



“Shriram City Union Finance Limited”

May 18, 2012



**MODERATORS: MR. AMEY SATHE
MS. SUBHASRI SRIRAM**



Shriram City Union Finance Limited
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Terrence: Ladies and gentlemen, good day and welcome to the Shriram City Union Finance results Q4 FY'12 conference call hosted by JM Financial Securities Private Limited. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call please signal the operator by pressing * and then 0 on your touch tone telephone. Please note that this conference is being recorded. I would now like to hand the floor over to Mr. Amey Sathe from JM Financials over to you sir.

Amey Sathe: Thank you Terrence. Good evening everybody and welcome to the Shriram City Finance earnings call for the fourth quarter numbers. To discuss the results we have on the call was Ms. Subhasri Sriram, who is the new Director and CFO of the company. May I request Ms. Subhasri Sriram to take us through the highlights post, which we can open, the floor for the question and answer. Over to you madam.

Subhasri Shriram: Thank you so much. Good evening. Thank you for joining and welcome to the earnings call to discuss on the performance for the financial year 2012 and quarter ended March 2012. The performance of the company has been in line with expectations on the year ended March 2012 because we have recorded a topline growth of over 54% and the total income was around Rs.2037 Crores. This has been possible due to significant increase in the asset under management and the same recorded year-on-year of over 68%. The asset under management as on March 31, 2012 stands at Rs.13431 Crores.

The profit after tax for the year ended March 2012 is at Rs.342.53 Crores as against Rs.240.59 Crores during the same period the previous year. The growth has been without any compromise on asset quality and the gross NPA stands at 1.58% in terms of Rupees term at Rs.167 Crores and net NPA is at 0.38% translates to Rs.41 Crores and the coverage ratio continuous to be at about 70%. The focus remains on the small enterprises finance and the disbursals in this segment has recorded over 123% growth year-on-year and during the quarter ended March 2012 this particular segment has recorded a growth of 26% in disbursements. The gross debt for the year ended March 2012 was at 10.36% this is less than previous year and the previous year it was at 11.64% and the net spend is also with the reduction of 0.69% and stands at 4.72% for the year completed.

The result of the average net worth is about 23%. This is an increase of 1.39% over the previous year. The return on the average total assets is at 3.09% and remains same as the previous year. The book value is at Rs.334 and their growth over 36% year-on-year and

EPS for the year ended March 2012 is at 68.75% and has seen a growth over 46% than the previous year.

The capital adequacy ratio as of March 2012 is at 16.92% with tier I capital loan being at 13.46%. The total borrowings as on March 2012 was around Rs.9623 Crores and 55% of these borrowings have come from banks, 28% from retail borrowings and the balance through public issues and market borrowings, public issue of NCVs and market borrowings. Shriram City continues to enjoy a high rating. Currently we are enjoying AA rating from CARE and AA- from CRISIL and FITCH for long term instruments and continue to enjoy the ratings from all three institutions for short term instruments.

During the quarter March 31, 2012, Rs.23 lakh shares at Rs.570 per share has been subscribed through preferential allotment from Shriram Capital and Rs.59 lakhs warrants are also issued from Shriram Capital. The amounts received in this quarter including the 25% of the value of the warrants was at Rs.215 Crores and the balance amount receivable over conversion in the next 18 months is around Rs.252 Crores. During the quarter the subsidiary Shriram Housing Finance Limited has commenced its business across 31 locations and the sanction amount stands at Rs.16.7 Crores out of which around Rs.4.89 Crores have been disbursed as on March 31, 2012. This company has incurred a loss in this quarter and that amounts to Rs.4.45 Crores, this is part of the consolidation in Shriram City. Thank you so much. With these initial remarks we are open for question and answers and I am happy to answer the same.

- Terrence:** Thank you madam. We have our first question from Sanket Godha from JM financial. Please go ahead.
- Sanket Godha:** Congratulations on good set of numbers madam. Just have a couple of small questions with me, first thing is AUM growth which has been very robust this year how do you see the growth coming in next year basically?
- Subhasri Sriram:** One is we have seen a 60 plus growth this year, as earlier stated. I do not expect to grow at 60% plus rates, I think we should go at least if not at this rate but at 30% to 40% growth over the next two years.
- Sanket Godha:** Another question what I had was regarding the expenses, other expenses basically which has jumped on year-on-year basis by around say more than 50%, so any specific reason for it?
- Subhasri Sriram:** You are talking about an expenditure of Rs.241.74 to Rs.319.24 Crores our expenditure?

