



“Shriram City Union Finance Q1FY14 Earnings Conference Call”

July 26, 2013



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MODERATOR: MR. KARAN UBEROI– JM FINANCIAL.



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Moderator

Ladies and gentlemen, good day and welcome to the Q1 FY 14 Earnings Conference Call Shriram City Union Finance hosted by JM Financials. As a reminder for the duration of the conference all participant lines are in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now hand the conference over to Mr. Karan Uberoi. Thank you and over to you, sir.

Karan Uberoi

Good afternoon everybody and welcome to Shriram City Union Earnings Call to discuss the 1st Quarter results. To discuss the results we have on the call the Managing Director Mr. Sundararajan and the CFO, Ms. Subhasri Sriram. May I request Mr. Sundararajan to take us to the financial highlights, subsequent to which we can open the door for Q&A session.

GS Sundararajan

Thank you Karan and good afternoon to all of you. What I will do is I will give a brief overview of all the quarter has been and some kind of guidance for the future for the year and Subhasri will take you through some of the detailed financials.

This quarter has been reasonably on expected lines for two or three reasons, one is of course given the market circumstances and the kind of environmental issues which are there, we still managed to sustain a decent top line growth year-on-year and also sustain our net interest income. On the philosophical side I think the gold reduction in terms of portfolio which was informed to you and shared with all a few almost 9 months back that is something again on expected lines we are close to about 40% last year same time, we wanted to bring it down to sub 30 and we are at 24 today that obviously has had an impact on the net profits because gold as you know we are doing at decent margin there. What is creditable is that we have been able to manage this phenomenal growth in the MSME and the two wheelers business which is not really compensated completely but the trend is certainly showing signs of sustenance during the rest of the year which will ensure that they being longer tenure assets as compare to gold will be able to have a sustained growth as predicted earlier. So Subhasri can you take them to the details.

Subhasri Sriram

I think this quarter has been two important aspects, one is the growth in our SME business and the gold loan book more or less stabilizing at now being at 24% of the AUM. So currently the SME portfolio which is close to 46% of the AUM this is against 31% as of June, 2012 this segment has recorded a 53% growth in AUM on year-on-year basis. Two wheeler segment continues to grow we have seen a 35% growth year-on-year and this portfolio now constitute 14% of our portfolio. Gold loan book seen a 21% dip for the last quarter and 36% dip over June 2012, the portfolio right now is around Rs. 3762 precisely and this contributes 24% of the AUM as against the 39% seen in June 2012. The quarter witnessed a drop in gold loan disbursement it is not just a drop in AUM it was in disbursements too and this has been more on account of the company taking review on LTV and pricing and the disbursement in this

segment has been lower than 50% compared to the previous quarter and 76% over the June numbers last year. The disbursement in products excluding gold we have seen a 4% growth over the previous quarter and 38% growth over June last year. The net margin continues to remain over 11% and net spread over 4.5% pre-tax. In terms of asset yields there not been very significant change, the yield on assets moved from 2.5 to 2.2%, this is mainly on account of some amount of change in the lending rate in gold and also on account of larger proportion of SME business which is significantly lower rate compared to 2 wheeler and auto loans. Actually looking at the portfolio excluding gold, the weighted average yield will be over 20% to 22%. In gross NPA as of June, 2013 is 2.29% and the net NPA is at 0.67%. The corresponding figures for March 13 were 2.19 and 0.8 and for June 2012 was 1.46 and 0.34. In terms of absolute amounts the gross NPA has increased from Rs. 294 crores as of March 13 to Rs. 308 crores as of June 2013. The company continues to maintain a coverage ratio over 80% including write-offs and if you look at the stand-alone basis the coverage ratio is 71% including gold. The provisions for all segments-are either well above the statutory requirement or at the statutory limits and this is at a standard fixed at 150 days past due as against the regulatory requirement of 180 days past due. The write off during the quarter was at Rs. 70 crores as against Rs. 88 crores last quarter March 13. If the company just to put it apples to apples comparison for June 2012 where the company was maintaining a standard of 180 days the gross NPA level would have been at 1.66% as against 1.46% as of June 2012. The company's capital adequacy is close to 20%, tier 1 capital at 15.56%. I'm sure everybody is aware that the last quarter end of June, we had few significant RBI guidelines which has changed the way NBFCs raised liabilities and especially from the regional channels. The company is currently not permitted to raise money through the private placement of debentures though it continues to have the right to take it as public debentures and fixed deposits. Your company is a deposit accepting company and therefore we have this option of raising fixed deposits. It is over almost three decades of association with retail investors and depositors we should be able to move the NCD portfolio of Shriram City seamlessly into deposit at 3 years to 5 years period. We expect this to continue, the resource mix is not likely to change significantly except there could be a change from debentures to fixed deposits. The current portfolio of privately placed debentures is around Rs. 2500 crores and out of which Rs. 750 crores is coming for maturity over the next or next eight months as of beginning August and this is the portfolio which will probably most likely to move into the deposits or be replaced by bank funding. During this quarter on account of portfolio reduction and change in the mix from gold to non-gold the bank borrowing has reduced from 58% of reduced borrowing to 53% and retail borrowings have increased from 24% to 28% of the total borrowing. The company continues to have a longer tenure liability, the weighted average tenure being over 26 months and 51% liability is fixed at this point of time. During this June quarter the company did not enter into any fresh securitization or assignment and the off book asset has now reduced over 15% to 12.4%. The company continues to enjoy long-term rating AA by CARE, AA- stable by Crisil and AA- by India ratings and with reference to short-term borrowings the companies enjoyed top class ratings from all three rating agencies both CARE Crisil and India Ratings. Two other significant developments post

