. I do not have off the cuff.
- Ameya Sathe:** Additional provisioning how much will be the quantum of that 88 Crores?
- Subhasri Shriram:** Provisioning and write off, actually we have used adopted little more write off and provisioning that is more in terms of, that is more of the practice which we have been practicing for the last two to three quarters. In terms of provision is only about 23 odd Crores. The write off of further quarter is about 67 Crores.
- Ameya Sathe:** Write off numbers as you gone up because of the change in DPD definition from 180 to 90 days so what would have been the write offs if we would have followed 180 days in the DPD?
- Subhasri Shriram:** It would have been significantly lower it may be half of this.
- Ameya Sathe:** Second question on the gold loans, I think in spite of the 60% LTV cap I think we are still strongly growing the Gold loan portfolio, so can you just explain as that LTV cap affecting the business momentum or it as not yet?

- Subhasri Shriram:** Not so much Sir. I think we were always as I said earlier that our gold loan the credit model is slightly different from what has been practiced by other specialist lenders. We have always adopted a 90-day pricing norm and also have taken a view of about 10% as wastage. I have never considered the making charges other add-ons. So this being a practice it was not very difficult to comply with a 60% norm set by the RBI.
- Ameya Sathe:** Okay madam and thanks a lot madam. If I have any question I will get back to you again.
- Moderator:** Thank you. The next question is from Ritesh Nambiar from UTI Mutual Fund. Please go ahead.
- Ritesh Nambiar:** Just wanted to know the securitization income, which you have in this quarter?
- Subhasri Shriram:** Securitization income, which has been received in this quarter, give me a minute before the end of the call I will get back to you.
- Ritesh Nambiar:** Madam regarding the demand side in fact wanted to know majority of the growth has come from the two segments which you are focusing on and what exactly happened in the SME side is that because seasonally it is a weak quarter, but still you have recorded a good growth?
- Subhasri Shriram:** If you look at on the disbursement the SME has been on a year-on-year growth it has been very good for almost 100% and in terms of quarter-on-quarter in terms of disbursement it is about 37% growth that I think as we have always been saying our business is almost which is touching a tip of iceberg, just so much potential available. I do not think right now really looking at our economy as a whole. There is so much to be done in this space, there are not too many lenders here, and I think there is a lot of upside here.
- Ritesh Nambiar:** Going by this space what would be your full year guidance actually on the AUM side?
- Subhasri Shriram:** On the AUM side actually it would be difficult as we still expect at least 25% to grow, but could be difficult because as there could be a change in the product profile for more of enterprise finance and there is slightly lower percentage of gold, but not in lower amount in terms of total AUM mix, so that could change the way the AUM would grow for the project.
- Ritesh Nambiar:** Madam could you throw some color on the preferential allotment, which happened recently?



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- Subhasri Shriram:** The preferential allotment to Shriram Capital which happened on March 29, this was 23 lakh shares which were allotted to them and also we issued warrants of about I think 59 lakhs, which are likely to be converted during the next 18 months period beginning from April.
- Ritesh Nambiar:** What would be the kind of addition, which we could expect?
- Subhasri Shriram:** The money which has come in including the warrant amount that we closed in end of last year and the amount which needs to come in is about another 240 Crores, so that will go to add to tier I of the company.
- Ritesh Nambiar:** That would actually help in maintaining the tier I?
- Subhasri Shriram:** Absolutely, there is 240 Crores to come in.
- Ritesh Nambiar:** You're fixed to floating borrowing mix, how is that as a proportion?
- Subhasri Shriram:** We have I would say that the borrowing mix from a fixed of 70% which used to be June 2011 has now got reduced to about 56% June 2012. Floating rate has increased from 30% to 44%. This is being our anticipation and market anticipation of the next one year at least and six to nine months some correction, so we have for the last six months have not gained borrowing actually on the fixed rate policy. Other than our retail borrowing such as fixed rate and certain market borrowings which are fixed rate the bank borrowing are more or less floating rates.
- Ritesh Nambiar:** Thanks a lot.
- Moderator:** Thank you. The next question is from Kaitav Shah from Anand Rathi. Please go ahead.
- Kaitav Shah:** Thank you for taking my question and congratulations on a good set of numbers. Madam I just wanted to understand the breakup of your disbursements for this quarter? Disbursements in terms of how much would be gold and how much would be SME?
- Subhasri Shriram:** In terms of disbursement the gold disbursement is about 2500 odd Crores, business loan is 1100 Crores and rest of the products is about 800 Crores.
- Kaitav Shah:** Just wanted to understand if you will have any impact because of the 8% securitization norm that has come in?



