



“Shriram City Union Finance Limited’s Q4 FY13 Earnings Conference Call”

May 21, 2013



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Moderator: Ladies and gentlemen good day and welcome to the Shriram City Union Finance Limited's Q4FY13 Earnings Conference Call hosted by JM Financial Institutional 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. Should you need assistance during the call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Karan Uberoi of JM Financials. Thank you and over to you sir.

Karan Uberoi: Thanks. Good afternoon everybody. Welcome to Shriram City Union Finance's earnings call to discuss the fourth quarter numbers. To discuss the results, we have on the call Mr. G. S. Sundararajan who is the Managing Director and Mrs. Subhasri Sriram who is the Executive Director. May I request Mr. G. S. Sundararajan or Subhasri ma'am to take us through the financial highlights. Subsequent to which, we can open the floor for Q&A session. Over to you.

G. S. Sundararajan: Good afternoon to all. Thank you so much for joining this call and welcome to the earnings call of Shriram City. Shriram City has made significant progress in its efforts at becoming an MSME focus financier. Before I address, the specifics concerning our composition of our assets under management for year ending 2013, a background to a rationale for orientation on financing MSME. You recall that our entire focus of starting on MSME was based on the kind of gap we had in the MSME segment in the country. India currently has over 2.6 crores of MSME units comprising 95% of all our industrial units and I am sure all of us know that mostly of them are unbanked, many of them are under-banked. MSME, they have always faced illiquid challenges with adequate credit and delayed access to quality credit. Funding from unorganized informal sources was available, but this is not only unreliable, it is also very expensive and could never help them in terms of their growth in whatever segments they were in. While the exposure the commercial banks to the MSME sector during the period FY2006-FY2011 grew at a CAGR of about 24%. Loans advanced by NBFCs to the sector in the same period grew at 25% CAGR, only 7% of the MSME seeking external sources of credit. The risk managing with risk self financing or funding from friends and relative.

MSME, there was total finance demand of 32.5 trillion, of which only 36% is widely considered as addressable by financial institution. The remaining 64% ordinarily considered unviable because of inadequate or poor credit profile, preference for debt from informal sources, and reliance on self-financing. We therefore see our company and other NBFCs playing a vital role in addressing the financial need of this segment. Shriram City was the pioneer in financing MSMEs having entered the sector in 2006. Given the potential, we hope to continue a healthy rate of growth in this area and are in the process addressing the government's strategy of financial inclusion as well. We also did a social audit during last year

which some of you may be aware wherein we were very clearly, the social impact created why our funding to MSME had a social return on equity of close to 206% which is significant in terms of what the company has been doing in this sector. Other strategy for this enterprise finance business, Shriram City concentrates on ticket sizes comprising very small loans which is to the micro businesses, small loans to the small businesses and medium loans to the medium businesses, very small if below 1 lakh, small loan is below 1 million and medium loan is between 1 million and 5 million. The bulk of the SME booking constitutes small loans wherein we have a dominant market share of about 40%. There has been a slowdown in the economy as you have seen in recent times while affecting major industry such as power, coal, steel, infrastructure, automotive etc. leaves micro enterprises untouched. Shriram City for the most part caters to the micro business segment. Our research indicates that in the event of GDP growing between 4 and 5%, the MSME sector should see a long-term growth of anywhere between 15 and 20%. You can address with specific details of the business for the last year, Subhasri.

Subhasri Sriram:

