# “Shriram City Union Finance Limited Q3 FY-16 Results Conference Call”

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**MANAGEMENT:** **MS. SUBHASRI SHRIRAM – EXECUTIVE DIRECTOR & CHIEF FINANCIAL OFFICER, SHRIRAM CITY UNION FINANCE LIMITED**

**MODERATOR:** **MR. NIKHIL WALECHA – ANALYST, JM FINANCIAL SERVICES PRIVATE LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Shriram City Union Finance 3Q FY16 Results Conference Call hosted by JM Financial. As a reminder all participants' 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 '*' then '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nikhil Walecha from JM Financial. Thank you and over to you, sir.

**Nikhil Walecha:** Good evening everybody and welcome to Shriram City Union Earnings call to discuss 3Q FY16 results. To discuss the results we have on the call Ms. Subhasri Shriram – Executive Director & CFO of Shriram City Union Finance. May I request Ms. Subhasri Shriram to take us through the financial highlights subsequent to which we can open the floor for questions and answer session. Over to you, ma'am.

**Subhasri Shriram:** On a standalone basis Shriram City for the quarter ended December 2015 recorded 11.8% growth in income from operations and it is about Rs. 1,001 crores as against Rs. 896 crores for the quarter ended December 2014. Net interest income recorded a 13.2% growth and is now at Rs. 648 crores as against Rs. 572 crores in December 2014.

Profit after tax grew by 21.9% for the quarter ended December 2015 and is at Rs. 174 crores as against Rs. 143 crores in Q3 FY15. Asset under management recorded a 17.5% year-on-year growth and were at Rs. 19,015 crores and a 4.7% growth as compared to last quarter. Small enterprise finance continued to be over 50% of AUMs while two-wheeler portfolio is at 17% and loan against gold constitute 18%, Auto at 6% and personal loan 5% of the total AUM .

Small enterprise finance recorded a year-on-year growth of 19%. Two-wheeler grew by 12% and loan against gold by 25% on a year-on-year basis while at the same time fresh gold loans continue to be muted, with relatively low key gold price causing a limited interest in early redemption at this point in time.

We continue our focus on small business finance and the businessmen in this community whose ability to access credit from banks continues to be limited in spite of many government initiatives besides being expensive considering the cost of tweaking lenders. While Shriram gives importance to customers' business track record, stability and credit information available from local markets, institutional lenders continue to focus on documents. At the same time the decision to lend and the amount to lend is being decided based on the property's accretive value alone.

It is here that Shriram continues to make a big difference, reaching out to customers not on the radar of banks. At the same time we have been able to manage our credit cost. While collaterals are being obtained they continue not to be the principle reason for our lending.

We continue to focus on Tier-II, Tier-III towns and we see good traction here; there is no urgent need to move to rural markets and shift our attention to larger cities. Business will continue to come largely from our core markets of Tier-II, Tier-III towns in the next couple of quarters.

Shriram home locations like Andhra, our traditional markets like Andhra Pradesh, Tamil Nadu and Maharashtra continue to really lead our SME business with more than 86% of AUM coming from this space. In the last 5 years our initiative to build business in new non-traditional Shriram markets has started performing and currently 14% of the AUM is from these new channels and locations.

Shriram's Small Enterprise Finance continues to be concentrated in these markets. We are extremely happy to inform all that our efforts to build teams in new geographies have been a success and today more than 30% of our two-wheeler business is from new markets. In many states including the newer markets like Delhi, UP, Punjab, Haryana we have now reached the leadership position in two wheeler business.

This journey has been a long and satisfying one. And today we have the edifice to build on and are confident that this success will be seen in our small enterprise finance too. Loan disbursements during this quarter were about Rs. 4,665 crores, a growth of around 3% as compared to the quarter in September 2015. It has to be seen here that during this quarter I think we had certain setbacks in terms of parts of Tamil Nadu and coastal Andhra had to lose couple of weeks of business on account of torrential rains. But by December we were back in business and it is important here that we were able to reach our customers and we are now seeing a lot of improvement in this during this January too – the customers who had slipped in the earlier period have come back on track.

For the quarter at December 2015 yield on total assets under management is about 21.53% and net interest margin stood at 13.94% as compared to 13.51% during previous quarter. Cost of borrowings for the quarter ended December 2015 stood at 10.34% as against 10.64% in previous quarter. NPAs continue to be recognized at 180-day norm and gross NPA as at December 2015 is at 3.39% and net NPA at 0.66%.

We continue to have a coverage ratio over 80% and the relevant number for September 2015 for gross NPA is at 3.3% and net NPA at 0.65%. In absolute terms gross NPA is at Rs. 632 crores an increase of Rs. 50 crores during the last quarter. Cost-to-income ratio as on December 2015 is at 39.88% as against 41.74% last year. During the quarter, write offs were at Rs. 81.47 crores as compared to Rs. 71.23 crores during the previous quarter.

Capital adequacy stands at 27.08% with Tier-I alone constituting 23.83%. Return on average networth for the quarter ended December 2015 was at 15.63% as against 14.49% in previous year same period. And return on average total assets post tax is at 3.53%. Off-book assets currently are at 2.06% of total assets under management and during this quarter the company executed an assignment transaction of the value of around Rs. 50 crores.

Borrowings as of December 2015 were at Rs. 14,000 crores with bank borrowing constituting 53% of total borrowings, Retail 29%, public issue of NCD 3%, and market borrowing 15%. Out of the total borrowing 52.7% are at floating rate of interest . with a weighted average tenure of 25.5 months as at December 2015. This is with reference to Shriram City Union Finance.

As regards our subsidiary Shriram Housing the asset under management as at December 2015 is around Rs. 1,082 crores, a growth of 8% on a quarter-on-quarter basis. Profit after tax for the quarter ended December 2015 is at Rs. 7.89 crores, a growth of 63% on a year-on-year basis. The company currently operates out of 79 branches. Two important milestone the company has received is a) the SARFAESI license by way of a notification from government and b) we are able to access the NHB Refinance during this quarter.