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Subhasri Shriram: Our margins are right now about 10% to 10.5%, so we will have to see what work around this 8%.

Kaitav Shah: But any talks on this, anything that you can share?

Subhasri Shriram: We are working with it in certain terms of how what are the other options available, I think as an industry we need to come out with a solution.

Kaitav Shah: Given the fact now that we do not have to maintain the 65% of on balance sheet with respect to AUM, do you think will be increasing the securitization proportion?

Subhasri Shriram: We would love to, actually if the interest rates settle down and if we will correct the levels of interest rate steady at particular level I think securitization as a very good product that we should be opting more of securitization because definitely our loans to the small enterprise finance category qualifies for Priority Sector financing and I am sure the banks will be more than happy to look at that product. We have continuously been getting interest from banks to securitize that product, take that product consideration, but I think we will work towards within the next second half of this year.

Kaitav Shah: But what would do you think off the cuff that which what sort of mechanism can evolve over the next six months for securitization to occur?

Subhasri Shriram: Most of the banks definitely need to come up with policies for securitization after considering the May 7 secular, but once that is in place, I think we should be able to take a stance. I think it is a question we are waiting for the banks to be clear on, get the original policy document ready.

Kaitav Shah: Okay right. One last question from mine would be what would be the LTV in this SME?

Subhasri Shriram: It is difficult to say because these are loans to small entrepreneurs it is not against any particular asset, they are working capital loans, but wherever it has been collateralized the value of the collateral would be far exceeding the loan amount probably sometimes even one to two times and depending upon the value of the loan. Our average loan continues to be about 8 to 9 lakhs, so it depends upon the value of the loans.

Kaitav Shah: If any guidance on your ROE, what sort of number we are looking?

Subhasri Shriram: To keep the ROE in range above 20%, and ROA post tax would be around 3% upwards.

Kaitav Shah: Okay thanks a lot that is from my side.



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- Moderator:** Thank you. The next question is from Mithun Soni from GeeCee Investments. Please go ahead.
- Mithun Soni:** One question with respect to this priority guidelines which has come you said we currently make about 10% to 10.5% and how will we able to adjust it because most of our loans which are legible for the priority will be going about 20% to 24% yield, so this spread would be more, so how do you adjust that if you can just give some color on that?
- Subhasri Shriram:** It is true where when just said last week we are working out in terms of what are the income streams, which can be factored in as earlier as an upfront income or any other charges or which needs to be taken in rear end. So we need to work that around, the certain cost, which is taken from the customer as an interest income, but where there is a relative cost incurred from the company probably we will need to take them as reimbursement of cost.
- Mithun Soni:** Currently the securitization what we would doing would be at the base rate or is it happening benefit of below base rate as well?
- Subhasri Shriram:** We have done at current base rate.
- Mithun Soni:** Okay so we would be making let us say the base rate is 10.25, so we would be making 10.5% above that, so average about 20-21%?
- Subhasri Shriram:** Yes 20% to 21%.
- Mithun Soni:** Most of the loans, which would be securitized, will be on the business loans?
- Subhasri Shriram:** Largely it is a business loan, 90%.
- Mithun Soni:** Of the other segments, which are the two wheelers how, much of that portion will fall, in the priority sector?
- Subhasri Shriram:** Not much sir.
- Mithun Soni:** So primarily the 30% of the total AUM what we have is the one, which will have some portion as priority sector?
- Subhasri Shriram:** The business is qualified for entirely the priority sector.
- Mithun Soni:** So what is the whole 31% will fall for the priority sector?