- Sanket Godha:** Earlier it was Rs.93 Crores to Rs.60 Crores last year Q4 FY11'to Rs.293 Crores this year?
- Subhasri Sriram:** This includes the brokerages. This generally includes because of the additional disbursements it is on account of terms of higher disbursements that there has been expenditure in terms of procurement cost and other effect.
- Sanket Godha:** Okay madam and how do you see the new securitization guidelines, what is the plan of the company and how they want to put the books off the balance sheet going forward?
- Subhasri Sriram:** In terms of I think securitization the new guidelines are stiff for the company considering that short term financial assets, there is not too much of cream in it but I think on the enterprise finance we still see opportunity to securitize since the loan tenor is longer we continue and since it continues to enjoy the sector benefit in terms of securitization. We see a lot of opportunity in enterprise. I do not see that securitization would not be fully possible in products like gold or two-wheeler but on enterprise finance we still have an opportunity and we continue to have our plans to maintain securitization if not our current 20%
- Sanket Godha:** Okay and currently the securitization was in the form of assignment format but it was predominantly PTC kind of structure?
- Subhasri Sriram:** We have a couple of PTCs but it predominantly has been assignments but all of them have been rated and have a public rating, so therefore we do not see any reason why we cannot continue to get into the PTC structure.
- Sanket Godha:** Just wanted to know what portion of these assignments had credit enhancements basically. What is the proportion basically?
- Subhasri Sriram:** Percentage of freight enhancement is varying from about 7% to about 12%.
- Sanket Godha:** Can you just give the colour on the asset quality in general and how do you see which sectors are contributing to it?
- Subhasri Sriram:** I would say, as the asset quality will continue as I had mentioned very well during this quarter too. I think we have a good asset clause in terms of money supply and obviously gold is also stress free and in case of two-wheelers I think the portfolio is getting better than quarter-on-quarter and if at all current stressors, whatever is right or not I would not call it as stress wherever is the current delinquency, there it is probably a bit in personal loan and auto loan which we also have seen a bit of a degrowth in this asset clause in this assets in the last couple of quarters.



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- Sanket Godha:** Final question madam, how do you see the growth in gold loans after the new guidelines?
- Subhasri Sriram:** Let me clarify that in terms of gold loan I have been repeatedly saying that that is not our main focus but it is more driven from the market, Shriram is not particularly invested in gold loan business in a big way, but it is more in the economic conditions, which have driven this gold loan business from a shift from unsecured to secured and considering this current guidelines where it talks about a single product jewelry financing, in our Shriram City we also have a significant portion of our gold loan where we are financing franchises or third party financiers so we do not see too much of a hassle in that class and retail customers 60% LTV since it is across are all financial in that space and I think in the next one to two quarters it will settle down.
- Sanket Godha:** That is it from my side. Thank you.
- Terrence:** We have the next question from the line of Elizabeth John from CRISIL. Please go ahead.
- Elizabeth John:** May be I missed the initial thing, but just wanted to understand the AUM mix in this quarter?
- Subhasri Sriram:** Our SME loan is about 28%, gold is at 36% and auto is about 20% and two-wheeler is about 10%, personal loan is less than 10% and CD is at 2%, personal loan is at 5%.
- Elizabeth John:** How is the disbursement mix?
- Subhasri Sriram:** Disbursement is again maybe I would say 50% is gold and about in terms of 25% from small enterprises and balance is two wheelers, auto and consumer durable.
- Elizabeth John:** In the initial you have mentioned that you are targeting on 40% to 45% of target growth, can you just explain on how we expect and on what segment contribute to this as well?
- Subhasri Sriram:** I expect the small enterprise to jump doing this year. We have seen a 100% growth. We expect the small enterprise grow and should translate about more than 50% of the balance sheet in the next year and the balance would constitute some two-wheelers and auto and gold significantly. So we expect the business loan to cross something to 60% and the 40% coming from auto gold and two-wheeler and the personal loan and consumer durables will continue to be smaller percentage, lower value.
- Elizabeth John:** Sure and how do you see the NIMs going forward?



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- Subhasri Sriram:** I think we should be able to maintain this. I do not see too much of increase in the spread on NIMs and we should be able to maintain it and I think as the portfolio shift happens from the gold to the enterprise I think we should see a bit of a benefit in the NIMs. So I think the realistic scenario is maintenance and the best-case scenario there could be increase of about 50 to 100 basis points.
- Elizabeth John:** Okay and you mentioned that SME will be the focus; will we still be targeting the chit or non- Chit areas to contribute to the 50% growth?
- Subhasri Sriram:** Let me clarify between the chit and the non-chit of the origination. The origination from chit will continue to be significant, so the customer will be from both the chit and the non-chit customer. So since we have more than 500 branches in the southern states Shriram Chits is a very strong presence we expect that to continue to contribute significantly.
- Elizabeth John:** Thank you. I will come back if I have any more questions.
- Terrence:** Thank you. We have the next question from Khaitav Shah from Anand Rathi. Please go ahead.
- Khaitav Shah:** Thank you for taking my question. I just wanted to understand what kind of yields do we make on SME loans?
- Subhasri Sriram:** Around 20%-23%
- Khaitav Shah:** 20% to 23% and that have been in constant over the last one year?
- Subhasri Sriram:** For the last two years it has been more or less constant, maybe somewhere it is a bit somewhere from 24% to 23% and it has been there around 22% to 23%.
- Khaitav Shah:** Okay right and just a few data points, what would be your branch network now?
- Subhasri Sriram:** We have our own locations, direct locations through Shriram Chits locations more than 650 to 700 locations and for the gold loan purposes we have our presence in about 400 plus branches of Shriram Transport.
- Khaitav Shah:** Okay and what would be your employee base?
- Subhasri Sriram:** We have about 3400 employees working as of today working for us directly and about 10000 employees from our associate companies who are exclusively working on all the

Shriram City products. This segment is predominantly in Andhra Pradesh, Karnataka, Tamil Nadu and Maharashtra.