Shriram Housing has also had a bit of challenge in its portfolio in Tamil Nadu and Coastal Andhra and we have seen this as a spike in the gross NPLs which currently are at 3.09% as at December 2015. However, the management is confident that much of this should get resolved in the next few quarters.

While we are aware about and continue to monitor the asset quality we have also looked a, t in terms of long duration loans, increasing our coverage from the regulatory requirements and which has now moved to close to 25%. And this has an impact of around Rs. 2.07 crores in the overall PBT numbers.

Thank you. Happy to answer 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:** A few questions. Firstly, on the SME disbursement growth rate of 10%. Can you give us some sense of your reading of the market and the growth that we can expect going into next year, because it looks like the growth is still subdued and in that context, what has been the assessment of any potential damage on account of the Chennai floods? Secondly, as far as our gold portfolio is concerned, while the disbursements have moderated, it looks like repayments have still been challenging. How would you gain the asset quality of this portfolio right now, and is there any risk of any interest reversals or the interest and the principal not being covered by the current collateral given the current gold price? And a housekeeping question, can we have the gross NPA for the non-gold portfolio and the net NPA for the non-gold portfolio separately?

**Subhasri Shriram:** Let me start with the first question which is in terms of growth in SME business. We do expect this to stabilize around 15% plus upwards and hopefully as well as I had mentioned earlier, that while we continue to focus in our traditional markets like AP, Tamil Nadu and Maharashtra, we have started seeing a good amount of traction in the non-Chit markets which is the Western, Central India and North, which today is about 14% of the book. I think we expect to see a lot more happening in that market, while at the same time this is the current base of our traditional market and we should be able to see a 15% growth. So while we have our traditional base which will see a 15% growth, new markets will see a lot higher percentage. So overall we do expect we should do much better than 15% in the long term.

With reference to your question on in terms of what is the impact of Tamil Nadu rains, while we did have a little bit of a challenge in terms of disbursements in the month of November, the damage was largely on 2nd December. During entire November the rains were continuous. So the productivity of our people was quite affected. People were not able to travel for collections, lending, closing deals. But I think by mid December we were back in action full time and as I said as by end of January I think we were able to pull back the setbacks of November and December.

In many of our branches where we reached out to the customers, we have not seen large amount of permanent damage. Though there has been lack of business or short off-periods of business, we largely see the customers back in business and the next couple of months I think we should be able to get back what we have lost out in the last two months.

With reference to gold, your question on repayment, yes, it is not that gold loan tenors have extended considering that all our gold loans were of extremely short duration where people use it more like a margin. They would probably settle every 15 or 20 days because gold price was moving upward continuously. While the gold price started falling or moving downwards, we saw a lot of people not willing to redeem. Now there is a very different scenario. Today it is a more stable situation with no negative pressure on the gold price. So what we are actually seeing is that customers are not keen to settle the loans prior to the due date which is 9 or 12 months.

They are not anyway differentiated by settling in three months or six months. We do not at this point of time have any differential interest schemes for shorter duration loans. And, as we have said earlier and several times over, our gold loans continue to be a relationship based lending and is not a very transaction oriented business. So we are okay with what you see right now. I just mentioned that while the disbursements have not picked up the AUM continues to grow.

It is traditionally three months gold loan where customers were willing to settle early – they now staying invested. At least the translation operation cost is not piling up. But we do expect that before March, there might be some change in this segment in terms of customer profiling and we expect customers to start looking at different options before they stay invested.

With reference to NPLs between non-gold and gold, in terms of the non-gold gross NPL is at 3.59% and non-gold net NPL is 0.53%.

**Karthik Chellappa:** Okay and just one follow up madam. So do you see any risk of interest reversals or the repayment plus principal on the gold loan not covered adequately by the collateral as of now?

**Subhasri Shriram:** Definitely not. We continue to look at about 65% to 70% at best, and definitely less than 75% LTV and with the interest expectations of about 15% to 18%. Even in a one-year loan with no change in gold price there is no stress in the asset. It is a question of whether customer is getting a better LTV or better money elsewhere for him to close Shriram loan. So that is what we are now seeing and I think the gold loan market is now sort of stabilized but not enough and it is probably good that there are no aggressive players giving high LTVs or lower price range.

So I think this is the way it is going to be going forward. What we saw three years ago was different - today gold loan is a different product. So it is going to be a long duration and may be in a couple of years the gold loan segment will move to an EMI based loan which has never been thought of in the past. Similar to property loans, we might see customers actually leaving the gold and paying over monthly and leveraging that business.

**Moderator:** Thank you. We have the next question from the line of Ashwini Agarwal from Ashmore India. Please go ahead.

**Ashwini Agarwal:** Can you give me the growth rates in the various businesses the small business enterprise lending, two wheelers, gold and others? I missed those numbers as you were reading them out at the open.

**Subhasri Shriram:** In terms of year-on-year growth we are talking about an AUM growth?

**Ashwini Agarwal:** AUM growth that is right.

**Subhasri Shriram:** It is about 17.5%.

**Ashwini Agarwal:** For the total?

**Subhasri Shriram:** Small enterprise finance is at 19%, personal loan grew about 60% it is a very small base. The two wheeler loans grew by 12%. There has been a negative growth in terms of AUM and in terms of auto loan by 13% and the loan against gold grew by 25%.

**Ashwini Agarwal:** And why were these auto loans de-growing any insight into that?

**Subhasri Shriram:** I think first of all we have to consider that this is just about 3% of the book. So it is not the main focus product. Largely we are looking at a product where we are providing one more financing option to our SME customers where they are looking at an existing asset which requires financing. So I do not expect that this product will be very volatile in our books. It will be 2%, 3% and probably stay at that percentage for a long time. But it is unlikely to have a steady state growth. And we have seen this probably in over the last several quarters.