June the company had issue warrants to Shriram Capital as of March 2012 and the same was coming for conversion in the end of September, Shriram Capital has advanced it has completed the conversion before the end of July and Rs. 30.5 lakhs have been fully converted no warrants outstanding and the capital is into the company post this capital adequacy has increased to 20% at the same end Shriram City had warrants issued subscribe on Shriram Housing and the private equity investor Valiant had also rights to invest both Shriram City and Valiant both shareholders have subscribed to that portions in advance to the time required, so tranche 2 and tranche 3 are fully been subscribed both by Shriram City and Valiant partners and close to around Rs. 150 crores has been invested into Shriram Housing in anticipation of the growth. In terms of the performance of Shriram Housing today the company as on 30th June has a stock higher of about Rs. 150 crores and as more than Rs. 230 crores of sanctioned disbursement and that translates another Rs. 70 crores to be dispersed over the next 3 to 6 months. The company has over 43 branches and over 250 employees and steadily growing across the branches of Shriram Group. I will leave for the forum to ask questions, thank you so much.

Moderator We will now begin the question and answer session. The first question is from Amay Sathe from JM Financials, please go ahead.

Amay Sathe Two questions, one on the securitization done during the quarter, how much will be the quantum or have we done any?

Subhasri Sriram No June quarter was nil securitization.

Amay Sathe And the gold on proportion so going ahead where do we see gold loans as a proportion of AUM moving up or moving down from the current levels?

Subhasri Sriram The current portfolio is about Rs. 3700 crores to Rs. 3800 crores I think this portfolio will more or less remain so basically the last 2-3 quarters there is reduction portfolio in terms of quantum I think we have reached a particular level I do not think this will or the trends in the last couple of weeks and quarter's end of June become very positive so we expect this portfolio to remain and probably start growing now, so in terms of fixing it as a percentage to AUM this is to be difficult because I think the business loans, small enterprise finance loans and two wheeler loans are growing at a much more healthier rate that will change in percentage.

Amay Sathe What steps has the management actually taken probably in the first quarter with respect to gold loans?

Subhasri Sriram I do not think we have changed in terms of we have been mentioning there since October 2012 December quarter and March quarter nothing much changes, we continue to maintain lower LTV, continue to have a lower yield on the portfolio in relation to the LTV as against the industry and I do not think we have changed and we continue to be focused on the product, we do out for existing branches, we do not open branches for gold loans specific branches for gold

loans, our branches are opened out for gold loans and existing branches and we will continue to focus on the same.

- Amay Sathe** Can I get the gold loan NPL in absolute terms?
- Subhasri Sriram** In terms of NPL provisioning we are right now maintaining at 10% required.
- Amay Sathe** No, can I have the gold loans gross NPLs in gold loans?
- Subhasri Sriram** In terms of rupee terms it is Rs. 59 crores, gross NPL.
- Amay Sathe** Last quarter it was Rs. 61 crores I think it is now.
- Subhasri Sriram** It is Rs. 59 crores.
- Amay Sathe** And we have some other income of around Rs. 17 crores, it is mainly profit on sales of investment kind of numbers?
- Subhasri Sriram** It is only on account of mutual fund investment.
- Amay Sathe** This is a one-off kind because normally we do not see that..
- Subhasri Sriram** No, the company post March securitization, we had quite a bit of surplus and gold when there is a redemption and the cash comes in quickly, it is principal plus interest, this quarter we were largely surplus that is also the reason that company did not borrow from banks during the last quarter.
- Moderator** Next question from the line of Amit Ganatra from Religare Investco Asset Management Company, please go ahead.
- Amit Ganatra** Can you provide the breakup of disbursements for this quarter?
- Subhasri Sriram** In terms of rupee terms?
- Amit Ganatra** Whichever way percentage is also fine, rupee is also fine?
- Subhasri Sriram** Consumer durable as close to Rs. 60 crores, two wheelers Rs. 665 crores, auto Rs. 413 crores, personal loans Rs. 118 crores, small enterprises loan is Rs. 1004 crores.
- Amit Ganatra** When you said small enterprise does this include small enterprise loans against gold as a collateral?
- Subhasri Sriram** No.