Khaitav Shah: We saw a slight jump in the gross NPA is it like across sector or is it like concentrated more on?

Subhasri Sriram: Gross NPA has not jumped. I do not from where.

Khaitav Shah: Just a slight uptick, so it has gone up from Rs.157 Crores, so is it like across sector or any product specific?

Subhasri Shah: It is across like whatever as I had mentioned it is largely from, whatever is the gross NPA if is more informed in the auto tractor wheeler PL.

Khaitav Shah: Okay, right, what would be the outlook going forward year on these three loans on your unsecured portfolio?

Subhasri Sriram: As I had mentioned 60% plus we expect from business loan and the gold and the two-wheeler will be the next two big products and auto and TL and consumer durable would be a smaller portion.

Khaitav Shah: Okay in terms of asset quality are you seeing any pressure?

Subhasri Sriram: We are extremely confident and happy with the current progress in our business loan therefore this is the reason that we are trying to focus more on that product segment which we have.

Khaitav Shah: Okay, final question of NIM for this quarter?

Subhasri Sriram: We should have about 10% plus.

Khaitav Shah: 10%plus so how are we seeing is going on previous quarter?

Subhasri Sriram: It has been more or less same. I think it is just in terms of positive shift between gold loan and other products, but it is more or less remains the same, but not very significant.

Khaitav Shah: Thanks a lot.

Terrence: Thank you. We have the next question from Mithun Soni from GeeCee Investments. Please go ahead.



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- Mithun Soni:** Just to confirm you said SME you said we are targeting to take it to 60% right?
- Subhasri Sriram:** Yes.
- Mithun Soni:** Wanted to understand can you give some colour on what is the duration of these loans and so what security we have or they fall into partly unsecured category?
- Subhasri Sriram:** Firstly to answer your question the tenure is largely from two to five years, currently the average tenure is about more than two to three years but going forward we also expect to have more three to five year period and the second question in terms of security currently the portfolio is secured, significantly secured, whether they are secured by property or secured by investments products like investments in debentures and investments in Shriram Chits and other saving products and if in case there is a shortfall that is also being secured by through personal surety and third party guarantees. Going forward I think the next one or two years at least we will continue to see this trend of large portion of the portfolio continue to be secured.
- Mithun Soni:** So in that case you are saying that if someone was to working on the rental property his inventory will not be taken as security?
- Subhasri Sriram:** No inventory will be taken for this purpose it will not earmark it, I cannot lien market so obviously we do not take it and we are more largely in terms of not limited large companies so we can do an ROC charge either.
- Mithun Soni:** Okay so until now in our experience because we are doing this business for quite some time in case of NPAs, or actual loss or recoveries, what sort of problems do we have faced and how do you see actual loss of complete cycle coming out to actual loss?
- Subhasri Sriram:** Actual loss as I mentioned it has been much lower than our industry expectations and they have been very satisfying. I think we will probably have not seen a loss more than 0.5% and it is a provisioning which we against through so far and losses are negligible.
- Mithun Soni:** How about the collection in the disbursements like what would be the average ticket size?
- Subhasri Sriram:** The current average running right now the portfolio last one the average ticket size has moved to 7 to 8 lakhs per customer.
- Mithun Soni:** Okay so most of the payments and the collections will be in the form of cheques postdated cheques?



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- Subhasri Sriram:** Yes. Definitely the payments are by cheques only and in terms of collections we do collect post-dated cheques from them and if and when required we do also as a request of the customer if this cheques needs to be re-presented we do accept cash.
- Mithun Soni:** The idea was that it is not something like Shriram Transport's case where if we don't reach on time the cash is used away somewhere else?
- Subhasri Sriram:** No we collect post-dated cheques from customers.
- Mithun Soni:** The customers are much more?
- Subhasri Sriram:** Disciplined. Yes much more disciplined. They do have your cash flows in a much more disciplined and first of all the bigger advantages or the differential I would not call advantage alone it is differential the customer is a person in a particular place stable so we are able to reach it out in time within our branch limits.
- Mithun Soni:** What could be your share who are the key competitors and how much is the customer for customer how important is this 22 versus 23 or what are the other factors the customers looks into?
- Subhasri Sriram:** Two three things. One is the customer if you look at a customer of ours could 'A' could not been borrowing at all in the past. It is mostly largely done on its own equity, which comes from his personal savings plus small borrowing from his friends and relatives so it is not a very organized debt, which would have had in the past. There are a other set of customers who would have on and now borrowed from an unorganized company lenders .may not have regular line and stuff but might have on and off borrowed from unorganized moneylenders and a very small percentage of our customers who could have borrowed from commercial banks of the smaller commercial banks where the limits would have got exhausted and things like that. So there is a significant portion of people who would have either borrowed from moneylenders or borrowed or not borrowed for a want of proper documents.
- Mithun Soni:** But in terms of our securitization would we say that it is mostly about 2:1 for every loan amount what we have given?
- Subhasri Sriram:** In terms of security?
- Mithun Soni:** Yes the security.