**Ashwini Agarwal:** So it is essentially a very hazy kind of a demarcation because effectively the underlying customer is the same whether he borrows for…..?

**Subhasri Shriram:** Exactly. So it could actually be an SME customer, and it is only a question of how we look at it, If the collateral is a second hand vehicle and where we are looking at an RC book endorsements, he comes under auto loans**.** If I look at the overall business of a shopkeeper where you also have a vehicle, we could look at it as SME financing. Or for example I get a bunch of vehicles financed to a retailer. This might increase my auto loan book. And when that maturity happens it can sort of change the profile.

**Ashwini Agarwal:** Second thing is that your gross NPLs etcetera are all being measured on a 180-day basis. Have you started measuring them on 120 or 150-day basis and how do these ratios change? How are you gearing up your systems to meet the tighter requirements going ahead?

**Subhasri Shriram:** Well, at the immediate we are looking at 150-day norm which is a regulatory requirement by March '16. And towards this, we have started communicating this to our executives and our customers sequentially. But I would probably have to say that I am not sure before March or even by June we would have got this completely communicated with all our existing customers and all our customers. The executives yes, we have done and lot of information flow has gone to them but making customers understand that earlier when we were okay with 150 then why it is not okay now and why is there such a stricture that 150 or 120 is a process which will take some more time. And the profile of our customers is not necessarily comparable with that of a bank borrowing or organized lending but they understand the language we speak. So it is going to take a while. If I have to look at the current book as in December we are probably seeing a gross NPL at 150-day norm; little over 5%. But that is the number which we will have to relook again in March how it pans out.

**Ashwini Agarwal:** But your sense is that as on a reported basis we might see slight increase in GNPLs in let us say the June quarter, September quarter till the system kind of settles down into the new cycle?

**Subhasri Shriram:** This is an accounting requirement so if I am at 3% and I have to go to 5% I will have to just provide for that. But the question here is will that be our credit cost? It is not going to be but till such time the 90-day norm is adopted, there will be a sequential increase in gross NPL numbers. And once we have a steady state book probably this will be flattened out.

**Ashwini Agarwal:** But your loss given default it should not change?

**Subhasri Shriram:** We are not seeing any big spike there either. But for provisioning and accounting it is like the customer is not aware that he is a defaulter or he is going to be penalized. But that is what the law says. So we are making a provision accordingly. But from a customer's point of view his intention to pay continues to be there and our collection efforts continue to be there. In a three year loan we may collect in in 40 month instead of 36 months. So that collection event is happening and we are not seeing any sequential increase in credit cost.

So it is like having a cutoff date for doing things. It is a date which has been fixed by the Reserve Bank. We are making an utmost effort to communicate it in true spirit to our customers. But it will take a while for this to sink in.

Then I think the challenge or the flip side is that we are in a market where there are not too many of our borrowers who take finance from organized sectors. So we probably are the only one to do the education process. But wherever customers already have some touch points with an organized lender, either an NBFC or a bank probably our communication and education is much simpler, because they would have heard this from other people too.

**Ashwini Agarwal:** And how does the regulatory process work? For example post 1st April 2016 if there is a customer who is 150 days past due, do you have to report him to the credit bureau or is that applicable only to the banks?

**Subhasri Shriram:** From a credit bureau point of view everybody has to report it. Even a one day overdue needs to be reported. So I am treating him as a NPA only on provisioning.

**Ashwini Agarwal:** That is the 150 days?

**Subhasri Shriram:** For 150 day norms. The credit bureau reporting is just a state of affairs, nothing to do with NPL or non-NPL. If you want to classify it as a high risk you can classify.

**Ashwini Agarwal:** Okay the last question from my side. How do you perceive the competition from these small business banks that are now coming up and RBI seems to be encouraging these banks and I am wondering whether they will start offering services to many of the clients who are your clients and who have been ignored by traditional banks?

**Subhasri Shriram:** See these are new entities. They are all already in existing businesses and they have their own clientele and their niche markets. Either they are microfinance companies or commercial vehicle financing companies which will now probably change nomenclatures from an NBFC to a bank. That is all, they are not fresh startups. If they are looking at diversifying their balance sheet that option is always available even when they were NBFCs. Today if they want to look at things differently because they are a bank I think they will but that is not the core area and they are not starting to do business in our market. So I do not see a great amount of stress or worry on account of these existing NBFCs or microfinance companies becoming a bank in the near future.

**Moderator:** Thank you. The next question from the line of Umang Shah from Emkay Global. Please go ahead.

**Umang Shah:** Ma'am, I just wanted to understand in relation to the previous question that you answered that once let us say we reach to a 5% gross NPL mark by March on a 150 day past due basis ideally how should our provision coverage behave? I mean should it be falling, or we would still maintain a 80% PCR on a 5% gross NPL number?

**Subhasri Shriram:** Unfortunately, I do not have an answer right now. We will be discussing with our Board and our Management in terms of the coverage ratio. Probably we will be able to get back to you only as we are closer to the March closing.

**Umang Shah:** And ma'am, would it be fair to understand so hypothetically let us say if you were to actually maintain a 80% provision coverage ratio even on a higher NPL base as we move from 150 to a 120 or a 120 to a 90 then in that case that will definitely have a bigger impact on our earnings or our P&L as well? Because the credit cost I understand that it is not an eventual write-off it is just a provision. But then ideally there would be some pressure on our earnings, is that a fair assessment if we choose to?

**Subhasri Shriram:** Absolutely there are no two ways about it. If the coverage ratio remains same and instead of 3% of the book I am going to provide 5% of the book and it is going to be deemed as gross NPL, 2% extra on the entire book is to be provided for.

**Umang Shah:** So ideally the choice there we have to make is that either to maintain an 80% PCR and look at lower return ratios or ideally drop the provision coverage and maintain the return ratios, ideally?

