



“Shriram City Union Finance Limited Q1 FY15 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Shriram City Union Finance Q1 FY2015 Earning Conference Call, hosted by JM Financial Institutional Securities Private Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Singh Uberoi from JM Financial. Thank you and over to you Mr. Uberoi!

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

Sundararajan G. S.: Good morning to all of you and thank you very much for participating in this call. What I will do, I will give very brief overview of the quarter and what is in store in the immediate future and after which Subhasri will take you all through the financial. The first quarter has been quite moderately good, I would say, because we have really got out of some of the earlier stagnation we had specially in terms of gold where we can announce the uptake in terms of volume and therefore we will come back to the numbers if you want basically 18% to 20% of the portfolio. We can see incremental disbursements happening on the positive side. Two-wheelers have been going extremely well and we are doing that business very profitably and well and perhaps one of who are actually doing that as well as what we are doing. SME has been doing well, but last quarter specifically has not been as buoyant and may be because of the elections and I am sure that given the kind of penetration levels, we have with our own capital customer base as well as what we have seen in the other region of the country, we should see an uptake coming in there as well. With these words, I would like to hand it over to Subhasri for taking through the details financially.

Subhasri Shriram: Good morning. On a standalone basis Shriram City for the quarter ended June 2014 as recovery income from operations of Rs.846 Crores, a growth of 6.9% as compared to the quarter ended June 2013.

Net interest income recorded 14.74% year-on-year growth and is at Rs.500 Crores for the quarter ended June 2014. Profit after tax is at Rs.127.72 Crores as against 117.42 Crores as on June 2013, recording a 8.8% growth on year-on-year basis.

During the quarter ended June 2014 asset under management recorded at growth of 2.5% over the quarter ended March 2014. Non-gold portfolio has recorded of 4% growth over the previous quarter and 9.4% growth on year-on-year basis. Small enterprise finance continues to be focus segment and 52% of this constitutes our balance sheet of the total AUM and this segment has recorded growth of 12% in AUM as compared to June 2013.

Two-wheeler portfolio continues to remain robust and it constitutes 19% of the total AUM and this segment has grown 31% on a year-on-year basis. Gold loans are at 15% of the total AUM and have degrown by 5.5% over the quarter-ended March 2014 and 38% as compared to previous year.

Auto loan and personal loan constitute 10% and 3% respectively on total AUM. Loan disbursements during Q1 FY2015 were at Rs.3842 Crores, a growth of 18% as compared to disbursement of the same period FY2014. On a quarter-on-quarter basis, disbursements are down by 14%, gold loan disbursement were down by 10%.

Loan disbursements are low mainly on account of elections hopefully this should pickup during this quarter and subsequent quarter. Yield on assets for the quarter were at 22.8% the same as include from 20.29% as of June 2013. The change is mainly on account of change in product mix, gold loans which were at 25% as of June 2013 it is come up to 15% in June 2014.

Net interest margin continues to remain comfortable at 13.47% as compared to 13.3% for the quarter-ended March 2014. Investment income has recorded significant growth, the same has been account of investments of surplus generated mainly on account of redemption of gold loans being an excess of disbursements and the equity investment received during June 2014.

The surplus has been invested under various mutual funds schemes, fixed deposit of the banks and institution and purchase of commercial paper. Opex has increased by Rs.3.11 Crores during the quarter and increase is on account of change in depreciation methodology. Gross NPA levels has been stabilizing, gross NPA excluding gold has been at 2.8% in the last two quarter.

In absolute term there has been increased of Rs.25 Crores in non-gold portfolio and Rs.20 Crores in gold portfolio. To maintain the coverage ratio at 78%, there has been additional cost incurred on provisioning. Write-off levels have been stable and coverage including write-off has been at 82%. In absolute terms gross NPA is at Rs.386 Crores and net NPA at Rs.84 Crores, write-off during the quarter were at Rs.81 Crores. Capital adequacy continues to be comfortable, total capital adequacy is 29.24% with Tier 1 constituting 24%.

Return on average networth is come up with increase in capital it is right now over 15% and return on assets is comfortable post-tax is over 3%. There was no price securitization during this quarter and off book as of now constitutes 10.54% of the total AUM. Borrowing as on June 2014 was Rs.11809 Crores and bank borrowing constitutes 51% and the rest is public issue NCDs, retail borrowing and market borrowing.

During this quarter, we have received two rating upgrades. In April 2014, India rating upgraded the long-term rating paper of Shriram from AA minus to AA and in July 2014 CARE ratings upgraded are rating from AA to AA plus.