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- Amit Ganatra** And Gold loans?
- Subhasri Sriram** Loan against gold is Rs. 600crores. This is dropped from March 2013 at Rs. 1500 crores to Rs. 600 crores.
- Amit Ganatra** March 13 quarter you did Rs. 1500 crores against that its now Rs. 600 crores?
- Subhasri Sriram** Yes.
- Amit Ganatra** One more thing for gold loans I read in some notes that incrementally you have reduced the yields also on this portfolio and the incremental yields that you would be earning would be significantly lower than the existing yields, is it correct?
- Subhasri Sriram** That is right. So the interest rate is lowered from 18%, so we were traditionally lower than the market rate was about 18%. Now we have moved to 15%. So I think most gold loan companies are moving to 18-19 now and since we are built in LTV slightly lower than the market it is appropriate that we also charge lower rates in the market.
- Amit Ganatra** What is the maximum LTV that you're offering right now?
- Subhasri Sriram** It will not be more than 60 but since we also do finance through financiers or franchisee partners it ranges from 50 to 60%.
- Amit Ganatra** Okay.
- Subhasri Sriram** That is the reason why the interest rates are also lower than the market.
- Moderator** The next question is from the line of Shantanu Chakrabati from ICICI Securities, please go ahead.
- Shantanu Chakrabati** Firstly if we look at the different ways that growth has panned out across the asset classes that you have presented, it is very clear that your trend of shrinking the gold book continues and you are focusing more on the SME side as well as a little bit on two wheelers, so I just wanted to get a sense so what is the full-year growth number that you are aiming for and essentially will there be any shift in priority and also why have you shrunk your personal loan portfolio so much, do you see risk in the system?
- Subhasri Sriram** Let me start with saying that we are not shrinking or reducing the gold loan books. I think it is a current the terms and conditions which the company is willing to lend at is probably not attracting customers as much as the rest of them are able to attract. So we are keen on the products we will continue to do at our terms and as and when the market stabilizes now as the gold price stabilizes I think we should be able to see more traction in the gold loan. With reference to personal loans it is not a question of seeing a higher risk which obviously in terms

of a gross NPLs it is probably one of the highest among the products that we do but it is probably also appropriately priced for the risk that we'll see in the business but as a company and as a group we do not target individual loans, individuals for their end use is not specific, the results had this product is not completely focused, it is currently only marketed to Shriram customers so it is unlikely to grow in a big way.

Shantanu Chakrabati My second question are you in the cases where you basically SME customers who have provided gold as collateral trying to shift them into normal property collateral or working capital collaterals SME loans like is he in comfort with other collateral higher?

Subhasri Sriram It is happening but it will take a while for it to be significantly important its happening, but it is not large enough now.

Shantanu Chakrabati Final question of course the topics on everybody's mind is so bond markets are tight there is at least one product where the RBI has restricted you sure you have a deposit franchise to counter that, so let us say these things last for another 3 to 4 months and bond markets remained tight thereafter also how much incremental refinancing would you need over the next six months and how much can it impact your blended costing and will you try and mitigate through yields in some of it?

Subhasri Sriram I would probably say it in a lighter vein it is not that the company is doing it consciously but replacing the retail funding to wholesale funding actually the blended cost will come down, Retail is a more expensive money than a wholesale but it is a lot more sticky and much longer duration, so I do not perceive a cost issue in terms of shift from retail to wholesale, it is not the right in a prudent manner as I explained that from August to March 2014 that total requirement for the company is only Rs. 755 crores, today Rs. 755 crores probably I already have an undrawn sanction limit from banks which have not been drawn by me it is over Rs. 2000 crores.

Shantanu Chakrabati And what would be the rate on that?

Subhasri Sriram Which one Rs. 755 crores?

Shantanu Chakrabati The undrawn line that you have from banks?

Subhasri Sriram Undrawn line is ranging from about 10.50-10.25- 11.00-11.25 depending on the banks.

Shantanu Chakrabati Even 10.25?

Subhasri Sriram Yeah there are banks at 9.70 also and right now I am in mutual fund so in addition to this Rs. 755 crores as a liability to pay, we probably have in excess of more than Rs. 300 crores of mutual fund investments. So I do not see either a cost issue in terms of reprising risk or in terms of any stress on the liquidity.