**Subhasri Shriram:** I do not think we have any other option.

**Umang Shah:** Just one other thing. You gave a number that in our non-core markets in the small enterprise business non-core markets today are contributing 14%. Could you also help me with the corresponding number for two wheeler and loan against gold business, I missed that number?

**Subhasri Shriram:** The two wheeler is about 30%.

**Umang Shah:** Right and for gold?

**Subhasri Shriram:** Gold it is nothing; we do not do business in the non-core market.

**Umang Shah:** And ma'am just a qualitative input that I wanted to have that?

**Subhasri Shriram:** Just a second just to clarify when I say it is near zero it is probably less than 1% in the non-traditional market.

**Umang Shah:** Just for a qualitative input that I wanted to have that in our non-core market, in the small enterprise and two-wheeler business are we seeing any kind of change or differentiation in terms of the behavioral patterns or in the way we are doing business, or for us the product offerings and the way we have been doing business, it remains fairly the same?

**Subhasri Shriram:** Okay let me split this question into two parts. In the case of two-wheeler business, we are seeing a very similar behavior between the non-core and core markets in terms of asset quality. But also I would say the cost of acquisition in terms of dealer payouts and other marketing initiatives are identical between the non-core and core markets. But nevertheless in the case of non-core market the employee productivity is yet to reach the peak. This is already well achieved in the traditional market.

So that is something that is actually positive because we still see room for growth in the non-traditional market without adding people. The second part of the question in terms of enterprise finance, there is a little bit of product differentiators. The risk appetite and products in the traditional markets are slightly different and I would say more aggressive because we know the market very well and we are in control of it, while we do not use the same yardstick for non-traditional market.

For a smaller ticket size the approval metrics are slightly tighter, the credit modules are fairly tight and I would say the credit cost is lower. But I think we are yet to see full blown business in the smaller markets in the non-traditional markets. So as we move up the chain after building our experience in the smaller space, with more tighter credit we will gradually expand our business. Currently at 14%, we expect to see a lot more growth in this markets too.

**Umang Shah:** And ma'am, if you would just give some idea as to what could be the ticket size differential between traditional and non-core markets in the small enterprise business?

**Subhasri Shriram:** In the non-traditional markets there are two product segments. The very small enterprise loans done through branch model in Tier-2, Tier-3 towns are not more than Rs. 5 lakhs. We also have another product there in which we are slightly mimicking the private sector banks and other NBFCs - here we have a more organized borrower where the average ticket size is about Rs. 20 lakhs. And in the case of the traditional markets for Shriram, the average ticket size is about Rs. 10 lakhs. So in the traditional market the range is from Rs. 2 lakhs to Rs. 20 lakhs. The average is about Rs. 10 lakhs.

**Moderator:** Thank you. The next question from the line of Sanket Chheda from SBI Capital Securities. Please go ahead.

**Sanket Chheda:** Just wanted the general outlook on loan growth for this year as well as next year if you can provide?

**Subhasri Shriram:** I think we sort of explained that earlier.

**Sanket Chheda:** I joined the call late. So sorry for that.

**Subhasri Shriram:** No issues. I think January has been reasonably okay and is more in line with our expectations. So we do expect that we will continue to do over 15% growth.

**Sanket Chheda:** For FY16?

**Subhasri Shriram:** FY16. And with reference to FY17 I think if we continue to see macroeconomic headwinds and probably that the initiatives of the government have not yet completely come on ground, we would probably be happy if we are able to grow around 15%. So probably this might not be a good time to press the accelerator and move in a market where we are yet to see improvements in the macroeconomic conditions and governmental initiative**.**

We continue to observe, I would say we are prepared with in terms of infrastructure, product, funding, capital for a lot more growth. But whether you want to encash all of it right now it will depend upon the macroeconomic conditions.

**Sanket Chheda:** Can you provide these numbers for gold loan as well as particular?

**Subhasri Shriram:** which number do you want for gold loan?

**Sanket Chheda:** Outlook only, what growth will be closing 2016, how you are seeing it in 2016?

**Subhasri Shriram:** I did mention it earlier that gold, while we have not seen much interest in fresh loans, we have also seen less interest in people redeeming the gold much earlier than the due date, which traditionally used to be one month, two months' loans. These are now moving to five and six months' average as the gold price is more or less flattish. But at least the ground information at branches is that this might see a little bit of activity by March. And for the next year I think it being a commodity product we will continue to monitor the gold price before we take this product forward in a big way.

There is pressure in this segment. I think it is best to keep it slightly low, but if you are able to see the pressure on oil and currency, and gold is actually going up, it is a very good time to grow the business. And once again, we are not withdrawing, we are very happy with the business, the infrastructure continues to be there, the team continues to be there and we are ready to take this business up.

**Sanket Chheda:** And you said at 150 days your GNPA would be 5%, so have you assessed something what would be on 120 days, how your GNPA would look like at 120 days?

**Subhasri Shriram:** I can give you a number but let me just give a disclaimer. I said earlier that you are telling people they are one hour late, you are telling people they are two hours late, without telling them when they are supposed to reach the destination. So their coming in late was not their fault, but if I tell you that so and so people were one hour late, and so and so people were two hours late, then people who had 150 days past due will be over 5% of the book. And 120 days past due probably will be over 7%. And if you have to go further 90 days, probably this will move to 9%. But please note none of these people who have come in late are aware that they are late. As per them, only 3% of my book or a little over 3% of my book are aware that they are past due and they were late for whatever the destination is. The rest of them are a number which we are putting in without this communication going to any of those people whom we are measuring as being late or not being standard.

They have to be considered to be delinquent non-standard asset, they should be told what is the definition of being standard. Currently my customers believe that if they are only 120 days past due they are non-standard. So the rest of the customers who are now being grouped as non-standard are not even aware that they are being classified as non-standard. So as and when we communicate and educate our customers we might see some amount of improvement in this space.