Subhasri Sriram: Security I would not say depending on the asset clause security which has been taken it is properties equity we could probably have extremely good coverage where loan amount being small the property values are in a way larger lot more but since the customer is just looking as a collateral that the property is not the principal decision to lend to we have seen in the past that property are a lot more valuable. But if in case the customer is taking a smaller loan amount of 3 to 5 Lakhs and if it depends upon the savings instrument then it might have just may be even the security could be only 50% of the loan amount. But he could have the track record of 3 to 5 years with us and therefore the loan amount has been sanctioned.

Mithun Soni: But then when we are giving these to small businesses they may be more of trader sought of nature and this will be a diverse businesses which everyone is doing then how do we develop a domain expertise in understanding as to whether this business will actually create their capital and give us we will be able to repay or is just that the asset what matters is how do we arrive at that?

Subhasri Sriram: Yes, that's a very interesting thing and that's the advantage or the challenges in this segment itself. We definitely are not trying to become an expert in each of those business which my customers are in so neither we are trying to say that you will become expert in a cloth trader or a chili or a wholesale rice merchant but invariably in trading business the fundamental rules are not too different from each of the asset clauses it doesn't relate to much more to know about kind terms of what is your working capital cycle and what are the dependence factor. So not necessarily we are trying to understand the chili or a cloth merchant industry. Moreover we need to understand the trading cycle which is across any trading business its very similar and more importantly I think we also look at the customers past track record behavior with us that sort of gives us in terms of what is his capability into pay month on month and that is a very important factor to determine the loan amount for us.

Mithun Soni: Yes because in India like we know that enough cash is a component of the businesses for most of the traders?

Subhasri Sriram: Yes we have our own exact way of looking at the taking the credit decision and one important critical factor is this like a Bank statement or Bank account which would a banker would have we have our chit fund track record which the customers has with us that tells us 'A' is a borrowing pattern and needs and times on which he borrows and how pays and also is a monthly cash flow capability to pay off every month.

Mithun Soni: Okay and what is our geographical spread on this business of how much of its coming from the southern market?



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- Subhasri Sriram:** Almost currently I would say 95% comes from south may be 90% plus comes from south and probably less than 5% to 7% is from states in Central India.
- Mithun Soni:** Okay so and going forward if we have to reach 60% do we see this mix changing?
- Subhasri Sriram:** This mix is definitely going to change if the growth happens but I would probably say for next two years I do not see a very significant change that it is not going to go 50-50 between the North and South or Central India. It will continue to be a largely from South may be the current 90% continues to be South and the current 20% concentration of South India business will probably shift down to 70% and 30% coming from Central and North India.
- Mithun Soni:** But then as we develop for the balance of India do we see the cultural or what are the challenges you expect to face over there?
- Subhasri Sriram:** Yes so it is a fact that you have to know that Shriram City has been in the North and Central India for last 7-8 years. Then in the last seven years we have built our expertise in terms of market domain understanding employees and branch network. It is after years of work that we are launching this product in these markets. And we definitely appreciate and understand the cultural differences and the products of the services are accordingly customized.
- Mithun Soni:** Okay and coming to gold you said the gold and the auto will share the balance second half of the second big portion?
- Subhasri Sriram:** Gold, auto and two-wheeler.
- Mithun Soni:** Gold, auto and two-wheeler, would you be able to let say like can the gold come down to like say 10% or 15%?
- Subhasri Sriram:** Yes I would probably expect that to from the 36% may not be 15% immediately at least it will grow down to 20%-25% the next 6months to 1 year and it might stabilize at that level where the rest of the business like continue to grow much faster.
- Mithun Soni:** With respect to Gold lot of things have come with respect to the regulations wanted to understand how are we now looking at the value to arrive at the LTV? People has been first it was on there actual value of the Gold 22Ct Gold now everyone is moving to the market value which is actually nothing but the value of the Gold plus the making charge so how are we going to arrive at?



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- Subhasri Sriram:** We continue to maintain as I had earlier mentioned we continue to maintain 90 days moving average rate and 20Ct Gold with a 15% reduction for a wastages and other charges so we have not changed that and that is the base rate for determining the LTV.
- Mithun Soni:** Okay so if the current 22Ct price of the gold of 2500 or 2600..
- Subhasri Sriram:** It gets reduced to 20Ct.Gold quantum reduced by 15% and the current rate has also if this current rate is applicable provided there is a 90 days lowest average. It is 90 days moving average or the rate whichever is lower.
- Mithun Soni:** And you are saying based on 20Ct value of the Gold not on 20 even if the Gold is 22Ct?
- Subhasri Sriram:** No 20 is the upper limit.20 or lower Ct.
- Mithun Soni:** 20 Ct.
- Subhasri Sriram:** Lower quality of if the gold Ct. is 19 then it is 19.
- Mithun Soni:** Then from there we again minus 15% wastage.
- Subhasri Sriram:** Wastage from the quantity. So one is on the quantity one is on the purity other is on the rate.
- Mithun Soni:** Okay so 15% over there and whatever is the price of the 20 Ct Gold on that we give 60% LTV.
- Subhasri Sriram:** Correct.
- Mithun Soni:** Okay and the yields will be in the range of 14%-16%?
- Subhasri Sriram:** No it will be around 17% to 20% depending on the retail customer to Franchise customers in pre finance.
- Mithun Soni:** So for most of the branches what we are have 650 to 700 branches then for them how much would the business coming be coming from the Gold segment?
- Subhasri Sriram:** Depends like the gold is again one of the products.
- Mithun Soni:** But rather than the Shriram Transport Share?