- Shantanu Chakrabati** Of course that second...
- Subhasri Sriram** Neither of this is concern to us but obviously we would like to maintain a healthy ratio between wholesale and retail and we will make our efforts and endeavor to get the debenture holders to shift to deposits.
- Shantanu Chakrabati** So overall asset group aspirations stay same for you and the second part of the earlier question I asked what are you thinking on yields pushing them up or anything like that?
- Subhasri Sriram** On the asset side I do not think we are concerned it has not been reacted on account of cost of funds going up right now, the cost of funds is not going up, so therefore there is no reason to push up these lending rates at this time at least the base rates a few banks have come down banks in fact we did go back to couple of banks and close to about Rs. 1200 crores of limits which were term loans which price that has been fixed, we went to banks and renegotiated the rates and effectively we have reduced the rates by 0.48%,and it translates to about Rs. 50 lakhs reduction in the monthly commitments to the banks. So I do not think we should have any concern in terms of funding costs going up unless there is another way of change from the reserve bank.
- Shantanu Chakrabati** And the second part of the earlier question any change in asset growth aspirations?
- Subhasri Sriram** We will probably add a disclaimer from the past that we probably are extremely confident and more on track on our Shriram City Ex Gold, the gold we will probably wait and watch to say what will be the growth.
- Moderator** Next question is from the line of Rohit Shimpi from SBI Mutual Fund, please go ahead.
- Rohit Shimpi** Just wanted to check with you on the small business loan now so have you started doing the business outside the Shriram Trades Customers database?
- Subhasri Sriram** We are doing two things, we are doing outside the chit customers but now we are doing with reference to the chit customers and chit branches as well as at the same time we also expanded to the western region and last year April 12 we moved into North. They are all right now in a pilot stage, I wouldn't say that they have made a big dent into the total AUM but I think that they are progressing very well, extremely satisfactory that in the next couple of years there should be significant business coming from both non-chit customers and non-chit geographies.
- Rohit Shimpi** So the current AUM there is not much of the segment?
- Subhasri Sriram** Current AUM continues to be because these are all incremental businesses, it will take awhile to change the ratios.

- Rohit Shimpi** Second question is generally on asset quality today, so considering SMEs heavy part of book and some of the other product lines and the continuous shrinkage of GDP growth as well as an overall economic weakness are we starting to see some of that in any of the segment product or geography that we operate in?
- Subhasri Sriram** No, I have explained in the last quarter that what we are seeing probably is a little more delays in the payments coming in from customers but definitely we are not seeing it as a permanent default scenario. The customers are tight, I think fortunately in our segment where we finance, customers are not over leverage, to them it is a bit of a delay it is a part of regular event but default and this is more or less similar to the previous quarter, nothing changes.
- Moderator** We are going to take a follow up question from the line of Amit Ganatra from Religare Investco Asset Subhasri Sriram Company. Please go ahead.
- Amit Ganatra** I had a question on this Shriram Housing, what is the basically kind of business that you do there, new mortgage, loan against property?
- Subhasri Sriram** It is 92% only new mortgage right now, 65% of the borrower profile self-employed non salaried, rest 35% is salary and 90% of business is done outside big metros.
- Amit Ganatra** I'm sorry so you said 92% in new mortgage and how much was self-employed?
- Subhasri Sriram** 65% is self-employed, 90% if non-metro, and average yield is including processing fee over 16%.
- Amit Ganatra** And average yield is how much?
- Subhasri Sriram** Processing fee is 15.51%.
- Amit Ganatra** Is it its very high even for non-metro?
- Subhasri Sriram** Because 65% of the salaried and non-salaried and in smaller towns, I think we still have the market.
- Amit Ganatra** Are there any competitors that you can name with whom you compete in these smaller towns?
- Subhasri Sriram** Not so much, there is largely people typically go for short-term financing, they have not had too many options of financing getting a long-term structured finance.
- Amit Ganatra** Even companies like Repco would not be a competitor in any of these markets or Sundaram Finance?



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- Subhasri Sriram** Probably we would become their competitors when we start doing significant volumes of business from Tamil Nadu. Right now our business is largely from Andhra Pradesh and Maharashtra and parts of Western India but Tamil Nadu is not significantly large in our portfolios, therefore we are not felt the presence of Repco.
- Amit Ganatra** Even Sundaram Finance is not a competitor, Sundaram Housing Finance Company?
- Subhasri Sriram** They are more in salaried class and not as Tier-3 towns we do. We had more than 300 branches in Andhra Pradesh. That is outlets which are available may be not as branches for Shriram Housing, but reach is through Shriram City Branches we have more than 300 branches.
- Amit Ganatra** And the business basically just starting to get some leverage because till now whatever was the lending it was almost equity in that sense?
- Subhasri Sriram** We even continue to have equity because this is funded it again, capitalized again.
- Amit Ganatra** How much capital have you infused, you mentioned?
- Subhasri Sriram** Rs.150 crores we have infused.
- Amit Ganatra** You also mentioned some warrant convergence?
- Subhasri Sriram** There are no more warrants, no outstanding capital for Shriram Housing, the commitment by both Shriram City and Valiant Partners have been met with. The money which should have been put in around 2014 and 2015 in advance both Valiant and Shriram City has invested into Shriram Housing.
- Amit Ganatra** But this warrant conversion basically so capital is been put in Shriram Housing but has any capital coming to Shriram City Union also?
- Subhasri Sriram** That is Shriram Capital, warrant issued to Shriram Capital in March 2012. It was due for conversion in September 2013 has been converted in advance.
- Amit Ganatra** So this quarter itself has the impact of this quarter does not have that impact?
- Subhasri Sriram** Post June.
- Amit Ganatra** So what was the capital, basically we've got infused post this?
- Subhasri Sriram** In terms of rupee quantum it is Rs.130 crores.