Our subsidiary Shriram Housing asset under management now stands at Rs.383 Crores and they reported a profit of Rs.4.15 Crores and the company currently operates out of 47 branches.

Over to Karan, happy to answer a questions!

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Thank you very much for the opportunity. I have three questions. Firstly, we have noticed that in spite of the gold AUM moderating in the last three or four quarters. This quarter I believe we have seen an increase in the gross NPA in gold in absolute terms, can you give us some more color on what is exactly driving this and related to that in the first quarter have you noticed any slippage in collections, because of the election?

Subhasri Shriram: Anything more Chellappa? Can I go ahead to the answer?

Karthik Chellappa: Yes, we can take it question by question.

Subhasri Shriram: With reference to gold NPLs, I think the gross NPL was mainly on account of I think if you recall first quarter last year typically first quarter July there was a correction in gold rate, so there was a 5% drop. So if you look at lending rate from 1900 went down to 1600 from April 2 to July 2013. I think if you look at it our tenures continued to be longer duration, so as a cautionary on a portfolio which is outstanding originally during last quarter we have done at additional provisioning. I think we will know the quality of it during this quarter when the customers come for settlement. That is why you would also noticed that not only had gross NPL provisioning is higher, the assets are higher. We also increased our provisioning coverage from 25% to 47%. This is more in precautionary, because there has been trend and currently we do not see any change in gold price. It has been more or less

flattish barring 1% or 2% movement on a quarter-on-quarter. So, we would like to keep it careful for some more time till we see some clear direction on gold prices and the tenure continue to be longer and we have not seen any significant reduction in the turnover during this quarter. With reference to collections and impact of collections on account of election not so much. There has not been any concern in terms of collection. Definitely money in circulation has been much better. I think people has still at the ground are not ready for taking decision. The lending probably has not completely taken off, but not significant concern on collection neither in Andhra or any part of the collection.

Karthik Chellappa: Just to clarify from gross NPA perspective on gold in terms of ratio do we expect it to be stable from here on?

Subhasri Shriram: Definitely, we do not expect anymore, we have reached the peak in the gold. I think we should have actually some benefits during this year if we do not see any more, negative surprises and shocks in the market. I think we have fully protected for.

Karthik Chellappa: My second question is on the two-wheeler disbursements, which have actually grown very strongly this quarter. If we look at the OEM sales, the OEM sales is still only may be growing at high single digit or low double digit, but we have grown very healthily this quarter. So is it a volume driven increase or have we increased the ticket size or any other trend that we are missing at this point of time?

Subhasri Shriram: First let me say there is no change in ticket size. Definitely there are two things which are significant improvements in the market. One is that for Shriram City we are having more locations and more locations which are getting the locations, which are getting matured. So the market share which we get into our business is much more than what we are getting in the past quarter and definitely from the manufacturers I think there is little more thrust in the rural and semi urban market from manufacturers. So definitely the share between finance to cash sale, finance sale is picking up. We will see obviously more of it to the next two quarters.

Karthik Chellappa: Last question is in the recently announced budget, there was an increase in the capital gain that for short term mutual funds, how big are they as a source of funds for us and will it change or cost of funding in the medium term?

Subhasri Shriram: One is, Shriram City for the last one-and-a-half years has been very low on practically nonparticipating in the short-term borrowing market. So, we would probably current balance sheet does not have any CPs or any outstanding in the short term NCDs. We will probably go to the market may be in the next two quarters thereafter. But it has seen on a bit of negative dampener in the budget, it has been on dampener in our investment portfolio,

because we did have some SMP investments during this quarter before the budget, which will not have full tax benefit which otherwise we envisage. It is Rs.180 Crores, which we will have to carry for the one year period, but the tax arbitrage has been reduced. Though it still as an arbitrage, but it does not reduce what we estimate it.

Karthik Chellappa: Thank you very much madam. I will come back later in case I have any follow up questions.

Moderator: Thank you. The next question is from the line of Surjit Chaudhary from Edelweiss. Please go ahead.

Kunal Shah: This is Kunal over here. Good morning Madam. Firstly in terms of business loans, when we look at the repayment in the business loans that is actually much lower its quarter. So any specific reason maybe disbursements have also been lower and repayments have been much lower which relates to this kind of quarter-on-quarter drop in business loans. So if you can highlight that?

Subhasri Shriram: If you recall in the last two times, it is definitely on December and March significantly we had clarified there were quite a bit of short duration loans, which got settled during the two quarters. As we explained at that point in time, because not permanent correction, we had certain short duration loans which got settled during the last two quarters. But again we are not seeing the full impact of our one year old portfolio, because the tenure from last one year has been more than two to two-and-a-half years rather than three and three-and-half years. So the AUM growth has not been very significant right now and it is further fuelled by lower disbursements.