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- Subhasri Sriram:** No Shriram City or South Indian branches it depends on the branch there are branches which might have a large portion of gold and there are branches which are very small percentage of gold depends on the market and the customer profile there. I mean we continue to follow up of non-marketing or advertisement for gold. It is typically the gold is come through our own direct marketing local net marketing and through our own network of our own customer and agents.
- Mithun Soni:** Okay. The last question with respect to securitization currently the securitization what we get part of it falls into priority so overall what is the spread benefit we get by securitizing that portfolio?
- Subhasri Sriram:** First of all we securitize only assets qualified for private sector. We haven't in the last two years securitized non private sector assets and after the base rate coming in I don't think we have not been possible its not been possible for us to securitize anything below the base rate so our securitizations have been more or less in terms with the banks space rate if its the private sector assets.
- Mithun Soni:** So the only benefit was the lower credit enhancement?
- Subhasri Sriram:** Lower credit enhancement and if it is a non private sector asset probably the banker will charge as an on book assets fairly and this 20-50 basis point over and above that. But when in securitization then the banker gets a benefit of priority sector asset and therefore these rates are advertise rates.
- Mithun Soni:** So there is savings of out of half or out of quarter?
- Subhasri Sriram:** May be 50 to 100 basis points, if it is securitized vis-à-vis on book.
- Mithun Soni:** So now if we move to vis-à-vis if it is on book and now if we move to PTO PEC route then will that benefits still continue to come?
- Subhasri Sriram:** There are two ways of looking at it, it can actually get better because of you might have the transactions done through the treasury department of the banks and therefore the constraints of pricing it to base rate may not be there and the pricing can be more market driven pricing and alternatively it may be could actually have the cost being main directors where it is if it continues to be sourced to the credit department of the banks.
- Mithun Soni:** So net net it can be.



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- Subhasri Sriram:** Actually it can get better if you are doing a securitization going forward if the banks start looking at PTC structure as a treasury investment product.
- Mithun Soni:** Thank you very much.
- Moderator:** Thank you. We have the next questions from the line of Jigar Walia from OHM Group. Please go ahead.
- Jigar Walia:** Good evening Madam. Thanks for taking my question. Madam just a personal clarification on Gold, presently what could be the loan value per gram approximately?
- Subhasri Sriram:** As on March 31, it was about close to about 67%-70%.
- Jigar Walia:** If you can give some idea in terms of Rupees per gram based on 20 Ct. gold?
- Subhasri Sriram:** It is variable as you know because it depend on when which customer which rate at he has borrowed from. Currently I would do at about 1600 to 1800 but it again depends upon the scheme which the customer looks in.
- Jigar Walia:** Okay and generally typically in the last quarter what would have been high would be in the range of Rs.100 for each of these comparables or it won't have fluctuation would be cyclic?
- Subhasri Sriram:** No it will be Rs.100.
- Jigar Walia:** Madam right now Gold is around 36% of AUM in terms of disbursement?
- Subhasri Sriram:** Yes that is because of the March is been a very high disbursement and since there is no rundown in the last quarter it adds to the AUM percentage.
- Jigar Walia:** But going ahead you mentioned a very sharp increase in SME versus and declining all other portfolios so I wanted to understand this decision basically or strategy to basically increase SME versus the other portfolio is it primarily driven by yields and NIMs or something else?
- Subhasri Sriram:** Okay first let me say this not a strategy which has been taken now. Shriram City has been in this sector and focusing on this segment for last four to five years and I think repeatedly we have even when this portfolio or this product sector was only for 10% of our book we have been saying like this is the next growth phase for us and every quarter it has this portfolio has gone up for quarter on quarter so I don't think this is very immediate short term it has been there for very, very long time.

- Jigar Walia:** True but in the event of taking it to 50%-60%?
- Subhasri Sriram:** Yes this is what this is exactly what will happen because the efforts which we have taken in the last two to three years it is time that where we have the benefits coming up. So we actually started seeing this in the last 6-9 months so there has been a stupendous growth in this segment and we continue to expect to see this to go for another at least for two years the market efforts we have put in the training the branches the product being done the employees have come on board I think we have like to do see a lot more in this segment in the next two years.
- Jigar Walia:** Okay so for segments like gold or may be others you may actually see a decline in absolute terms?
- Subhasri Sriram:** Absolute terms we may not see a big decline actually a gold might see an some amount of reduction because it is a very short term asset so is there is something that could be a declined but absolute terms I do not see too much of reduction in any as a product where are only saying that some of the assets products will grow faster than the rest.
- Jigar Walia:** True. So how these 650 do branches how many would be catering to gold?
- Subhasri Sriram:** Most of it because barring about 50-60 branches every branch in Shriram City offers Gold.
- Jigar Walia:** These are not dedicated.
- Subhasri Sriram:** I am sorry it would be less about 100 branch 120 branches that's it we are in 20 branches we do not offer gold loan in the North some in all the branches. Few of our branches only offer gold loan in the North India.
- Jigar Walia:** So 120 branches offer gold?
- Subhasri Sriram:** No 120 in North 120 do not offer gold, 100 plus of branches do not offer gold loan and these branches are largely in North and Central India.
- Jigar Walia:** What are the current numbers of branches?
- Subhasri Sriram:** About 600 to 700 branches out of about 500 branches 500 plus offering gold and the 150.
- Jigar Walia:** 500, 550 plus would be offering and they would be offering all the products basically so they were not getting?