Good afternoon everybody. Let me just take you through the financial numbers. Shriram City during the year ended 31st March 2013 recorded a topline growth of about 53% and this is at 3071 crores as on March 13 for the year and for the year 2013, Shriram City recorded a profit after tax of Rs. 440 crores on a standalone basis. A 31% growth over the reported profit for the financial year ended March 12. The asset under management as on March 2013 is at 15,828 crores with off-book assets constituting 15% of the total AUM. 40% of the total AUM is now constituted by small enterprise finance portfolio which we just detailed it out which is our main business and in addition to this near 20% of the book finance against gold collaterals to small entrepreneurs. Retail gold constitute 10%, two wheeler loans at 13%, auto loans at 12% and personal loans at 4% of the total AUM with disbursement for the quarter ended March 13 whereas 4073 crores this is for the quarter ending. The disbursement excluding loan against gold loan portfolio including both retail and small enterprise finance collateralized by gold was at 2548 crores reported a 32% growth over the quarter ended December 2012 with disbursements on gold loan witnessed a dip of 37% over the previous quarter and 41% dip over the same period in the financial year ended March 12. The company continues to maintain the change adopted its NPA recognized policy in the last two quarters. The NPA now recognized at 150 days which is across all products. The gross NPA in absolute terms is at 294 crores translating to 2.19% and the net NPA is at 0.80% and a coverage ratio of 63%. The NPA position excluding the gold loan portfolio is at 2.7% gross and net NPA is at 0.61% with a coverage ratio of 77%. This is relevant at this juncture because gold loan portfolio has a lower provisioning requirement and lower coverage. So that is the reason that we want to highlight this. The write-off during the quarter ended March 2013 was at 88 crores. The gross spread for the year ended March 13 was at 11.35% as against 10.35% during the year ended March 12. The revenue net spread during the same period is at 4.55 and 4.89 respectively. So return on average net worth which is the numbers which we are referring are pre dividend is at 22.34% and the return on average total assets is at 3.09% post tax pre-dividend for the year ended

March 13. The book value per share for the year ended March 2013 is at 410.95 and EPS for the year is at 85.61. The capital adequacy as on March 13 stands at 18.95% with Tier-1 capital at 14.91% and the increase in the cars has been also on account of conversion of 28.5 lakh warrants in the equity shares by Shriram Capital and Shriram City has issued the Shriram Capital 59 lakhs warrants in March 12 and during last quarter 28.5 lakhs warrants were converted into equity shares and balance 30.5 lakhs warrants are likely to be converted before September 30. Also during the quarter ended September 30, the company considered securitizing transaction to the extent of 611 crores. In addition, also did 67 crores transaction of an assignment. This is the first time in applying to the new guideline and during the year ended March 2013, total assignment cum securitizing transactions was to the extent of 1376 crores. The assignments transacting structured adhere to RBI guidelines on securitization dated 21st August. The total cash pool of the pool securitized was to the extent of 100 crores which was assigned to a nationalized bank in the March quarter ending, but this transaction did not have any cash collateral or any credit enhancement as per the RBI guideline. The total book warrants as on March 13 stood at 12,727 crores. Of which, bank borrowings constitute 58%, market borrowings 9%, retail borrowings including public issue of NCD constitutes at 33%. Close to 51% of the borrowings are at fixed rate of interest and 49% are floaters at this point of time. The company is rated AA by CARE rating on the secured and unsecured long-term debt and AA minus by India ratings and CRISIL rating. During the year, India ratings have revised the outlook upward on the long-term debt to positive from stable. On the short-term debt, we have the top notch rating of A1+ from all the three rating agencies.

Figures on subsidiaries: During the year ended March 2013, Shriram Housing had sanctioned loans up to 168.1 crores and the disbursement during this period was 114.96 crores out of the loans sanctioned of 168 crores. The company is currently operating out of 42 branches. The profit earned for this quarter ending was at 9.24 lakhs before tax for the year and for the quarter ending it is 15.67 lakhs. Over to Karan and we are happy to answer questions. Thank you so much.

Moderator: Thank you very much ma'am. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Kaitav Shah of Anand Rathi. Please go ahead.

Kaitav Shah: My question is relating to your asset quality. So just trying to understand how much of this is related to the more conservative recognition of NPAs?

Subhasri Sriram: I think probably we started recognizing at 150 days past due. We started in June quarter, moved into September 12 with all products except for gold and by December we have completed with all products including gold at 150 days past due. So I would say as compared to December to March, there is no change from the compliance or recognizing methodology. You are looking at comparing at 180 days past due, previous year financial year.

Kaitav Shah: So if you do on 180 days yet, how much would it be lower by?