Kunal Shah: So maybe incrementally more of the disbursements I think are relatively short-term tenure that is what my understanding is?

Subhasri Shriram: Kunal, it has seen the trend for the last four-and-a-half years, so if only our average duration was to be three years it is now close to two years and during last year we had certain more of shorter duration even six months loan, which was reasons, if you notice at last two quarters there was disbursement but without significant increase in AUM. Now that is probably more or less got at this point, I mean it is not there anymore.

Kunal Shah: It is most of the rundown of the short term loans done?

Subhasri Shriram: Yes, we do not have any short duration loans. This is up to March.

Kunal Shah: When we compare in terms of the average tenure of business flow maybe as compared to Q1 of FY2014. How much it is in Q1 of FY2015 now average turnover?

- Subhasri Shriram:** What used to be three years is now closed to two to two-and-a-half years. It is about 24 to 26 months what used to 30 months plus.
- Kunal Shah:** Would this have impacted yields as well, does it matter relating to?
- Subhasri Shriram:** No, we have no change in yields, because this was in fact some of shorter duration loans are actually having slightly better in yields also, but it is not a permanent one, I think the yield continues to be over 20% to 22% irrespective of the tenure. It was more our call because we reduced the loan amount what used to be average ticket size over, the average is over Rs.10 lakhs, last year we brought it close to Rs.5 to Rs.8 Lakhs. When the amount comes down the tenure practically has to come down.
- Kunal Shah:** In terms of GNPL, so whatever increases, any particular product segment, how was in the movement from quarter-on-quarter, the 20-basis points increased which is there is GNPL?
- Subhasri Shriram:** The 20-basis point's increase is only in the gold segment I explained earlier. On the non-gold there is practically no increase at all quarter-on-quarter. For example, March 2014 was 3.55% including write off and June 2014 is 3.53%. Actually the increase is in the gold segment from 2.14% as to 3.08% as I said more Rs.20 Crores portfolio has been considered for the provisioning and that has also increased the coverage further by net NPLs also come down. We have addition Rs.20 Crores been provided for and the coverage ratio from what used to be 28%, now it is 45%, 46%.
- Kunal Shah:** That would be in terms of coverage, but any particular reason if any?
- Subhasri Shriram:** Gross NPL I explained that gold gross NPL was 2.14%, it is now 3.08%.
- Kunal Shah:** How much of the proportion would be there wherein say interest it is being serviced over last three months or so or may be nothing may be it is entire?
- Subhasri Shriram:** For us let me say for almost 90% plus portfolio is bullet payment.
- Kunal Shah:** 90% bullet payment. Is there like in the other case also we had seen the increased in GNPL, for one of the gold finance companies as well, so any trend to read into this?
- Subhasri Shriram:** I think as I explained the last year first quarter was a bit of the price was gold rate were much higher, so technically you would have even if we had financed 70% at that point of time the 70% today is down to Rs.200 per gram. So it is proportionally for everybody irrespective of whatever LTV levels they would have financed it has come down. If I want to maintain the same LTV level by amount which are financed earlier is higher than what I would have financed now.

- Kunal Shah:** But any which ways across the industry our LTV would be the lowest?
- Subhasri Shriram:** Either it will be lowest or it will be the tenure will be shorter. If in case we go over 70% of the tenure gets down to three to six months. We do not go for one year loan.
- Kunal Shah:** The other thing was on this income, interest on other income maybe the government, I think at this time the chunk is slightly on a higher so this is just to do with money which has come in Rs.790 odd Crores in terms of equity?
- Subhasri Shriram:** Yes that was more in the June quarter, but for the June month. April-May was largely on account of also surplus issue had post securitization until March 31 and continue to have gold not picking up, so redemptions are still more than the refreshed disbursements. So the cash in system has been slightly more than normal.
- Kunal Shah:** This income has been almost like Rs.40 odd Crores?
- Subhasri Shriram:** We had actually sort of taken precautionary view on March 31 itself. We are invested in as you would notice in March 31 balance sheet we are invested in some of those long bonds and fixed deposit, which are maturing over the next six months or have started maturing as of now by September most of this would be back into business.
- Kunal Shah:** This should normalize?
- Subhasri Shriram:** By September, you see similar trend or more or less similar trends in September, post September-December we will be on a full borrowing mode, we will have not too much of surpluses.
- Kunal Shah:** Madam finally in terms of AUM growth maybe post this changed which has happened in May, how are we looking at the overall AUM growth even ex-gold?
- Subhasri Shriram:** Are you talking of the May about the elections?
- Kunal Shah:** Yes.
- Subhasri Shriram:** I think, neither of this will influence our business so significantly. I think we have already set our target to do 20% to 25% and having more money or the change in elections is going to make it any different. We would continue to do this 20% to 25% and I do not think doing more than that will reach us in short-term because there will be stress and other things. We would like to maintain a consistent 20% to 25% rather than having taking advantage of current market.