**Sanket Chheda:** And then one last question. When I see our borrowing mix so most of the bank borrowings form a major part of the thing and now we are also increasing on market borrowings. So like suppose if our NPAs goes up and you maintain a decent provision coverage ratio, then would the credit rating get impacted and thereby the cost of funds would get impacted if we choose to bring down the provision coverage ratio? I think these are the things which are considered while given a rating like GNPA and provision coverage. These are some the things is my understanding right on that?

**Subhasri Shriram:** Am I to understand that your point of concern is if the gross NPL numbers move then the coverage ratio is not adequate, and the rating agency might have concerns. First I would say the gross NPL number will move. There are no two ways about it because we cannot overnight make these customers move from next paid within the 90 days or 120 days. And as I see from my peers, I think we are all on the same boat. This will be a new number which will have to be reckoned with. It is like India's growth we were used to a 10%, 9% growth and we are moving to 7% that is a new number. So we will be only happy that someone is not worried about being 9% I will say.

So I think this is a new number. With reference to coverage ratio as I said earlier, we are still working around it. We are trying to look at what is the ultimate credit loss and the provisioning requirement, what are the policies in terms of write-offs. So unfortunately I do not have an answer at this point in time. Hopefully, we will have more information before March. With reference to your concern about ratings, a better rating is what I am looking at. I think we are reasonably confident that there are no specific challenges for our business compared to the market and therefore I do not see much stress there or worry there.

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

**Digant Haria:** I just wanted to know even the two-wheeler we have seen phenomenal growth when you compare the primary sales on the ground and I think I do not have the correct data but we would probably have become the number 1 we were number 2? We were number 2 anyways but probably the number one?

**Subhasri Shriram:** No, we are number 1. Thanks for reminding me. We are the number 1 today and we have done some all-time high achievements in the month of October and I think we are now way above our competitors.

**Digant Haria:** How have we gone about doing that because the first half was a little slow for two-wheelers but now it is really picked up this quarter despite the Chennai flood? So is it that the new geographies are contributing more and more?

**Subhasri Shriram:** See our dependence in two-wheeler a couple of years back was on Andhra Pradesh and Tamil Nadu. But what I had mentioned earlier we have not lost our leadership positions in Andhra and Tamil Nadu. So it is not as if we have done this business at the cost of Andhra and Tamil Nadu and not reaching the number 1 position. Shriram City continues to be the number 1financier in Andhra, Tamil Nadu, Telangana and Maharashtra. Now we become leader even in newer markets.

So today including in Delhi and NCR or Punjab or UP, we have got leadership position. And even in a state like Kerala which is a very small market we have the number 2 position. So I think this is going to be just as we talked about new numbers and gross NPL I think for a long time we are going to be number 1 in this business. And a lot of work has been done in the past. And we are ready to handle the market growth. We do not necessarily have to push the sales of two-wheelers because even after all our push and growth, the financing will be 30% of the sales. Our headroom is in 30 to 100 and not waiting for manufacturers to sell more vehicles.

**Digant Haria:** Okay so it is very much likely that next year again the two-wheeler sales will be just like they were this year and we could still probably grow say 10% kind on the loan book?

**Subhasri Shriram:** This is the new norm for us.

**Digant Haria:** And I just missed one data point on the SME thing that how much do the traditional geographies contribute and how much do the new geographies contribute?

**Subhasri Shriram:** It is about 86% from traditional geographies and 14% from non-traditional markets.

**Digant Haria:** And just on the housing bit if you can give me the data on exactly what is our individual loan book, what is our LAP loan book and what is the developer finance that we do?

**Subhasri Shriram:** Out of the Rs. 1,082 crores book, Retail Finance is about Rs. 1,017 crores and Construction Finance is about Rs. 65 crores. There are no LAP loans at this point in time in Shriram Housing.

**Digant Haria:** So there is no LAP, so this entire thing is individual loans?

**Subhasri Shriram:** Retail and as I do not know if I did mention but just for saying that third quarter we had a record disbursements in our Retail Finance book.

**Digant Haria:** So we do not have a LAP at all is that?

**Subhasri Shriram:** No, I think it is a Construction Finance portfolio was not growing enough. I mean we have not done much business in the Construction Finance during third quarter.

**Digant Haria:** And then could you give me some color on which states is our housing business concentrated and you mentioned that there are some issues with the Andhra Pradesh market and that is what is leading a spike to NPA?

**Subhasri Shriram:** Coastal Andhra and Tamil Nadu. I do not think Shriram Group businesses is to be away from our core markets so the concentration continues to be AP, Tamil Nadu and Maharashtra but since it being a new business we have been able to build an equivalent traction in the Central and Western India and North India. In fact, I will probably say Shriram Housing led our Eastern region growth I mean initiative after which Shriram City followed by Shriram City. So we have also started business in West Bengal and other states. As I said we operate out of 79 branches but for business concentration point of view it is Tamil Nadu, Andhra, Maharashtra, Gujarat and rest of North. It is in that order.

**Moderator:** Thank you. The next question from the line of Aadesh Mehta from Ambit Capital. Please go ahead.

**Aadesh Mehta:** Ma'am, we observe that your operating cost has slowed down meaningfully this quarter at around 9% YoY growth. So what exactly is driving this improvement in operating efficiency?

**Subhasri Shriram:** I would not call it an operating. I think we are little bit inefficient in the past. So our cost to income ratio was slightly over 40%, 41%. So we had several times communicated that our target is to bring down below 40% and probably in the long term keep it around 36%. Maybe this was the first quarter out of last several quarters that we are able to bring it below 40% as from a quarter-on-quarter point. So December 2015 quarter our cost to income ratio is 39.88% and that as I said earlier we have lot of management buffer and that should probably to help us even to do this better over the next several quarters.