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- Subhasri Sriram:** In terms of NPAs?
- Kaitav Shah:** Yes ma'am.
- Subhasri Sriram:** We probably would be same as the last year numbers. There would be no change to that.
- Kaitav Shah:** Okay right. Secondly question is on productivity, so now we are through with absorption of employees from Shriram Chit right?
- Subhasri Sriram:** Yes.
- Kaitav Shah:** So where do you expect productivity to be in terms of costs as if cost income, any guidance?
- Subhasri Sriram:** On the employee cost, this will be the number that we will say at, barring the 7-8% of increase in employee cost, yearly increase. There is not likely to be a big change in the employee numbers. We are good for in terms of employee numbers for the next 1-2 years, maybe a small increase in terms of some of the locations, but not be a significant change as we see in the last year.
- Kaitav Shah:** So what would be the outstanding number of employee now?
- Subhasri Sriram:** Let me just complete it. In terms of cost-to-income ratio which we have seen close to 37-38% is probably the number which we will also continue to see in the next 2-3 years. Probably we will not get this down further. So you will never see 30% number in the near future, but these are we are going to see spike in the cost in the coming 2 years.
- Kaitav Shah:** And what would be the outstanding number of employees now ma'am?
- Subhasri Sriram:** There are two numbers. I would like to say that we have close to about 12000 plus employees who will be our full-time employees on the board. We have about 6000 employees who will be our field executive dealer showrooms and other executives who are turning more not yet completely settled down in the organization. So this number might change and there will be shuffling short term reduction, but change in number of employees because 12,000 plus employees are permanent and will be there for longer.
- Kaitav Shah:** Okay right and just one last question if I am permitted. On your yield ma'am, so they have risen significantly during the quarter. So would you like to highlight which are the drivers of that yield increase?
- Subhasri Sriram:** The one very big difference which we have discussed in the past earlier quarters is on account of the gold loan portfolio which used to be a drag in the yield. This quarter with gold portfolio coming down significantly. Barring gold, almost all our products where our lending rate

ranging from 20 upwards. So gold which was earlier about 37% of the book was at lower yield was reducing the asset income for the company averaging yield. Now with this reduction, I think we expect to maintain the gold loan book not more than 30% of the book. So we can probably say that 20% yield is what is doable in coming quarters.

Moderator: Thank you. Our next question is from Ritesh Nambiar of UTI. Please go ahead.

Ritesh Nambiar: Just some color on the balance sheet, sequentially the balance sheet has de-grown or?

Subhasri Sriram: No, let us say as I mentioned earlier the gold loan book both in terms of disbursement since there is a significant drop in the disbursement during the last quarter and probably you are aware that gold loan is normally a 4-to-5 month's tenure asset. For any drop in the gold loan book will have an immediate impact in the asset side. So that exactly what has happened. So we have disbursed significantly lower than the previous two quarters and this started off with the previous for the December quarter and much more in this quarter. So that has almost resulted in the gold loan book reducing 37 to 30, but if you look at the disbursement of the non-gold book, sequentially it has been going down. Today if you look at quarter in terms of growth, the business loan has actually grown over 51% during the last quarter. So from December 12, the disbursement was 976 crores is now close to 1400 crores. This is in March quarter. So there has been a sequential growth in two-wheeler, auto and business loan and significantly drop in gold loan to 37% on quarter-on-quarter and gold being shorter duration assets.

Ritesh Nambiar: Based on this if you could give us some growth guidance for next year?

Subhasri Sriram: We would probably say we were very happy with the book in some for gold loan and we would like to maintain the gold loan book constituting at least 25-30% of our book. Having said that, therefore we have not seen major slippages in that product in terms of growth. It will continue to maintain 25-35% traction to maintain the percentage of the total book. As we said in the beginning, Shriram City will continue to focus on the enterprise finance book that will be our principal driver. We will continue to see a larger portion of the growth coming from enterprise finance and two-wheeler, We see a lot of opportunity for Shriram City in that segment especially in smaller towns being a multiproduct financier, I think in two-wheeler we have edge over the two-wheeler exclusive financier. So I think we have a market and we continue to see growth in two-wheeler and auto loan.