- Kunal Shah:** Thank you.
- Moderator:** Thank you. The next question is from the line of Ketav Shah from Anand Rathi. Please go ahead.
- Ketav Shah:** Good morning. Thank you for taking my question. I had the question on the overall loan growth for the next two to three years, if you can now give us a sort of picture with the gold loan portfolio now stabilizing?
- Subhasri Shriram:** Let me say ex-gold and gold we will continue to stay on the ex-gold 20% to 25% is clearly visible for the next three years. I do not see any there will be any concerns on that. On the gold portfolio I would like to keep it as we are not doing this segment, where we will continue to be focusing on this segment and looking at growing that portfolio, but definitely we do not have a number because it is not a long duration assets. There are lot of government challenges or policies which I would like to look at it and then take decisions, but it is a fact that Sriram City is interested in gold loan and we will be focusing on that business and we will continue to grow and our stated target to touch 20% of our book to be gold loan. Right now we are 15%, but we would like to have a 20% of our book in gold but at our terms.
- Ketav Shah:** So consequently, the question is that while your ROAs are improving, when would now we see ROEs of 20% plus? When would the leverage improve?
- Subhasri Shriram:** As we look at ROA also is very healthy. Our accruals are also very healthy. So the internal accruals itself, unless I cross over 20% trigger, the ROE is not going to go significantly improved. With our internal accrual of 20% I think the dividend payout is not very large right now. So, I do not expect to reach 20%. We should probably reach close to 20% by in and about two to three years time. 20% or 15% to 20% is the 30% increase that will happen in about 2% to 2.5% over the next three year period.
- Ketav Shah:** That is it from me. Thank you Madam.
- Moderator:** Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Global Financial Services. Please go ahead.
- Kashyap Jhaveri:** Congratulations for good set of numbers. My question was again pertaining to gold loan, if I understand compared to RBIs guidelines, which is about 75% LTV, we tried to do on exit basis rather than would that be correct?
- Subhasri Shriram:** Absolutely. You are on dot. I think we have always been saying that it is now that the RBI last 10 days ago have put in as a policy for the banking sector whereas they have mentioned

about 75% as an LTV throughout the duration, not at the time of the lending, which means that the interest also needs to be covered in this portion. We have been saying this for quite some time and therefore we have as I said earlier, we maintain a lower LTV for longer duration and higher LTV for a shorter duration loan, but thereby ensuring that we have adequate coverage, but it is also a fact that the gold prices being quite lackluster. There is no much activity in that segment. I think we also have the rupee dollar parity swinging from 58 to 60 and going over 60 now, I think we need to have some stability in that both rupee dollar and gold price international and domestic for us to take a long-term view on that. Therefore irrespective of the caution, which we practice I think, we still need to be going slow on this thing.

Kashyap Jhaveri: In this quarter, particularly the NPLs which have sort of come up, as you said, would be largely because of the gold loan portfolio? Have I understood correctly?

Subhasri Shriram: Only that. Exactly, again reiterating that gross NPL has remained stable from March 2014 there is hardly any difference which actually has come off by 3.55% it has become 3.53%. It is only the gold portfolio has increased from 2.1% to 3.08% or if you look at just the gross NPA 2.07% to 3.08%. There is 100 BPS increase on that due to account portfolio also coming down during the quarter.

Kashyap Jhaveri: That is something like about 45 Crores or 46 Crores odd of increase which is about 2200 or 2280 Crores?

Subhasri Shriram: Gold portfolio is 300 and the 51 Crores gross NPL is now 71 Crores in rupee terms, 20 Crores increase in gross NPLs.

Kashyap Jhaveri: What I am trying to derive it is when we are maintaining an exit LTV of about 75% odd almost about 2% delinquency in that portfolio on quarterly basis what could exactly with the reason for that happening?

Subhasri Shriram: I just clarified this is first quarter of last year so we are now providing for it because we are not seen customers exit out of those loans. It is not that we have a coverage issue. This is not the mark-to-market valuation. It is purely an RBI formula and in terms of additional stock getting into requirement of gross NPA.