**Aadesh Mehta:** So if I were to understand there are no one-offs in this quarter we should expect this trend of improving OPEX to AUM continuing going down even in the next quarter and the quarters ahead?

**Subhasri Shriram:** Okay let us say for business perspective, there are no one-off reductions in expenses as on December quarter. But I am not sure whether you are aware that there is a government notification in terms of bonuses which would affect not only Shriram City but every company, every organized player in the country including Reliance to ICICI Bank or State Bank of India. So there is some work which is going on but that probably is something which all of us have to take a write-off against.

**Aadesh Mehta:** And ma'am what has been our employee number growth rate - like the employee count how has it grown?

**Subhasri Shriram:** The employee number is more or less flat. The total employee number from March '15 to now or even March '14 is about 1% increase. Total employee strength is about 25,400.

**Aadesh Mehta:** So basically are we cutting down on employees or something like that?

**Subhasri Shriram:** No, we are not. I have said when it is flat I have not reduced any employees. While there is still room for many of our newer regions to reach the peak productivity, we do have the potential to grow not necessarily to have an incremental manpower quarter-on-quarter. But there is some amount of revisiting and realignment in terms of resources, in terms of the different functions. So there is also to some extent we will align the employee cost.

**Aadesh Mehta:** So we should expect the employee count also to remain same over the next one or two years?

**Subhasri Shriram:** One or two years is a long period, as we keep growing and I do not think we can stay this for two years' period. At least over the next one year we should be able to increase the manpower. It is marginal 1%, 2% but not in large numbers.

**Aadesh Mehta:** So basically keeping our employee count same they should still be able to support around 15% to 17% AUM growth over the next one year?

**Subhasri Shriram:** This is what our calculations are.

**Aadesh Mehta:** Okay and ma'am one thing which you are also seeing is that whilst our NPAs are going up, our credit costs are coming off as we are writing-off lesser. So just to understand the asset quality perspective in a more clear way, how has our collection efficiency ratio behaved on a YoY basis?

**Subhasri Shriram:** As I had mentioned earlier our collection efficiency actually has been steady state. The only challenge which we face is if the customer slips a couple of months' payment, we are not able to bring him back to standard very soon or to the current situation. However he continues to be ready to keep paying and the touch and interaction with the customer continues even after a couple of months overdue at that point in time. And therefore our collection efficiency is sort of remains as it is and probably gives us a little bit of yield in terms of an improvements in collection charges and others.

**Aadesh Mehta:** So in terms of rollovers, are they improving or they are also steady or are we seeing that?

**Subhasri Shriram:** No, that is not happening. Roll forward did not come about. That is why you see some amount of sequential increase in gross NPLs. But rollback is not so often, not as it used to be couple of years back. So staying at various levels is more the order of the day than roll backward.

**Aadesh Mehta:** Okay ma'am and then one last question you mentioned the non-chit regions are now around 14% of our SME, AUMs right? What was this number a year back?

**Subhasri Shriram:** Probably it was less than 10%. I do not have a number but it will be definitely less than 10%.

**Moderator:** Thank you. The next question from the line of Gaurav Maheshwari from Unilazer Ventures. Please go ahead.

**Gaurav Maheshwari:** A couple of questions. Just to start with on the two-wheeler side of the business just want to understand one of the largest OEMs has started its own finance company. So how is that impacting our business and do you think that could impact in the near future?

**Subhasri Shriram:** I think the purpose of these manufacturer-financiers is probably to grow market share. I do not think these manufacturers look at financing business as a principal business. So what we are only seeing that is they are looking at providing additional service, additional contact points with their dealers. So from a customer preference point of view in terms of our aggregate turnaround, credit approvals and processes definitely we will do much better than much of these OEMs turned financials.

Many a time these OEMs turned financiers target the large metro market customers which is where they are looking at pushing business quite actively, and that is not Shriram City's traditional market. They are not keen on pushing the business in smaller towns where you have multi-brand dealers, multi-manufacturers and this is not the market for the OEM financials. So probably this could be a pain for the few others of the two-wheeler financiers who are largely focused on the big cities.

**Gaurav Maheshwari:** Would you be able to share some numbers in terms of the overall AUM exposure that we have, how much would be to Hero and Honda because you are very small with Honda if I am not wrong?

**Subhasri Shriram:** I do not remember the number off the cuff but from what I recall, the sales ratios between Hero, Honda, Bajaj, TVS are more or less aligned in terms of financial percentages. Except that in the case of the other products like Yamaha or others we are probably near zero and we have slightly higher share in the case of TVS.

**Gaurav Maheshwari:** Right, but between Hero and Honda what would be our share if you can just give some ballpark numbers?

**Subhasri Shriram:** If you look at us in terms of numbers, our market share in the HMSI is a lot more. It is about 36%.. Bajaj and TVS probably it is close to the same number. We were still looking at more in terms of scooters today. But that is the broad market which is growing fast and therefore that is slightly skewed in terms of products like Mahindra and TVS and Suzuki which has more scooters.

**Moderator:** Thank you. The next question from the line of Janhvi Goradia from Motilal Oswal. Please go ahead.

**Janvi Goradia:** Earlier in the call you mentioned that today the customer does not know that he is supposed to pay say in 150 or 120 days. So I would assume that the process of educating them would have started. So can you give me a qualitative input as to where as a company we are in terms of this process and what kind of feedback have we received from these customers as in are they more willing to pay early, are they able to pay early?

**Subhasri Shriram:** So I think while we educate the customers, the best way is to incentivize our executives. I can preach a lot, I can issue mailers, we can send SMSs, we can do tele-calling, all of that is fine. But I have myself heard many of those tele-call transcripts, I have heard those conversations, the customer will continue to argue that what was good till months how can it go bad this month? How can that be an issue this month?