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- Subhasri Shriram:** 30% will completely fall in the priority sector.
- Mithun Soni:** Second one was with respect just giving us some flavor of our cost of funds, how are you seeing them going forward?
- Subhasri Shriram:** We have our cost of funds have been as much as controlled during last quarter, I should say during this April-June quarter we did access more from the CPs and the institution market. In fact out of 1147 Crores mobilized about 500+ Crores came from the CP market not from banks; those funds have been at some 10% rates. Recently we have a gold book, which is substantially large, which is also short tenure, it was ideal matching for us. We still wait for a reduction in interest rates before we get into the long-term borrowing mode. Those funds are available today, continuously being available for long-term money, but we need some direction on the interest rates before we commit on borrowing on a long-term.
- Mithun Soni:** If I am not wrong let say gold loan, which is about 39%, is short-term loans, which you will be financing to CP?
- Subhasri Shriram:** Not all of us, is not all of them are short-term. There is at least 50% of that asset classes through also gold loan, where the gold is collateral on security, but its end use is for business purposes and they can be varying from as short as about less than a month to as long as year also unlike a very typical gold loan or retail business.
- Mithun Soni:** If I have to understand in terms of the asset liability management, the CP money which we get that would be primarily used for the short term loans, so in terms of the asset?
- Subhasri Shriram:** CP funds are more circulated I would say for the fresh lending or net of redemption.
- Mithun Soni:** Most of our loans if I am a not wrong auto loan will be fixed rates?
- Subhasri Shriram:** Lending is always fixed and as I said earlier the fixed rate borrowing is 56% the total liability of close to 11,000 Crores. 10980 Crores is the total borrowing as on date off book borrowing, out of which 56% is fixed rate borrowings.
- Mithun Soni:** Okay so there it will help us to match out on the asset side as well?
- Subhasri Shriram:** That is right and if you have to break this 56% fixed rate borrowing they would carry an average in about 33 months.



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- Mithun Soni:** That will be again in line with the two-wheeler as well as the SME book?
- Subhasri Shriram:** SME portfolio and floating rate loan is about 44% and for that average tenure is about 15.69 that includes the working capital limits of banks where it is against bank base rate.
- Mithun Soni:** Okay, but then these will be the one which will have floating rates, so that is some gap which we will have to manage if the interest rates starts to decline?
- Subhasri Shriram:** But there is a point here is our asset tenure is around 15 to 16 months, that helps us to re-price as and when required if the rates have to move up.
- Mithun Soni:** Second, wanted to know what would be the cash position as of June end, cash and bank reposition?
- Subhasri Shriram:** Actually more than cash position would not be liquid ideally, current cash should not be low, would not be high because there has not been much securitization or I would say nil securitization in June quarter, but I would say more to say from a liquidity point of view would have undrawn cash credit limits.
- Mithun Soni:** Because we have seen that usually the cash position is usually in the range of about 9.5 about 10% of the asset book?
- Subhasri Shriram:** This time there will be very, very small about 4% to 5%. There is more in the working capital more what is in the pipeline rather than the funding from the banks, which have not been utilized yet.
- Mithun Soni:** Last question is with request to the AUM, if you have said that our objective of four to five years is to make SME book primary portfolio we are taking to 65% to 70% of the book, are we continuing to see the momentum and everything in that and if that happens as it starts happening the yields will definitely improve because the gold as a share will come down, but will that mean that we will need to do more standard provisioning?
- Subhasri Shriram:** Standard provisioning is completely based on the balance sheet 0.25% so that is irrespective other gold or non-gold we still have to do
- Mithun Soni:** But then the operating cost will start coming down as well as your yields will start improving so that should have an impact on your profitability as well?
- Subhasri Shriram:** Yes should have. We are working towards that.