Kashyap Jhaveri: Sorry I did not get that.

Subhasri Shriram: The management decision is in the write off and provisioning. The gross NPL numbers in the case of gold I clarified that it is largely in terms of the portfolio requiring additional getting into substandard because of duration of one year getting completed and customer

not redeeming at that point. It is not that the company does not have gold value proposition for the interest plus loan amount.

Kashyap Jhaveri: Sir my question is that 2% in a quarter is a fairly large number what would have propped the customer not to probably come back in that?

Subhasri Shriram: I would just take your thing that in case of gold it is not quarterly, these are bullet payment loans. So there is just a portfolio doing well. If I assume I will get 600 Crores portfolio first quarter 1000 Crores in fact June 2013 our disbursement was 700 Crores. 700 Crores portfolio is now coming for more than one year old so that is where I am providing for that portfolio.

Kashyap Jhaveri: So this is not strictly your default?

Subhasri Shriram: It is not default. It is delayed payment and going to delay.

Kashyap Jhaveri: Let us say for the recovery of these loans, can we do we have an authority to sell their gold now at the end of first quarter?

Subhasri Shriram: We definitely have. It is just a question of whether we since we have a coverage in that we will have to exercise whether the auction is the mode or customer will come and renew it, because there is coverage there. Now I need to provide for it technically but I need to see whether there is coverage for it.

Kashyap Jhaveri: Now that is already sort of one month past the end of the quarter what has been the recovery in that particular segment out of this 40 to 50 Crores which has slipped or did this slip towards the closure of the quarter?

Subhasri Shriram: I do not have off the turf, but I do not see, it has not dramatically improved. I can also say the other way around neither have auctioned anything in the recent plus one month.

Kashyap Jhaveri: The second question is on our SME portfolio the growth now versus about 50% in Q1 of last year now has slowed down materially to about 10%. What still give us this confidence that we will do about 20% to 25% growth in this the overall rather in the SME loan portfolio? Has the disbursement picked up now in the second quarter?

Subhasri Shriram: Yes I would say July now is more or less picking up. The more I would say is that April, May, June was there was definitely what did not happen is on account of certain external reasons. We did not see the customers getting out of business or customers not interested. Customers are just postponing decision. So we should but it is not position is postponed that next day election results they could jumped into it. We definitely are part of the positive

marks that we are looking at some improvement coming in the next two quarters. Definitely there is the room or the head room in this segment is so large, I do not think there should be any concern in terms of growing the portfolio. It is a question of calibrated growth and quality in the business and we are able to be doing at a particular price target which we want to achieve, but not to grow at any cost. So if I ensured that we do not reduce the lending rates and maintain our ticket size, I think that is where the challenge is. Doing large loans or reducing the lending rates of 15% to 16% I think there is a huge opportunity.

Kashyap Jhaveri: But that is not something that we would want to take.

Subhasri Shriram: We do not want to there is no hurry. We are not able to burn up the money in the next one quarter so there is no hurry to do it.

Kashyap Jhaveri: Just one last question despite our growth on the overall AUM slowing down are opex has not sort of slowed materially. So how does one read into this sort of let us say you could call it expenses or investments either way but how does one return to this 14% to 15% still YOY growth in the opex line?

Subhasri Shriram: That will continue to be as I said the significant portion of our expenses are employee cost unlike some other companies where they have DSAs or outsourcing recovery agents here we have a wholtime employees for all our activity. So the benefit of probably when the volume picks up and when there is a slow down you might see that we carry that across but I think it is for the long-term investment, as you rightly put it, it is investment not at a cost, and I think we should wait the time out for it. It is not expenses where we have gone up on opening brands or any of those consumption expenses. The expense is predominantly is only an employee cost. It is a good investment in the long-term.

Kashyap Jhaveri: Would not we want to sort of when the growth is slightly slower is there a possibility for us to sort of downsize our network but let us say right size or employee base would not we want to do that?

Subhasri Shriram: We would that is not philosophy I do not think we do not react on a quarter-on-quarter basis. As we clearly said that we see a long-term growth and employees are long-term investment and there will be no short-term decisions taken for right sizing. This will not work for us and in retail business it is the assets and results are in our employees. The touch point with so many million of customers is only through our employees. I do not see our strategy to reduce our employee at no way. May be the scenario is probably only indicating that we will not grow our employees immediately but there is no chance of reduction of employee.