The better way is to handle this is to give the problem to my executives or give the solution to my executives by incentivizing it. So we have prepared incentive programs to make our executives more incentivized to bringing the numbers from 180 to 150. I think this will eventually move to the customer space also. Currently we do not have any incentive program for our customers to move from 180 to 150, but it is easier work with our employees.

**Janvi Goradia:** Okay, so by next quarter when you have to move to 150 do you expect some improvement on that front?

**Subhasri Shriram:** I do not think it will be very dramatic at this point of time.

**Janvi Goradia:** Okay and the second question is on capital adequacy. Since you know the macro seems muted and we have a very good capital adequacy. Any plans on change in dividend policy or maybe your dividend payout would increase, any sort of thought there?

**Subhasri Shriram:** Currently we have a board approved dividend policy and we are within that and probably only in March we will look at if we have to revisit the dividend policy. I do not have an answer right now. I do not have a brief on that.

**Moderator:** Thank you. The next question from the line of Rajiv Pathak from GeeCee Investments. Please go ahead.

**Rajiv Pathak:** Ma'am, one question on the yields. We have seen marked improvement in the yields quarter-on-quarter. So apart from the change in mix in favor of two-wheelers, is there any reason which explains such an increase?

**Subhasri Shriram:** Nothing much. Two-wheelers and SME though it is not having fresh business, there is an improvement. The reverse can also be true when gold goes up and two wheelers is not so much. But I can say this way that our lending rates have not changed in the last one year.

**Rajiv Pathak:** So are we seeing any pressure on yield especially on the small business loans?

**Subhasri Shriram:** Not so much. As I said earlier that we have not reduced the lending rates and there is no immediate plan to reduce the rates either. We will add new products for different set of customers at lower yields. But this segments which we offer and the rates at which we offer we are comfortable to grow that business without any compression in the lending rates.

**Rajiv Pathak:** Okay and ma'am, can we have the cost of funds for the non-bank borrowings?

**Subhasri Shriram:** In non-bank borrowings we have to split between two products – one is retail financing, the other is market borrowings. Market borrowings range around 7.5% to 8.8% depending on the duration of the loans, between one month CP to a 5 years NCD. And in the terms of Retail Finance, sequentially we have been reducing our deposit rates. We have at almost 3 or 4 times in the last 12 months reduced our deposit rates. Currently our coupon rate for one-year money is about 8.65%, for three-year money and 8.42% for one year money.

So if we look at on a standalone and coupon cost probably retail and market is more or less at same pace but retail is much more in terms of cost of servicing which you should factor in. But they are more longer duration and largely very repetitive.

**Rajiv Pathak:** So this is on an incremental basis. So between outstanding rates and the incremental basis, how much would be the differential on a blended basis just to get a sense?

**Subhasri Shriram:** Only on the coupon rates my incremental acquisition is around 9.5%, 9.7%. All blended after all funds put together, all options available put together. While my on balance sheet current book will be around 10.25% or 10.3%.

**Rajiv Pathak:** And then one question on the housing finance. Of the Rs. 33 crores odd NPAs, is there any non-retail?

**Subhasri Shriram:** Zero, nothing is in the non-retail, non-retail 100% is standard.

**Rajiv Pathak:** Okay and the additional Rs. 10 crores that we saw is basically the Coastal Andhra and Tamil Nadu, right?

**Subhasri Shriram:** That we have to provide for and see we hope to bring it back to normal in the next two quarters.

**Rajiv Pathak:** And on the non-retail housing portfolio, I think we are targeting the small builders where we can actually convert the potential flat buyers into retail customer. So that kind of a strategy still stays?

**Subhasri Shriram:** We continue to, and then we are also looking at Tier-2, Tier-3 towns which is in line with our business and we are also exploring certain other tie ups where we have a long term association with the builder. And those are still at a discussion stage. So over a couple of months we should be able to enter into a long term agreement.

**Moderator:** Thank you. The next question from the line of Pankaj Tibrewal from Kotak Mutual Fund. Please go ahead.

**Pankaj Tibrewal:** A couple of questions. In one of the questions you said growth at 15% could be a new norm. What is giving you that confidence now which is making that statement coming in from your side?

**Subhasri Shriram:** Well, I actually should be looking whether I have grown over 15% this year. So I am sure that even in 2014, 15, 16 in this market we are able to grow over 17%, 18% growth. I think it gives us a lot of confidence that it cannot get any worse. So 15% growth is doable. But this is the macro way to look at it. But if I have to look at a very detailed product by product and our penetration in our market share, we have done our ground work and we are reasonably confident that 15% is doable.

**Pankaj Tibrewal:** Okay and what will lead that growth two-wheelers, gold loans, SME what?

**Subhasri Shriram:** SME will definitely lead the growth because that is a bigger base and every movement in that space gives a lot of impact in total business. While we will see a significant growth coming in two-wheeler but that is being in 18% of the books, we will have to run much faster to see an impact of it on total balance sheet growth.

**Pankaj Tibrewal:** The second question is on your bucket movement. Can you help us out with some sense how is the bucket moving in, are you seeing some stress moving in because we get the absolute gross NPA number?

**Subhasri Shriram:** So as I said earlier that we continue to be a 180 quarter-on-quarter I mean we have not changed the numbers. But we have not seen any big deterioration even in this quarter. So if you continue to be at 180 days I think there is we are not seeing much stress in there. But only because of the change in norm there will be a movement of assets moving from standard to non-standard.

**Pankaj Tibrewal:** No, that is fine. I am just saying that in the incremental the normal book which is there right now on the NPA side 90 days past due, you were not seeing any big bucket movements across segments which is happening right?

**Subhasri Shriram:** Not so much. Something like 120 to 150 or something like that. At least we will be very closely monitoring this for last sort of internally educating people about this for the last one year now one, one and a half years and we see quarter-on-quarter there is no much significant jump.