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- Mithun Soni:** So what sort of share of actually book you are looking by the year-end?
- Subhasri Shriram:** We would like to first get the SME book about 50% of the balance sheet, which would take mid next year. Answering your question about cash and bank balance say about 650 Crores as on June 30. This is as against 1328 Crores. 50% reduction in cash and bank balance that is answering your question about cash and bank
- Mithun Soni:** Okay all right thank you best of luck.
- Moderator:** Thank you. The next question is from Ameya Sathe from JM Financial. Please go ahead.
- Ameya Sathe:** Actually on the calculation of tier I in the presentation you are saying that you have also knocked off credit enhancement on non-SME transaction, so does the RBI required to knockoff credit enhancement for transaction also?
- Subhasri Shriram:** This is the guideline, which have come in May. Earlier guidelines for credit enhancement given on SME transactions was silent and there was no specific guidelines given in the past, but that is in the May 7 guidelines that has been subsequently modified.
- Ameya Sathe:** Okay it is 50% from tier 1 and 50% on tier 2, of the credit enhancement?
- Subhasri Shriram:** That is right.
- Ameya Sathe:** Okay I think that is it from my side.
- Moderator:** Thank you. The next question is from Shrinivas Rao from Deutsche Bank. Please go ahead.
- Shrinivas Rao:** Thank you very much. I just wanted your comment on your auto financing, the two-wheeler financing which we are doing. There your gross NPA seem to have obviously gone up from both year-on-year and quarter-on-quarter. I am not looking at the spread, which you alluded spread is that driven by any particular bucket of lending or? Your gross NPA has reflected on the slide, it is on slide #10 of your presentation, the asset quality slide, so I just wanted to check is the increase driven by any specific?
- Subhasri Shriram:** I earlier explained that on the gross NPA in the past it was strictly following the 180 days and the last couple of quarters we have started also the gross NPA it also goes from 150 and 120 in different asset class, that is the reason the gross NPA has gone up. It is not a comparison straight away.

- Shrinivas Rao:** Could you tell on a consistent basis so to say your book on two wheelers and automobiles have deteriorated?
- Subhasri Shriram:** At a high level the quality is pretty good and yields are also strong. As I said in the past that I think in two wheeler industry, financing industry have come of age and it is stabilized now, we have a steady state market where probably financing is only 30% to 40% of the market and Shriram City probably has about 4% of total sales as a market share and it is a very consistent performance.
- Shrinivas Rao:** It is a 4% of the total financed vehicles or total?
- Subhasri Shriram:** 4% of the sales.
- Shrinivas Rao:** You have not seen any increase in what you call payment days or any requirement for fund in the loan so on and so forth?
- Subhasri Shriram:** From the customer, as I said the 30% to 40% is getting financed, so the customer quality is definitely is far superior to what it was in the past.
- Shrinivas Rao:** When you mentioned auto loans what are this?
- Subhasri Shriram:** They are more of commercial vehicles and used cars and tractors and three wheelers, a combination of all four products.
- Shrinivas Rao:** There also you have not seen any stress in the asset book?
- Subhasri Shriram:** Yes I would say the stress is not in the incremental business, but you would have also noticed that from the disbursement side of that portfolio has been degrowing for us that the advances are been very high, quarter on quarter disbursements have come down, so to some extent the provisioning is high on that segment, right provisioning is high because it is on reducing balance sheet or reducing asset group.
- Shrinivas Rao:** But otherwise existing asset book you are not seeing any stress?
- Subhasri Shriram:** As it is running down so the percentage wise it is going up.
- Shrinivas Rao:** Okay fair enough this is helpful. Thank you so much.
- Moderator:** Ladies and gentlemen, as there are no further questions from the participants. I now hand the conference back to Mr. Karan Uberoi for closing comments.



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

Moderator: Thank you. On behalf of Shriram Financial Institutional Securities Private Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.