- Kashyap Jhaveri:** Sure. Thank you Madam.
- Moderator:** Thank you. The next question is from the line of Jyothi Kumar from Spark Capital Advisors. Please go ahead.
- Jyothi Kumar:** Just couple of questions first on the incremental SME books that you are building. How much is coming from chit business and how much is coming from the non-chit customers?
- Subhasri Shriram:** Two ways, I can answer this. One is chit locations and chit customers. Chit location which is Andhra, Tamil Nadu, Karnataka and Maharashtra continue to contribute over close to about 90% plus of our business or even 90% to 92%. So 90% to 92% of our business is in the chit locations, now the other way of answering the question are they existing chit customers or past chit customers? Probably slowly the ratio is coming down over a period of time as we get confident and where we mature in those markets. Currently probably less than 80% of our portfolio is past chit customers or existing chit customers. So more than 20% of our customers or non-Shriram Chit customers; more than 20% of our customers are either non-chit or non-chit locations.
- Jyothi Kumar:** Other question that I had was on a probably from a market perspective is to understand there is lot of anecdotal evidence of significant price hikes and land price hikes in AP residual part of AP at least in the last eight to nine months. From your risk management point of view are you trying to curtail your LTVs in that region. How you are looking at on the residual part of AP as a business piece today?
- Subhasri Shriram:** Is this question for Shriram Housing or Shriram City?
- Jyothi Kumar:** Both?
- Subhasri Shriram:** Shriram City I do not think there is any question of LTV for properties. We have always given loan to businesses and property collateral is incidental so for us the business and business cash flow becomes significantly important decision making and there after the property security is considered and thereby the property LTV may not be very relevant because many at times the coverage ratio is two types two and a half times, so it is not very relevant to see how volatile the property prices and invariably our loan as I said it is two to three years time. It is not a five year or 10 year loans. For Shriram Housing, I think considering that the Shriram Housing does its significant portion again more than 90% of fixed book for the affordable where they are financing the self employed in smaller terms. The land and the building value the LTV has never been 50% to 55% because the land already acquired by the borrowers. It is already in the possession of the borrower and the financing largely goes for the building and thereby we have a higher LTV in the entire

transaction. So I do not think either under or elsewhere this a pretty current concern for either for Shriram City or Shriram Housing.

Jyothi Kumar: But what we are hearing is that in a few parts of Andhra the prices have gone up by 2x to 3x in last nine months. I am just trying to understand from a value perspective itself is there a need for you to relook at how you think about that?

Subhasri Shriram: That is not so much we are not getting too carried away by that.

Jyothi Kumar: Thank you.

Moderator: Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: Thank you for taking my question. My first question is related to this Andhra thing. So the related question on Andhra Pradesh is on this firm loan waiver that we are hearing about that the government is going to do and the implications of that on our book if any because of the moral hazard of people not paying up their existing loans?

Subhasri Shriram: So far excellent it is still in paper, I think nothing much has got implemented. I can certainly say that this will be an impact for the banking sector and not the NBFC sector and definitely in our case this is not the first time in AP this is the second time around AP allover. Mr. P. Chidambaram had done this earlier 60,000 Crores but more like for example recent two to three years ago microfinance institutions had challenges in our AP it is fact that they did not have any impact on Shriram at all. May be the positive impact is we have more employees looking for job, more people looking for job, but in this case I do not see much of an impact. People clearly relate this to the banking sector not the NBFC sector. In fact clearly relate to this public sector banking rather than even sometime the private sector banking but they think it is a government charity, government institutions are started to do the charity and not the private sector. So there is no much expectation from the private sector to do similar trade off for this borrower.

Shyam Srinivasan: So in terms of your occupation breakdown of some of these loans agri would be very small portion?

Subhasri Shriram: Insignificant we are not very clearly we are not financing the firming, we are not financing rural markets. We are semi-urban, semi-rural and not targeting the farmers for farming purpose.

Shyam Srinivasan: My second question is on you talked that SMP portion of your borrowing is actually very small or not significant at all. The question is on the recent sector also talks about banks

having unsecured borrowing that they can do now for housing and for infra purposes. Do you think that there is a danger that the NBFCs get crowded out in that market now and their cost of borrowings go up. Any sense that your treasury or your teams are actually looking at?

Subhasri Shriram: The point here is the people looking or the options are getting reduced so therefore with more people demanding and there is going to be price going to be but I think overall the quality of the company and rating will become very important at this point of time. I think I cannot say that this is the best time you should have got our rating upgraded and this is going to be very helpful for us into go the market to borrow. So what differentiates here for the lenders is to choose the papers with better ratings. I think we are very well placed to be in a top link.