- Amit Ganatra** And now what would be the outstanding post this warrant conversion number of shares outstanding?
- Subhasri Sriram** Warrants?
- Amit Ganatra** Not warrants, total number of shares outstanding now post this warrant conversion?
- Subhasri Sriram** Rs.55 lakhs-Rs.56 lakhs or Rs. 5.6 crores plus Rs. 30 lakhs.
- Moderator** Next question from the line of Ketav Shah from Anand Rathi. Please go ahead.
- Ketav Shah** The first question is related to your NPL provisioning now for each product, if you could just explain it once more?
- Subhasri Sriram** In terms of coverage or in terms of gross NPL?
- Ketav Shah** In terms of how we recognize on 90 days, 120 days or how?
- Subhasri Sriram** All products are 150 days now, in terms of recognizing from standard to substandard and in terms of provisioning certain products we have higher provisioning than the required percentage like for example consumer durables and personal loans we do 100% provisioning.
- Ketav Shah** On 150 days?
- Subhasri Sriram** On 150 days.
- Ketav Shah** Consumer durable and personal loan, both?
- Subhasri Sriram** Personal is 100% so basically the net NPA is nil for these two products. In case of two wheelers we have a 78% provisioning coverage and in terms of SL it is 90%, in terms of auto loans is 90%, business loan 81% coverage and in gold we continue to maintain only 10%.
- Ketav Shah** The second part is related to your SME book, I wanted to understand how these loans are essentially given? Are all of them mortgaged backed or is there some amount of unsecured lending in that as well?
- Subhasri Sriram** Not all of them are mortgaged backed, let me put it this way, only loans over Rs.10 lakhs are mortgaged backed and loans Rs. 5 lakh to 10 lakh would either have a mortgaged backed or could be Shriram Chits lean. Any saving products with Shriram Group are lean marked to Shriram City and below five lakh there is a possibility that there will be unsecured and across all loan amounts probably one or more than one personal guarantee.
- Ketav Shah** Okay, you will have more than one personal guarantee?



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- Subhasri Sriram** One or more than one depending on the loan amount.
- Ketav Shah** So what would be the proportion of below Rs.5 lakh category out of this outstanding?
- Subhasri Sriram** 20% of the portfolio is below Rs.5 lakh, about 15% of the portfolio is above Rs. 10 lakhs, so the portfolio will be in Rs.5 lakh to Rs.10 lakh. A weighted average loan amount of close to Rs.8 lakh to Rs.9 lakh.
- Ketav Shah** In terms of growth outlook if I understand that apart from gold loan what sort of growth are we expecting for the other products?
- Subhasri Sriram** It should be able to do over 20%.
- Moderator** The next question is follow-up question from the line of Rohit Shimpi from SBI Mutual Fund. Please go ahead.
- Rohit Shimpi** Now that our Tier 1 is at 15.5% and growth also on the AUM side seems to have slowed down a bit, are we still looking into capital the equity raising plan or you think that we can do this for some time without that ?
- Subhasri Sriram** I think we will ensure that we have good ROE before we dilute further, so warrants have also been converted, we will wait for the appropriate time before we raise capital.
- Rohit Shimpi** So any threshold for Tier-1 which we would look to raise capital at?
- Subhasri Sriram** The current regulatory requirement is 7.5 expected to be a 10, so I think 12% is a good number at which we should look at raising capital.
- Moderator** Next question from the line of Mital Patel from Laburnum Capital. Please go ahead.
- Mital Patel** Just wanted to know the total amount of disbursement that was given out this quarter, how much of that is via Shriram Chit Fund?
- Subhasri Sriram** I think we need to look at from reach state wise other than Shriram Chits. Today we are looking at maybe where Shriram Chits operate or where Shriram Chits do not operate. We have our own branches, we have our own employees and we are now marketing outside the chit customers also, so if you have to just look at from a states which are Andhra Pradesh, Tamil Nadu, Karnataka and Maharashtra and if business done out of these four states we probably still have 90%. If you have to look at customers, it is only the business zone customers we actually look forward to Shriram Chits reference or customers. For two wheelers, auto, consumer durable all of it is customers outside the chit funds, are not targeted specifically chit funds and so is the case of gold.