Ritesh Nambiar: Ma'am, this quarter income purely on account of securitization if you could give us some color?

Subhasri Sriram: In terms of securitization?



Ritesh Nambiar: Yes.

Subhasri Sriram: As we said, we did for the year as a whole 1300, but 600 plus crores of securitization last quarter, March quarter, this is post the RBI guideline and from income recognition, I think Shriram City there is no difference. Pre RBI guidelines and post RBI guidelines even before the guidelines have come in, we have been following a policy of amortizing the income over the tenure of the assets and which is what we will continue to practice and from a quarter ending, our income from securitization is close to about 80 crores for this quarter and for the year as a whole, it is 386 crores which is a differential between the lending rate and discount rate for the period.

Ritesh Nambiar: And ma'am provisions plus write-offs excluding standard assets were how much actually within these 113 odd crores which you have provided?

Subhasri Sriram: You are talking about write-off or you are talking about..

Ritesh Nambiar: That is x of provision for standard assets, how much was the figure? And lastly ma'am this personal loan and consumer durables, the composition was same 3% odd.

Subhasri Sriram: Yes more or less, the entire together is 4%. Consumer durable is less than 0.5%.

Moderator: Thank you. Our next question is from Santanu Chakrobari of ICICI Securities. Please go ahead.

Santanu Chakrobari: Just a couple of questions relating to the gold loan business. Now you have slowed down disbursements, so I was just wondering have you taken any other steps like reducing LTV etc. Also what kind of asset quality challenges are you seeing in the segment and you are incrementally speaking of maintaining 25-30% of the business as gold loans, so at some stage would you be again looking at disbursement growth?

Subhasri Sriram: First one let me say we are not reducing the portfolio because we are concerned. The portfolio actually reduction happened because of our LTV norms which we are put in. So it is not that as if we are only saying no to loan we are only saying yes to loan in the particular format which probably market will start accepting it and the borrower segment will start accepting it in this quarter. We started doing it in October-November when the first time gold rate started correcting and if you notice our gold loan book actually started reducing in December quarter itself. Even in December quarter, our disbursement is lower than the previous quarter. So equally got accelerated in this quarter, March quarter. So it was only because we are not saying gold loan or all our branches are actively into gold loan business wherever we are right now in. It is only that we are put in a more sector, more severe conservative LTV policy and this has been in place for last two quarters. So in earlier quarter I think many of who entered including banks were little more different on the LTV. Probably we were finding difficult to get our

business in place, but I think we are over that now either the lenders are not too active right now or they themselves have reduced LTV may be in hind sight. So I think as we said in the beginning, we continue to be focusing on gold loan business, may be it will not go beyond 30% of our book.

Santanu Chakrobarati: Just related to that, what would be your peak LTV at origination now and what has it moved on from?

Subhasri Sriram: The methodology of LTV I think is there is a little bit of challenge and I have to do an apple to apple comparison. So let me say that we continue to practice a 22 carat gold, never mind with 24 carat gold. Then the second one is we continue to look at a 10% wastage and we are looking at a price, till about last quarter we are looking at 90 days average moving price, daily average price. Now we have taken a 90 days average price and Rs. 50 to Rs. 100 we reduced from that based on the customer profile to fix the base price for lending. So with these constraints, I probably cannot just put a number saying whether I lend a 1600 or 1800, it is a question of what rate we take and what purity we consider and based on which, the numbers are plugged in. So if I have to do a simple make it more easier comparison, we probably are in the LTV of about 55 to 58 at a point of lending.

Santanu Chakrobarati: So just related to that on an overall basis, do you think at this point you remain confident of doing the 25-30% sort of full asset growth over the next year?

Subhasri Sriram: Yes, but two more reasons is probably the market is now shrunk in terms of number of active players. So the market may be borrowers continue to be there, but lenders are not as many and probably some of the lenders are even more cautious and not active. So I think from a customer need for gold loan, I can see anything has changed. So market continues to be there, the borrowers are there. It is only lenders with different appetite and different needs are there at different periods of time. I think now of course Shriram City I think the market is wide open for us to take it.