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- Subhasri Sriram:** No.
- Jigar Walia:** Every branch will have a zone in different product.
- Subhasri Sriram:** Yes every branch will have more than one product and no branch will have only gold.
- Jigar Walia:** True got the point. Madam I will come back in the queue. Thank you.
- Moderator:** Thank you. We have the next question from the line of Rajesh Iyer from ICICI Bank. Please go ahead.
- Rajesh Iyer:** Yes good evening Madam this is Rajesh from ICICI Bank. This is regarding this gross NPA figures you have told is around Rs.167 Crores what would be the break up in terms of segment wise and my next question would be in SME loans how has been the experience so far in recovery?
- Subhasri Sriram:** SME I think this is first of all there is not too much of stress either so this I do not think we have come to a level of worrying about recovery and of across I do not have the break up between asset clauses for the Rs.157 Crores may be if you send me a mail I can give you the details.
- Rajesh Iyer:** One more thing this Housing Finance which has started recently what will be the strategy in terms of what segment you will be catering to this low ticket segment or and how you are going to compete in the existing banks which are much more stronger?
- Subhasri Sriram:** Instead of talking about lowest income segment I would like to consider that we have been concentrating in terms of what geographical limits we will work at which will be largely being Tire 2 Tire 3 towns. So obviously the value of the property is also going to be lower there far lower than what is we have seen in bigger cities. So as a result of which we expect the loan also being of a lower limit per customer.
- Terrence:** We have the next question from the line of Khaitav Shah from Anand Rathi. Please go ahead.
- Khaitav Shah:** Madam just a follow up question. What would be the NPA coverage including technical write off?
- Subhasri Sriram:** About 82%.
- Khaitav Shah:** About 82%.



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- Subhasri Sriram:** Yes. 76% with write off it is 82%.
- Khaitav Shah:** So my question is actually we saw a 50% increase in your provisions in this quarter from the previous quarter so anything to it? I mean say out there as in are we doing more provisioning than required or anything of that front?
- Subhasri Sriram:** No we continue to maintain a higher coverage.
- Khaitav Shah:** Absolutely you have a higher coverage so but we still had an increase in provisioning cost so I just wondering is we are doing excess than what is required or anything on that.
- Subhasri Sriram:** You were looking at a number from provisioning number from which number you talking about.
- Khaitav Shah:** The 61 Crores provisions and write-off versus it was roughly 44 Crores in the previous quarter.
- Subhasri Sriram:** Okay, I just want to check the numbers what you had with you that is it. It is more in terms of the larger the portfolio we are looking at brings maintaining the same coverage ratio so there is no specific reason.
- Khaitav Shah:** Okay, thank you.
- Moderator:** Thank you. We have the next question in the line of Nitin Soni from GC Investments a follow up question. Please go ahead.
- Nitin Soni:** Yeah, hello madam one follow up question with respect to capital you said we have 16.87% capital adequacy ratio right and so if the growth what we have maintaining and if the money credit enhancement on part of the loan was to go do we require more capital and how do we plan to fund it Tier 1 2.
- Subhasri Sriram:** Out of 16.92 I will clarify that 13.46 is Tier 1, and the Tier 2 which is 3.46 so we see a lot of opportunity in increasing the Tier 2 and that is what take the capital adequacy state about 20% raise on. And I do not see that being the case I do not think any capital so we will require capital very soon and also we do not required because we have a. we have a Tier 2 capital and b. we have warrants coming in.
- Mithun Soni:** Yeah, but part of the warrant is already being calculated and then so only the.



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- Subhasri Sriram:** No the balance as well 200 plus Crores the 215 Crores is coming from warrants plus another being a Tier 2 being only kind of person where we could technically take another 3% plus so we have a lot of on hope both Tier 2 and two warrants.
- Mithun Soni:** Okay thanks.
- Moderator:** Thank you. Participants if you wish to ask a question may please press "*" and "1" on their touchtone telephone thank you. We have the next question from the line of Umang Shah from Motilal Oswal. Please go ahead.
- Umang Shah:** Thank you madam for taking my question. I just wanted to understand how many new branches we are planning to add in FY13.
- Subhasri Sriram:** I surely repeat that we are going to do much start we do not have any set target for opening branches and that has been our statement and that is so far very, very long time. Branches get opened out as and when our existing branches are short of man power and geo limits and when the business goes beyond the particular geo limits then we see need for opening branches and that has to be also in our case has to justified by an existing man power available to handle the new branch. So unfortunately I am sorry I do not have a concrete number to state that this is the branch target for branch commencement but branches do get opened on a continuous basis but not necessarily they are the inset of the target branches opening is more in terms of satisfying the need of the existing branches.
- Umang Shah:** Fair enough. Also just a continuation of the previous question you had mentioned that you still have warrants I just wanted to understand at what price the warrants would get converted and what is the ten you have.
- Subhasri Sriram:** The warrant 18 months come and started in March 2012 and the price Tire price is 570 which is including the premium 560 plus 10.
- Umang Shah:** Okay, so they can get converted anytime during next 18 months.
- Subhasri Sriram:** Yeah, we expect one lot to get converted before March 13 and the other lot by September 13.
- Umang Shah:** Okay and madam just wanted to understand one thing you have mentioned during the presentation that your ROA is for full year were at 3.09%.
- Subhasri Sriram:** Yeah, for the last year was 3.07%.