**Pankaj Tibrewal:** And you gave the number of 150 at 5%?

**Subhasri Shriram:** Over 5% so 5.2% or 5.3%.

**Pankaj Tibrewal:** Okay and what could be that number for 120 as of now?

**Subhasri Shriram:** Of about 7%. As I said I do not want to get into precise numbers because as I said people do not know that they are late but you have to qualify them. So I do not know how many minutes late can qualify as late. So I am still keeping it around 7% at this point of time.

**Pankaj Tibrewal:** And what was the thought process of not moving it gradually and just doing it in the fourth quarter because of the regulations ideally if you can spread it out it would have been much better, is not it?

**Subhasri Shriram:** I do not see that it could have been much better. That is the number which we will have to live with. So it is not as if we have declared a dividend or made an extraordinary payment out of profit which was not there in the company. We just look at it as a policy decision, and we do not have an option now. There is no reason for me to classify a customer as nonstandard and he has not even been told about it. It is only an accounting number we will make sure we are complying as on 31st March.

**Moderator:** Thank you. The next question from the line of Pradeep Agarwal from Phillip Capital. Please go ahead.

**Pradeep Agarwal:** Two questions. One related to your borrowing cost, which has come down by about 80 basis points in last three quarters. So given the yields you have hardened a bit in last few fortnights, how do you see your borrowing cost moving going forward?

**Subhasri Shriram:** As I had mentioned earlier we have traditional bank borrowing and retail money borrowing. 15% of the book is in market borrowings which is where we are talking about rates hardening and softening. We will opportunistically target those segments and there is no specific pressure to continue to do that. But while I say that the gap between a bank borrowing and market borrowing is still about at least close to 120 basis points, 150 basis points. So if the rate hardened even by 10 basis points it is not a big difference to us. It is still cheaper product compared to a bank product. So we will toggle this between all the three options available to us.

**Pradeep Agarwal:** Okay so do you see any improvement in cost of borrowings?

**Subhasri Shriram:** Yes, at least we do expect that the full impact of the banks reducing their base rate over the last couple of months, I think we will start seeing that full impact in this coming quarter. It is like today I probably can say that more than 60% of our bank borrowings come at base rates, more than 20% of our working capital borrowings from banks come at base rate. So we are getting more traction from the banks and that is going to translate into savings in our overall cost over the next couple of quarters.

**Pradeep Agarwal:** Secondly, if you can share data relating to your SME ticket size with respect to accounts which are less than say Rs. 5 crores and above Rs. 5 crores?

**Subhasri Shriram:** Rs. 5 crores?

**Pradeep Agarwal:** Yes.

**Subhasri Shriram:** We do not. Our average ticket size is Rs. 10 lakhs so the loans above Rs. 1 crores probably not more than 100.

**Pradeep Agarwal:** 100?

**Subhasri Shriram:** Rs. 5 crores no, not even less than that. I said Rs. 1 crore should be 100.

**Pradeep Agarwal:** So because why I ask this question is because your annual report suggest that?

**Subhasri Shriram:** Top 20 is after that 21 is nothing.

**Pradeep Agarwal:** Sorry?

**Subhasri Shriram:** If you want to look at top 20 loans 21 is next to nothing. It is not as if sequentially we have such loans going up to 1000 agreements. They are all few loans which are at higher tickets which probably from the new Companies Act declaration is now coming at top 20. If I have to go for top 25 it can come down dramatically. Let me just put it in perspective. We are not focused on large ticket. Currently our products are in the range of Rs. 20 lakhs, Rs. 25 lakhs while we also have long term associations. So we do Rs. 1 crore, Rs. 2 crores, Rs. 5 crores, Rs. 20 crores loans also. But they are all one-off and not too often or a specific set of customers.

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

**Karthik Chellappa:** Madam, on the gold loan just to reconfirm at this point you really do not see any scope for interest reversals or LTV stresses?

**Subhasri Shriram:** Yes Karthik. As at this point of time at 180 days past due I am not seeing LTV stress from the existing book after loading the full interest and even if we have to put the gold to auction. We are not in a very high stress or any worries in terms of large portion coming for interest income reversals or principal loss.

**Karthik Chellappa:** And on the two-wheeler portfolio, where we have now gained the number one market share, this has been an outcome of what madam? Have you seen some banks withdraw from certain markets or is it that the markets that we are in, the Tier-1, Tier-2 are growing faster than the rest? How was this outcome actually been reached?

**Subhasri Shriram:** No, I should say that we have achieved this number 1 position because everybody is running very fast along with us. But probably we are running faster than them. It is not as if they stopped and we ran alone and we won the race. They have been running parallely along with us. In fact I am sure the data of private sector banks who are in the two-wheeler financing you will notice that they have also grown significantly in this quarter. So it has been an overall market increase in the financing portion and I think Shriram was able to achieve this position largely because the type of customer segment and the kind of employee integration with the system has been very effective.

Today our executives in dealer showrooms are very efficient and well trained, and the turnaround time for a customer approval is a lot better. It is not as if it happened over last quarter. Over several quarters we have been working on certain technology initiatives and that has also improved the productivity of the employees.

**Karthik Chellappa:** And just to confirm one more point which you had made earlier, madam. The dealer payouts for your traditional markets - was it let us say newer markets in the North or West for two-wheeler remains the same?

**Subhasri Shriram:** No different, absolutely no different. In fact, because some of these newer markets dealers per dealer productivity is still not very large. They actually get a lower payout. The number of loans per dealer is not so large, they are not entitled for the higher bracket dealer incentive.

**Moderator:** Thank you. Ladies and gentleman, due to time constraints, that was the last question. I now hand the conference over to Mr. Nikhil Walecha for the closing comments. Thank you and over to you, sir.

**Nikhil Walecha:** On behalf of JM Financial, I would like to thank Ms. Subhasri Shriram of Shriram City Union Finance and all participants for joining us on the call today.

**Subhasri Shriram:** Thank you so much all.

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