Santanu Chakrobarati: My last question was more from an overall AUM perspective?

Subhasri Sriram: Overall AUM, I think the business loan growing even on quarter-on-quarter at this base. I do not think we have any concern about growing at 25-30%. Can I answer the previous question in terms of standard asset provisioning? For the year as a whole, portion of write-off is 378 crores. Out of this, 61 crores is provisioning, write-off 317 crores, and standard asset provisioning 6.27 crores. We continue to follow 0.25% requirement of RBI for standard asset provisioning.

Moderator: Thank you. Our next question is from Nikhil Rungta of Standard Chartered. Please go ahead.



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Nikhil Rungta: Just wanted to check like in terms of total percentage of AUM, what is the normal level of SME finance which we are looking at as it is already had +40%?

G. S. Sundararajan: In terms of the specific MSME financing we are doing, we would like to be about 55-60% of the book as contributing to the overall book. Today it is about 40%, therefore we see a significant growth coming in from there not only in terms of growth in that segment, but also contributing to a larger share in our book.

Subhasri Sriram: The big differentiator which we will see in AUM growth in MSME pool is on account of the loss, the duration. The MSME book is typically the 2-to-4 years loan book vis-à-vis the two-wheeler loan which is two year or less and gold loan which is about 3 to 4 months. So we expect the MSME in over a period of time to constitute a significant percentage of the total AUM.

Nikhil Rungta: In terms of borrowing profile, can we expect similar type of borrowing profile which we have right now or?

Subhasri Sriram: Two things we should start looking at during the next year. 1) This is with reference to market borrowing. They have been pretty low and not taken too much opportunities coming our way with reference to market borrowing. We are still looking for market correction in terms of rate reduction. So we should be coming into the market borrowing on a little more frequency. So we expect that to be a little more than what we are right now at the percentage of total borrowing. We will continue to focus to the limited expense possible in terms of securitization considering the deadlines in terms of seasoning, retention and interest rate gap. We will continue to focus on retail borrowing which together with our public issue NCDs which is about 33%. We expect at least to maintain 25% of total balance sheet. So I think the balance will be supported by the bank.

Nikhil Rungta: And last is like now that in FY13, we have disbursed around 115 crores in our subsidiary. What is it we are looking for the same in FY14? What would be our target for the subsidiary?

Subhasri Sriram: I really cannot put a percentage to the subsidiary because it is probably will be looking like number like 300-400%.

Nikhil Rungta: In amounts like we have seen we have disbursed around 115.

Subhasri Sriram: We should be able to do at least close to about 400 plus crores.

Nikhil Rungta: And average ticket size would remain around similar to 15 lakhs only?

Subhasri Sriram: Yes, 15 lakhs.

- Moderator:** Thank you very much. Our next question is from Kunal Shah of Edelweiss. Please go ahead.
- Kunal Shah:** Ma'am if I am not mistaken what you mentioned was increase in NPLs has not been on account of NPA recognition going down from 180 to 150 in any of the product segment, was that true? May be everything was done in December itself?
- Subhasri Sriram:** Yes. As I explained that December 12 to March 13, the change in NPL numbers or the increase in NPL number, it is not on account of change in any methodology and let me just clarify that in terms of the number in rupee terms increase and percentage term increase, I need just bring two things in perspective. The percentage term increase to some extent is on account of the shrinkage which we have seen in gold loan book from a denominator point of view and that is the last quarter. So such product may be to some extent distort the number. Also if you look at from the non-gold book, you will notice that the enterprise finance if we were to look at 6-month trailing numbers, we are looking at about 0.63%. If you just look at our denominator of 6-month trailing in terms of AUM and it has gone up to about 0.96 now. So we are still at sub-1% of the business loan book as a quantum, this 24 crores increment out of total 60 crores is on account of enterprise finance, but it is still sub-1% to certain book.
- Kunal Shah:** So may be 40-50 crores would be on gold loan and 20-25%.....
- Subhasri Sriram:** Almost 38 crores is on gold loan and 24 crores is on enterprise finance.
- Kunal Shah:** And gold loan it is only some delays or something, no bringing down the NPL recognition on the gold loan?
- Subhasri Sriram:** No, we are definitely seeing a bit of longer tenure loans which are probably expected of, but I do not think that is very surprising. The customers are keeping it for a longer period than in the past, but definitely it is not getting into any concern to us because I think the LTV which we manage and all these loans which affect our ornaments, I think already implicit margin of 15% on making charges and wastages which a customer pays. So over and above that, we still have 30-35%.
- Kunal Shah:** And ma'am one thing on this warrant conversion if you can just exactly mention what would be the dilution which would happen over next one year in terms of how many warrants are to get converted at what price?
- Subhasri Sriram:** 30.5 lakh warrants which will get converted before September and the strike price was fixed at March 12 at 570. Out of this, Rs. 143 has been paid which is 25% of it. The balance will be paid and converted before 30th September. Considering a capital of 5.5 crores, number of shares, the quantum is about 4.8%. This will be dilution of close to less than 5%.