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- Umang Shah:** Okay so more or less flattish. The going forward how do you see your ROA is shaping up please correct me if I am wrong I assuming that ROA is on your gold loan portfolio would be higher so the proportion of you high Yielding loans is going down how do you see ROA is shaping up.
- Subhasri Sriram:** The gold has not actually been high Yielding, gold actually IS the lowest cost that is one reason we have already always had a compression in the lending base. Gold lending rates are at around 17% to 18%, 19% were most of other products are about 20% this I do not see the gold being any reason why we have any compression in ROA. So actually we do expect some benefit out of indirect, out of the others we are having that product that we should be seeing some amount of increase in gross income or yields and in terms of ROAs.
- Umang Shah:** Okay so would it be fair to assume that probably ROA in that case would be more or less stable.
- Subhasri Sriram:** Which is what I said we could have by the shift in the portfolio the Yields can go up but I may not have the full benefit of the Yields because of change in securitization, RBI rates and other things so the best case scenario the Yields actually going up the more realistic it should be remain at this level.
- Umang Shah:** Okay perfect and just lastly madam you have mentioned on your SME portfolio you have yields in the region of 21% to 23%, gold is roughly around 17% to 18% what could be your yields on auto two-wheeler portfolio and our personal loan and consumer durable portfolio.
- Subhasri Sriram:** Two-wheeler is also about 24, auto is about came from 18% to 24% sort of more close to 24. personal loan is 24% to 27% and consumer durable is also 24% to 27%.
- Umang Shah:** Okay and so overall blended yield would be roughly around 23% to 24% if I am not wrong?
- Subhasri Sriram:** 22% to 23% yes quite right.
- Umang Shah:** Just one last question within our auto portfolio CV you have mentioned is just 2% of the overall AUM?
- Subhasri Sriram:** CD consumer durable is 2%.
- Umang Shah:** I am sorry so how much would be CV just in case if we do that?

- Subhasri Sriram:** I would say the auto book can be almost evenly spread between commercial vehicle, passenger cars, and tractors and CV also within the four of them.
- Umang Shah:** Evenly distributed.
- Subhasri Sriram:** Yes, more or less I think but going forward we should see more growth in the car segment and lesser in commercial vehicle and tractors so car and three-wheelers ratio see more growth.
- Umang Shah:** Car and three-wheelers more growth. Okay and how much of this could be used or have it.
- Subhasri Sriram:** Predominantly used I would not say everything predominantly in the car we should have a small portion of new cars too but otherwise the rest of the other products it is lively used.
- Umang Shah:** Okay perfect thank you so much madam.
- Moderator:** Thank you. Participants if you wish to ask a question may please press “*” and “1” on your touchtone telephone thank you. We have the next question from the line of Jigar Walia from OHM Group. Please go ahead.
- Jigar Walia:** Thank you again. Madam see first a clarification between the Sriram Transport and City Union is there any demarcation that we would not go into CVs or is not much of our.
- Subhasri Sriram:** Yeah, we do not we are not really competing with such of my CV customer market it is that whatever we are doing as commercial vehicle are two reasons. One is in terms of branch network some of the states we do have more penetrative, more dens branch network tent Shriram Transport has so it is that customer comeback we do not miss that as also the two another important point is we typically do I would that is a reason why we do not come in the commercial vehicle financing it is more on the loan against vehicle rather than for acquisition of the vehicle. So Sriram Transport is not commercial operators in our case it is customer who have vehicles and use it for their own businesses.
- Jigar Walia:** Okay got the point. Madam on the same aspect having I just want to know like when you are doing an SME financing and there is a security which could be a property it could be shares debentures or for that matter even gold so how do we demarcate? can we do SME financing with whole security and can that be classified in SME?.
- Subhasri Sriram:** Currently not but going forward yes. We would also look at gold loan like a SME customers who could offer the gold which we can consider as additional security.