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- Mital Patel** And these two wheelers and autos, is there a split you can give us between new one and used?
- Subhasri Sriram** Auto is 90% plus is used, two wheeler is 100% new.
- Mital Patel** And within the auto are these all 100% CV loans?
- Subhasri Sriram** No, it includes CV, it includes commercial vehicles, cars, three wheelers and tractors.
- Moderator** Question is from the line of Nishint Chawathe from Kotak Securities. Please go ahead.
- Nishint Chawathe** Just wanted to get a sense on cost to income ratio because your expenses have actually remain stable on a quarter-on-quarter basis, how do we really see that because I would assume that they would have been some variability in the expenses built in?
- Subhasri Sriram** In terms of expenses I think, in terms of rupee quantum we are more or less same.
- Nishint Chawathe** But I would assume that some part of the expenses would be variable so they could have technically come down given the fact that the volume of business done in a quarter is lower?
- Subhasri Sriram** Not so much because the only portfolio which has come down is probably gold loan, which we didn't have too much of variable expenses. We did not open branches or run any exclusive set up for gold loan, maximum is the appraisal variable cost, everything else is more or less the insurance cost, nothing much is variable in our business. Probably if in case of enterprise and two wheelers, yes there are commissions for originations and others probably would have changed cost income ratio. Gold we will unlikely to see an immediate dip in the cost on account of reduction business.
- Nishint Chawathe** Just trying to get a little bit more color on the gold business, we have seen a significant decline in the gold loan book, just trying to understand, customers who are exiting or who are kind of repaying and getting out of your company on the gold loan side, any color or any sense to what it is that they are doing, are they going to moneylenders, are they going to banks, are they are looking at some other avenues of funding, or any color on that side?
- Subhasri Sriram** Today's market probably everybody else other than us is giving the better rate of per gram, obviously they have an option to open to go to bank or to other NBFCs or to moneylenders. They might be shifting it from us to others. If they are sensitive to the loan amount, if they are sensitive to interest rates for which they have a choice between Shriram and bank.
- Nishint Chawathe** What proportion of these customers would be shifting to your business loan segment? There is a shift between customer kind of saying that.....
- Subhasri Sriram** Till now it is not very significant, as I said earlier that we need to see a particular period of consistence performance, we can enter into a long-term agreement with the customers. We

would not want to do a short-term agreement in the enterprise loans, so rather be as a gold loan so only when you see a sustained period of more than 6-9 months where customer requires the funding will shift that to the enterprise loans.

Nishint Chawathe

No but some of the gold loans customers would already have that background?

Subhasri Sriram

So that's why I'm saying, they have the choice of either being in Shriram on enterprises loan or maybe getting the long-term arrangement where they have to offer us additional collaterals, it stands on an exclusive stand alone gold alone.

GS Sundararajan

Potentially half of them will be eligible for getting into the SME category but as Subhasri is saying, unless we get additional collateral from them, we earmarks align to them and keep it for the medium term.

Nishint Chawathe

But over the last two quarters how much proportion of customers would have made this business transition or migration?

Subhasri Sriram

Portfolio we would have probably seen about, close to about Rs. 300 crores, portfolio of customers and gold loan shift to the long-term arrangements.

Nishint Chawathe

This would be Rs. 300 crores in the last quarter?

Subhasri Sriram

No-no, last two quarters.

Nishint Chawathe

Both the quarters put together?

Subhasri Sriram

Specifically on the last quarter I don't have the data.

Nishint Chawathe

And what makes you more assertive that now that the gold loan book has kind of shrunk over the last two quarters, it will from here on remain stable or kind of increase here on, what give you more confidence now than what was there may be some time back?

Subhasri Sriram

You're seeing a quarter but even if you see from month of June onwards and now it is end of July, I think we are happy about the business is happening in that segment. June-July has been quite positive so I don't want to be saying that it is actually positive but definitely not negative, there is no redemptions.

GS Sundararajan

For mono liners whose the bread and butter is only doing for us we started off gold as an addition product and what we realized was, it is very easy to do a business, great business but very easy to do, there are very little barriers, therefore the field team actually they are able to do business much-much faster than the other businesses especially the MSME business. It is time for us to actually go ahead and say that our focus is in MSME not gold because we could have very easily become a gold finance company if we had not curtailed the kind of exposure

we were having to gold as a percentage on the overall book and that is the reason apart from the gold stagnation in terms of price it is not good as tighten LTV's last years. I think done that and also knowing that there is a good business to do we would like to sustain it at around 25% level and definitely not going beyond 30 and being reasonably competitive in the market in terms of interest rates and not the actual LTV.

Nishint Chawathe

One of the NBFCs conference call in the morning did highlight certain concerns on their asset quality performance very specifically in South India, so we were just wondering whether you are seeing any such stress or any such signs of concern anywhere in the southern economy especially with the respect to southern?

Subhasri Sriram

It is like saying you have a stress in south Indian and your entire business only in South India.

Nishint Chawathe

I was just kind of trying to say that they have very specifically said that what the stress points for them, they said okay these are ABC and one of it is they said South India, so I was just wondering whether...

Subhasri Sriram

I don't know, I am at least with limited knowledge almost all gold loan companies, all banks doing gold loans are largely in South India, the business is from South India, it is a way of saying that the portfolio is under stress.

Nishint Chawathe

I'm referring to other business, autos and business loans?

Subhasri Sriram

The big part of it is I don't think that there is anything specific to South India, I can tell you for certain that customers generally are conscious about gold rates and customers are conscious about getting money out of pledging gold, the enthusiasm to pledge it or some for re-pledge is far lesser than what it was. I think it needs a bit of time for people to accept the current gold price because gold which is in the household gold has not changed, the people as not as if the gold is disappeared from household now. The gold continues to be there it just has to come back again for leveraging and therefore we create liquidity on that. It is question of reconciling to what amount they will get out of that gram of gold which they have and what they have got in last couple of quarters back. Second question happens we expect the gold which is back in people's house will come back.