- Kunal Shah:** Less than 5% dilution and how do we see the funding costs ma'am. We have seen the wholesale rates also coming off plus some of the banks also cutting the base rate. So what is our outlook on the funding costs and margins going forward?
- Subhasri Sriram:** Definitely considering that we have almost 50% of our book and 14 floaters, I would really differ from you are saying that banks are not reducing a rate. The rate reduction has been very sporadic and couple of banks have done it. Now RBI has cut the rates to 100 basis points, hardly 25-30 basis points few banks have done in the last one year. So we should see more activity more in this coming two quarters, coming at least next one quarter and we should definitely see the impact of it immediately on our floaters, but I think I need to mention that our liability, we have a little bit of disadvantage that our liability is much longer than our average assets and in terms of duration of 22-23 months, so all the reduction and benefits probably we will see in 1 to 2 quarters trailing, not immediately.
- Kunal Shah:** No, but whatever you say the bank borrowings or something once they change the base rate, it will get repriced no?
- Subhasri Sriram:** Exactly. That is only about 50% of the balance sheet.
- Kunal Shah:** So on 50% we can see the benefit flowing through immediately.
- Subhasri Sriram:** Exactly. The balance 50% will have to two quarters trailing.
- Kunal Shah:** There would be two quarters. So margins should probably sustain may be in terms of the ALM.
- Subhasri Sriram:** And get better, we look to it.
- Kunal Shah:** And on the gross NPL side, so now we are comfortable with this number and do not see any major deterioration may be in terms of the increase which has been there would there be the outlook?
- Subhasri Sriram:** I think we are not looking at any major deterioration. Right now there are no challenges in the book, but definitely as I mentioned in the last call also, previous call also that the customers in terms of number of days delay, we will continue to see some delays. One is I think the economic natural scenario and also to the extent of customers are in locations more in Tier-2, Tier-3 towns I think it is continue to be more independent on cash collections and there will be number of days delays, but mainly on account of most of these loans are securitized and collateralized by property and all customers with existing relationship with Shriram, we do not see a major stress or befalls happening in the long run.