Shyam Srinivasan: My last question is on what the RBI has been doing on the gold loans for the banks specifically and the competitive intensity there they have been using for the banks quite a bit and bringing it in line with whether NBFCs are so they now are allow to do a bullet payment type of loans as well. So in terms of the product now they have not differentiated with respect to how the gold NBFCs and Shriram City is. So are you seeing anything any change from their end in terms of what you are doing on the gold side?

Subhasri Shriram: Not so much I think whether RBI has blessed it or not banks are attempting to do something in this for a quite sometime. I mean they will continue to attempt and to enter the market but I think this market will continue to favor the NBFC by the sheer way of product delivery at the doorstep of the customers or practically at very convenient timing. I do not see the banking sector ever able to match the NBFCs in the gold loan whether RBI blesses it or not it is going to be a challenge for the banking sector.

Shyam Srinivasan: Thank you. Those were my questions.

Moderator: Thank you. The next question is from the line of Sumit Shekhar from Edelweiss. Please go ahead.

Sumit Shekhar: Good morning to everyone. My question is mainly from the housing finance if I you look at your numbers you have done considerably well both on a year-on-year and quarterly basis. Year-on-year wise the total disbursements have gone three times, the profit before tax is almost of six times. Now what I wanted to understand is because I see the number of branches is not increased or obviously it is just better penetration. So first is as the ticket size increased per disbursements?

- Subhasri Shriram:** Incidentally the point here is June quarter it is much better the ticket size has actually come down marginally. It was over 10.32 lakhs now it is something 10.2 lakhs a small difference but as we have been saying in the past that Shriram Housing continues to get the benefit of Shriram City. So the branches are only more number on the board but the businesses we have the ability to reach out more locations through our Shriram City network.
- Sumit Shekhar:** So it will be very safe to assume that we will be seeing such numbers going forward?
- Subhasri Shriram:** Yes we will see the growth without necessarily seeing increase in branches.
- Sumit Shekhar:** Coming to my last point that is about provisions to your overall disbursements total disbursements have gone up three times the provisions and write offs have gone up five times. So is it can you just explain this nature?
- Subhasri Shriram:** You are talking about Shriram Housing right?
- Sumit Shekhar:** That is right.
- Subhasri Shriram:** I think Shriram Housing has the thing of the guidelines in terms of provisioning and continue to remain provisioned once it is an impact. The housing finance guidelines do not provide you to write back. So therefore it will not be in progression to the advances.
- Sumit Shekhar:** Thank you.
- Moderator:** Thank you. The next question is from the line of Umang Shah from CIMB. Please go ahead.
- Umang Shah:** Thanks for taking my question. I just had an additional question on the housing loan portfolio as to if you could give us some color in terms of what is the target customer segment that we are looking at and incrementally are we also looking aggressively at loan against portfolio product in this book as well or just some thoughts on that?
- Subhasri Shriram:** Shriram Housing will continue to concentrate and focus on the self-employed category in Tier II Tier III towns. That is the stated objective and that is how we operate. With reference to loan against property or builder financing, project financing it will not be very significant but I do expect that on the near zero levels we should eventually the one year period take it to about 10% of our book. So 90% of our book will be in the self-employed category and 10% will be builder financing and project financing together.

- Umang Shah:** Just one more clarifications. Loan against property as a product kind of is pretty similar to the SME financing product that we would be doing in our Shriram City book right. So would that be some kind of an overlap?
- Subhasri Shriram:** The way you approach it because Shriram City does not go to customer and give him a 10 year loan, it does not give a loan at 15%, it does not give to for purpose of construction or any other activity or any other consumption business. So Shriram City is giving to businessmen against property depending on the properties again based upon customer's assessment, our assessment of the customer, ability to the loan amount, the ability to offer additional security so it is very different. I mean it might be looking like it is a property end of the day in both businesses but I think the nature of the segment, the duration, the interest customer profile is extremely different.
- Umang Shah:** So just taking a cue from what you also said earlier that in Shriram City wherein SME loan the initial assessment is on business and cash flows and properties incidental, contrary to that in a loan against property product obviously the property would be the first?
- Subhasri Shriram:** Critical, extremely critical. We assess the value of the loan. We decide the amount and then look the borrowers, look at his repaying capacities, then have a structuring the loan duration where it may be five years, seven years or 10 years but those options are not there in Shriram City at all.
- Umang Shah:** Just last question if you could give us some indication on yield. What kind of yields you would be seeing on your self employed home loan portfolio?
- Subhasri Shriram:** Ranging from 13%, 13.5% to 15.5%.
- Umang Shah:** 13.5% to 15.5% and assuming that you would be doing a builder loans and loan against property the yields on that would be?
- Subhasri Shriram:** Should be 16% to 18%.
- Umang Shah:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.
- Nischint Chawathe:** I just wanted to understand are the 82 Crores of the write offs that you made during the quarter what would be the proportion from gold loans?