Nishint Chawatheani

Looking at the other businesses as well, considering the fact that the economy slows down, there has to be some kind of an impact on the business loan segment, I guess it is already getting reflected to some extent but are you seeing incremental stress in the other businesses as well, whatever a simple question I want to ask?

Subhasri Sriram

I would say if we were grabbing business what is available to us, I will probably say that we might have had some stress because everything is which was coming back we had accepted in it. I think today what is available to us is what we are doing is probably a fraction of what is available is what we are doing business today. Even today I don't think there is another NBFC



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in the market of any size, loan segment which we are catering to today. Market is so large and being almost an exclusive right in the market, I think we have the choice of picking up customers, so currently touch wood the portfolio is holding up.

Nishint Chawathe But in terms of early things in the sense that approval rates going down or have you seen any such sign, what I was kind of asking?

Subhasri Sriram In our case more than approval rate, the customers who are eligible for finance is fewer now.

Nishint Chawathe But that screening has tightened?

Subhasri Sriram Branches are responsible for collection, generally they are cautious in terms of picking up the customer themselves. It is unlike others where they are incentivized to originate pools, not necessary to manage it to end-to-end. We see our branches themselves are cautious about whom they would pick up and what loans they would recommend for approvals. I can't say that the rejections have gone up, is there the number of customers have been shown for approval are fewer or getting selective.

Moderator Next question is from the line of Elizabeth John from Crisil. Please go ahead.

Elizabeth John It is actually largely that when typically our gold loan to the entire mix the total AUM has actually declined, so in that proportion I was just thinking why have our yields on average AUM also declined because typically gold loan is a low yielding product compared to all other products that we have?

Subhasri Sriram Two things, one is this good loan shift and the increase is enterprise loan which is also at a relatively lower yield fold portfolio compared to 2 wheeler and auto, now gold too SME loan has gone to a 46% from 31%, so let me clarify the yield compression is only 30 basis points, it is not as if 100 basis points difference so basically it is only a compensation change while we have gold reductions it is not been replaced with another high yield among the mix between balance is also lower yield product. We could have replaced the auto or two wheeler probably we would have seen a 22%.

Elizabeth John And what would be the yield currently on SME loan book?

Subhasri Sriram Ranging for about 16 to 22. Gold is from 14 to 18, so it is not too much of a difference.

Moderator Next question is from the line of Karthik Lakshmanan from BNP Paribas. Please go ahead.

Karthik Lakshmanan Just on the overall AUM you said is 20% growth or excluding gold just wanted a clarification?

Subhasri Sriram Excluding gold.



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- Karthik Lakshmanan** So including gold the AUM growth would be much muted lower than 20%?
- Subhasri Sriram** It can be more or less unfortunately I'm not able to comment right now.
- Karthik Lakshmanan** And the second one was you partly explained the gold loan within that the business gold loans some of them are shifting to the small business loans is that you said, in that case you would not be using gold as collateral any more would that be the understanding?
- Subhasri Sriram** Continue to be with us but it will be additional collateral by actual collateral by property or other collaterals. It will continue to be in the retained by us we will not return the gold back.
- Karthik Lakshmanan** So even in small business loan we would have gold as collateral to some extent?
- Subhasri Sriram** Since the amount is going up we need to have a little more handle, so we will require for other collaterals, so in terms of per-party exposure limits from Rs. 40,000 to Rs. 50,000 per customer if you do on a gold if we do Rs.5 lakh and Rs. 10 lakhs or Rs. 50 lakhs, we would require additional collaterals.
- Karthik Lakshmanan** And the tenure, has that come down now, would at be six months?
- Subhasri Sriram** Six months you're talking about gold or non-gold?
- Karthik Lakshmanan** Gold?
- Subhasri Sriram** Gold will actually last quarter we continue to see about 5 to 6 months. 3-4 months are not any more happening. Customers are waiting to see for price correction before they come up or rather than price improvement.
- Karthik Lakshmanan** And what percentage of this we would be doing on a monthly collection basis, the interest?
- Subhasri Sriram** Let me be upfront, though we run schemes monthly, they are quite conscious that practically customers do not come in very often, so we're realistic and we factor in only as a bullet payment notes?
- Karthik Lakshmanan** So mostly it is bullet payments only?
- Subhasri Sriram** The monthly collection is probably not realistically doable if you have lakhs of customers to deal with.
- Karthik Lakshmanan** And what would be the absolute LTV that incrementally we are lending at, per gram?
- Subhasri Sriram** This is one number 1300 and 1500 but we also have to factor in, in terms of what purity touch we would give for that gram. Gross weight and net weight it is more under control and

thereafter fix rate per gram. So currently we will probably reduce instead of reducing 5% to 10% we can even look at 15% reduction from gross weight, we can fix lending rate per gram.