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- Jigar Walia:** True and much of the client till would be similar the one who is actually using gold finance and the one who is the SME.
- Subhasri Sriram:** It is only question of end use and tenure of the loan that are the differentiators.
- Jigar Walia:** Okay so SME the shortest would be a one-year.
- Subhasri Sriram:** Yes, the shortest to be one year and with cash flow driven lending and cash flow is also coming on the month-on-month basis. Interest servicing month-on-month in a gold loan is not yet typically done..
- Jigar Walia:** It is a bullet thing okay that is interesting. And madam I wanted to understand in terms of securitization you gave a very interesting perspective of PTC - anyway probably you may end up borrowing even below base rate - so I think if you can give some more qualitative aspects in terms of what would banks prefer primarily bilateral with enhancement is closure so either there could be bilateral without enhancement and adjustment into the yields based on the credit cost history or in that case bank can actually show PSL, which impacts us but we can still end up doing more securitization, more than 20% or so and but if the bank does a PTC then it will not be PSL or can it be PSL it will be an investment, right?
- Subhasri Sriram:** Yes but I think it truly does not stop the bank accounting for PSL but going from that the other point is about looking at complete assignment without credit enhancement. I think here it becomes a very big differentiator based on the relationship with the bank we have as an NBFC and the confidence level that they have in the asset class.
- Jigar Walia:** Yes, I think the credit history maybe the high low average long-term cost probably something like that so would there be a fair assumption because they are still a bit of fund shortage in terms of how would the securitization must be moved or should they wait for the PTC to develop or have maybe more confidence on the bilaterals for good groups like Shriram?
- Subhasri Sriram:** I think it will be a combination of both. I do not think we can completely depend upon bilateral .PTC as well also will have to be looked at and it becomes a give and take in the bilateral and the PTCs.
- Jigar Walia:** Okay and madam one last question my side on the gold loan what has been a bigger issue - is it the LTV factor or is it the KYC thing?

- Subhasri Sriram:** KYC has never be an issue I think the KYC is always been very comfortable and the customers are well informed about it and they come well prepared, so there has not been any issue in KYC I would say LTV is only a short-term issue if the retail customer understands that his value of gold – that can only get that much and no further I do not think there is any differentiator. He might go for the balance if at all anything he might go to the money lender and borrow for the balance amount but just because on a Rs.50000 gold if I decide to give only Rs.30000 now which I would have totally given him Rs.35000, Rs.40000 it is not as if he will not take this at all and go borrow the entire amount from money lender. So therefore you might borrow this from us and the balance you might go and borrow elsewhere if at all you still need money and more money.
- Jigar Walia:** Probably you may need just a mindset shift for some time?
- Subhasri Sriram:** Yes, exactly because these are customers who need money you come towards it is not because you plan certain things and therefore this cannot be a structured accordingly.
- Jigar Walia:** Madam SME portfolio I think it should more than double maybe right now grow by 150% for the next year for us then this would be through the same branch network and they are still in the existing assignment?
- Subhasri Sriram:** Yes, same branch network, branches do get opened.
- Jigar Walia:** As we get more number of ticket size increasing?
- Subhasri Sriram:** More customers.
- Jigar Walia:** Okay, so but the cost ideally should not be increasing as much as probably I have mentioned that not really looking at expanding in terms of branches into and overflowing of the branch volumes passing the new branch setup?
- Subhasri Sriram:** Let me clarify. We are saying that we do not have a target for opening branches and we do not focus on it as a part of a KRA to open branches every month. Branch opening continuously happens because existing branches exceed the capacity they can manage and therefore we need another branch. Also when branches get opened they accommodate the good leaders. So that is just an ongoing process. Then answering your question about where will this business come from yes this business will come from the existing branches from more customers, not basically on a higher values it is already gives an market needs it yes we are happy to look at it but largely it is



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going to come from more customers more deeper penetration in the market and also to some amount of expansion coming out of the newer locations which we have built in the last five years which have not yet completely matured on the business role.

Jigar Walia: The branch maturity would play a role?

Subhasri Sriram: Yes these are all branches which have been opened and been there for last three five years.

Jigar Walia: Would decent chunk be sourced by the chit fund more than 50% of SME?

Subhasri Sriram: I would say business is sourced from the chit fund channel for the customer base that we are look at and that will continue to be there. Chit fund is not providing anything.

Jigar Walia: That will also continuous to grow at that much that pace?

Subhasri Sriram: No, historically they have more than 4 million customers. So what I am so far it comes to the growth I am not necessary depending upon chit to grow to give me any business. it will take a lot of time for me to even to harvest what I have right now.

Jigar Walia: Thanks a lot madam.

Moderator: Thank you. We have the next question from the line of Sudarshan Daman from Allard Partners. Please go ahead.

Sudarshan Daman: Thanks for taking my call madam. My question could be repetitive because I actually joined a bit late but I understand that you are planning to shrink your gold loan portfolio from 36% to 25% in next six to twelve months down the line is this mainly because of the regulatory reason or are you a bit cautious on that specific segment?

Subhasri Sriram: Clarification is we are not shrinking the gold loan so let me record it again - we are not shrinking gold loan at all. we are only saying that the business loans segment is likely to grow larger and relatively the percentage of gold loan is likely to come down. we are not defocusing or anything of the sort in the gold loan. We continue to focus to the extent that we did in the past month and it was very much in the past either. But definitely focus of the management will be on looking at business loan and that is likely to grow much faster and on account of which we expect the percentage wise gold loan



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to be lower in the next one, two years. The amount of gold loan book is unlikely to shrink anyway significantly in the next two years or for that matter it may not shrink at all.

Sudarshan Daman: Thank you madam.

Moderator: Thank you. Participants if you wish to ask a question may please press "*" and "1" on your touchtone telephone thank you. There are no more questions at this time I would now like to hand the conference over to Mr. Amey Sathe from JM Financial. Over to you sir.

Amey Sathe: Thanks. On behalf of JM Financial I would like to thank Ms. Subhasri Sriram of Sriram Citi Union and all the participants for joining us on the call today thank you and bye.

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