- Subhasri Shriram:** In terms of write offs amount hardly anything 0 it is practically 0. The entire 81 Crores is from the non-gold segment. We are written of anything gold.
- Nischint Chawathe:** Which segment this could be?
- Subhasri Shriram:** The write off has been in two-wheeler, auto loan and small enterprise loan obviously this in proportion to the business.
- Nischint Chawathe:** On the 3% gross NPLs in the gold loan book what would be the average LTV out here?
- Subhasri Shriram:** If you look at LTV at times of exit right now we are looking at.
- Nischint Chawathe:** Yes that is right including accrued interest etc.?
- Subhasri Shriram:** It should be closed to about 90%.
- Nischint Chawathe:** So practically what we are saying is that there may not be any losses as such you will book. I mean you will be able to?
- Subhasri Shriram:** It is a question of whether we do an auction and see the purity issue or we go for the customer anywhere with the interest to be paid.
- Nischint Chawathe:** Finally on the disbursement in this segment. Now disbursement came down on a quarter-on-quarter basis what would you guide for growth in the segment?
- Subhasri Shriram:** Which one you are talking about gold?
- Nischint Chawathe:** Yes that is right.
- Subhasri Shriram:** As I said we are we continue to say that we are not getting any guided number on gold because I would say that we continue to focus on it but I think this is not the segment where you can actually push the loan. The customer has to walk in with the gold and it should fit in our requirement and our LTV numbers. You are clearly aware that we are probably sort of priced out in the market in terms of LTV. So we continue to be where we are but we focus on the segment by the way we would like to do it, unlikely to give guidance right now. I think the current guidelines which RBI has given for the banking sector so far in the recent past RBI has more or less repeated the same or sort of verbatim copied for the banking NBFC sector. If we expect that to come in where the 75% LTV still maturity comes in I think that quarter we will give you guidance.
- Nischint Chawathe:** Like it is more or less already complied with that?

- Subhasri Shriram:** We are complied but the level playing field will be more in our favor.
- Nischint Chawathe:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Vijendra Goswami from Locus. Please go ahead.
- Vijendra Goswami:** Just wanted to know if you could share what your gold loan auction for FY 2014?
- Subhasri Shriram:** 2014 or 2015 first quarter 2015?
- Vijendra Goswami:** Both actually for the whole year 2014 and first quarter of 2015?
- Subhasri Shriram:** Whole of last year would have been over 100 Crores. I do not have exact number and this quarter is practically not so much.
- Vijendra Goswami:** Not a material number.
- Subhasri Shriram:** Not a material number. This quarter it will be probably less than 10 Crores.
- Vijendra Goswami:** The 100 Crores was this a recovery or this was the book value of the loans?
- Subhasri Shriram:** This is the book value. Loan value auctioned, so I mean 100 to 110 Crores probably. The recovery would have been short of may be about 70 Crores.
- Vijendra Goswami:** What was the recovery number?
- Subhasri Shriram:** It would have been close to about 102 and I mean the auction value with interest fully loaded interest would have been 110 Crores. I can give you offline if you can connect with I will give you the exact details. I do not have right now last 2014 auction numbers. I am happy to provide these details.
- Vijendra Goswami:** Right and do you expect I mean auction volumes picking up in Q2?
- Subhasri Shriram:** Not that much I do not think so. I definitely this year the gold prices remain stable and there is no much of the question here is we do not I cannot say that just as I cannot give you a guidance on growth. If there is a steep volatility and if RBI comes back to looking at inflation and thinks once again gold as the culprit when we do not know what are the gold prices can move and that can trigger the behavior pattern of the borrowers, but going as it is if the current numbers, the current rates if you have to look at it we definitely do not see any too much concern in auction to losses or any concerns in terms of gold auction.



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Vijendra Goswami: Would you have a sense of what is the total proportion of gold AUM which is more than one year old now?

Subhasri Shriram: More than one year old out of 2500 Crores will be around 250 Crores about 10%.

Vijendra Goswami: Around 250 Crores. Thank you.

Moderator: Ladies and gentlemen due to time constraints that was the last question. I would now like to hand the floor over to Mr. Karan Uberoi.

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

Subhasri Shriram: Thank you Karan.

Moderator: Thank you. On behalf of JM Financial Institutional Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.