Karthik Lakshmanan Any internal limits gold loan limits that we would have this is the maximum as a percentage of AUM after which we will not?

Subhasri Sriram MD had earlier clarified that we are looking at 25%.

Karthik Lakshmanan 25 would be the cap?

Subhasri Sriram 25 is what we like to maintain, we are right now at 24, we're happy about it.

Karthik Lakshmanan And what would be the AUM of housing subsidiary as of now?

Subhasri Sriram Rs. 159 crores.

Moderator The next question is from the line of Mithun Soni from Gee Cee Investment. Please go ahead.

Mithun Soni I just have two queries, in this gold we have two parts, one is the basic gold loan and the small business gold loan within which, which part are we more comfortable with to keep maintaining, are we more focused on the small business gold loan or just in general plain gold loan?

Subhasri Sriram It is very difficult to say, we have interest in both, there are pluses and minuses in both, like for example yields in retail is slightly more than the business gold loans, from 15% we can go up to 18% or 19%.

Mithun Soni But this small business gold loan is directly link to what we are trying to increase which is basically towards the small business part of it?

Subhasri Sriram Exactly, this is the route to go to SME loans if you do not do business retail loans and experience the whole thing, it is no way that we can start off with the business loan and the gold loan. It is only customers who come in as retail over a period of time move to SME and then move to the SME product itself. Initially they come as one or two tranches loans, Rs.40,000- Rs. 50,000s. Rs 1 lakh loan and then they come in frequently than they move into a gold loan customers with the business exposure and if this is done through a 1- 1.5 years, then we can look at him for a business loan.

Mithun Soni So the mix that we have today is about 10% pure gold and about 14% is small business gold loan, this mix is more reasonable mix which will continue to maintain that 24% to 25%?

Subhasri Sriram It is very difficult what has happened is over the next 6 to 9 months, a lot of the current SME gold loan customers will move to proper SME structures, so you might see a bit of a dip

because this just started doing it last two quarters, while for some time you will see a lot more in retail than in the SME gold because the shift is happening but one year down the line we should see a consistent number in both retail and the SME gold. We're just starting it, so you will see movement to SME loan in bulk, post-2014 we should see a steady movement from retail to SME gold and from SME gold to SME business.

Mithun Soni

Now as you said that when the customer is taking a pure gold loan mostly the payment is in the bullet form as he moves toward the small business which is of gold loan again gold back, how do we change the payment structure and accordingly when it moves to purely a small business part of?

Subhasri Sriram

It will be inter servicing with bullet payment. The minute he moves to SME loans this is where the difference between gold loan product and pure SME loan, if he moves to SME, he has to service monthly interest and the duration of the loan can be for three years, whereas if it is a gold loan either retail or nonretail, the maximum duration is 12 months and there are options for bullet payment.

Mithun Soni

There are options but these bullet payments are quarterly or everything is yearly?

Subhasri Sriram

Depending on the customer exposure, the tenure is either 6 months to 9 months but maximum is 12 months depending on the track record of the customer.

Mithun Soni

And what will be the ticket size for a small nonretail gold loan versus a small business loan?

Subhasri Sriram

In fact SME loan the ticket size will be lower Rs. 8 lakhs, gold loan SME loans the ticket size could way go up to as high as about Rs. 10 lakhs to Rs. 15 lakhs but currently it is only gold.

Mithun Soni

And my other question with respect to borrowings currently from what presentation we get above 51% of borrowings is fixed-rate and the balance is floating while if we see on the asset side most of our from what I understand majority of it will be fixed-rate loans, is that right?

Subhasri Sriram

It is right, the only differentiating factor is in terms of average tenure, the loan book on the asset side is all monthly amortized except for gold and even those with a maximum period of 12 months, the weighted average tenure is about 15 months whereas in the case of liabilities the weighted average tenure is about 26 months.

Mithun Soni

So the question is in the current situation where in because of the RBIs decision what it has taken, will we have a problem with these in the short-term if the rates were to continue to remain strong?

Subhasri Sriram

Since we are 50:50 between fixed and floating, the rates were to go up, 50% of the liability which is floating can get reprised and obviously there are no commitments to hold on to the liabilities I can always go back and replace with another liability.



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- Mithun Soni** But you do not see any interim pressure coming on to our spreads in the interim period because of this?
- Subhasri Sriram** I had explained earlier that we do not see the cost of funds to go up in the next 1-2 quarter unless there is a change in the product mix and where the yields are changing, we do not see any pressure on the NIM.
- Moderator** Ladies and gentlemen due to the time constraints that was the last question. I would now like to hand over the floor back to Mr. Karan Uberoi for closing comments. Thank you.
- Karan Uberoi** On behalf of JM Financials I would like to thank Mr. Sundararajan and Ms. Subhashi Sriram of Shriram City Union Finance and all the participants for joining us on the call today. Thank you and goodbye.
- Moderator** On behalf of JM Financials that concludes this conference call. Thank you for joining us, you may not disconnect your lines. Thank you.