- Moderator:** Thank you. Our next question is from Amit Ganatra of Religare Asset Management. Please go ahead.
- Amit Ganatra:** Just one question on this MSME business that you have. How different or how similar these loans are as compared to loan against property?
- G. S. Sundararajan:** I think the difference is largely on the ticket size and the tenure. The differences are also on the way the requirement of the customer is assessed. For example if a customer has a business wherein he needs a credit facility of about 5 lakhs irrespective of kind of property he gives us, the loan is going to be only 5 lakhs whereas if you give a property of 10 lakhs to anybody who is doing loan against property, you will end up getting anywhere between 9 and 11 lakhs. So therefore there is some amount of surrogate traction when this is done and because we need security and that is the only reason how we will end up doing credit facility. We always end up getting a lot more collateral on these facilities.
- Amit Ganatra:** But how is it also different in terms of cash flow assessment?
- G. S. Sundararajan:** Cash flow assessment is largely related to repayment capability and in our case, we also extrapolate the fact that does we need so much of amount for the business. He may have repayment capability, he may have the property, but it is not going to require that much for his working capital or term requirement and ensuring that we given the right kind of facility. The key is more the tenure. The tenure is always going to be 5 years or less as compared to any loan against property which is 7 years or more.
- Amit Ganatra:** And based on the recent experience, you briefly talked about the slowdown in the economy in the challenges that the customers are facing, are you basically seeing that the payments that they are making, are the repayments being made out of the cash flows that they are generating or it is more out of some of the other asset sales that they might be doing to repay you?
- Subhasri Sriram:** Asset sale is not likely to be happening because the asset which we have reported in the business and whatever real assets investments outside business is mortgage to Shriram. So the repayments are coming money out of their business. These are all customers who would have so many assets to be disposed off as and when required. Much of the bulk most often is invested in their business.
- Amit Ganatra:** And the asset that they keep as collateral with you, in case you said that there are some delays that we are experiencing, so what the timeline beyond which you also start liquidating those assets?
- Subhasri Sriram:** So far we have not liquidated neither we propose to use that as to measure to recover. We probably would encourage the customer to find the buyer himself and dispose rather than taking the tuff stand of we taking over the property liquidate it. I think this is a business which

will not work like commercial bank in terms of going through legal process of recovery. Legal process is more to in terms of threat and sort of intimating to the customer about our seriousness rather than that is the only option for recovery. The recovery will continue to be talking to the customer looking at his business and if in any case we find his business is not generating cash flow and is in a position not repay the loan, it is probably is better off he sells the property which definitely is much more valued than the loan amount outstanding and he has more returns in it.

Moderator: Thank you. Our next question is from Elizabeth John of Crisil. Please go ahead.

Elizabeth John: I was looking at the quarterly numbers where the employee costs have declined from 72 million to 69 million this quarter. So there is a 4% decline quarter-on-quarter. So just wanted to understand the reason for that?

Subhasri Sriram: 72 million is decline, actually 69 million is what is more like expected. 72 million was increase because of this, that is the quarter ending where the bonuses and incentives being paid out.

Elizabeth John: In Q3?

Subhasri Sriram: In Q3.

Elizabeth John: And whether any increments in Q4 or something like that?

Subhasri Sriram: Not very significant.

Elizabeth John: Another thing is I was also looking at the financials, the other income has actually increased from 1 million last quarter to 100 million this quarter. What is that item largely?

Subhasri Sriram: This is purely explaining the cash surpluses, cash inflows which came out of gold loan, that is disbursement and that is only reduction and not adequate disbursement during this quarter. So the cash that are coming into the system is in addition to the securitization book which we have done in the last quarter and the previous quarter. The company was in bit of a cash surplus during this quarter. This was deployed in mutual funds and this translated into the income from mutual fund.

Elizabeth John: Okay, where was that deployed you mentioned, mutual fund?

Subhasri Sriram: Only mutual funds and to some extent the fixed deposit.

Elizabeth John: That is because we did not have additional disbursements in gold loan. So we have the surplus cash and that is why deployed, is that it?



- Subhasri Sriram:** Gold being a shorter tenured asset, so when reduction happens and not growing at a same pace that we did in the previous quarter, then cash is lying with the company which also sort of explains why the capital adequacy also shot up from 16% to 19%. The gold, which is gold loan book which is doing 100% risk-weighted assets vis-à-vis cash which is 0% risk-weighted asset.
- Elizabeth John:** Okay, that is why it is moved over there.
- Subhasri Sriram:** Yes.
- Elizabeth John:** And the increase in provisions on quarter-on-quarter basis?
- Subhasri Sriram:** As I explained earlier both in terms of gold loans and in terms of all other products that will increase. So if you look at the product growth and in terms of rupee terms, I think the balance sheet is growing more than, excluding gold the growth is over 27% AUM growth earlier in the year. So it is more to affect the business.
- Elizabeth John:** And the last question is you mentioned regarding the decline in disbursements for gold, that was largely because of the LTV right? That is what you mentioned and further the recognition was that we are like earlier 90 days average price, further reduce by some amount, was that the only thing or other things also have led to the decline in disbursement for gold loan?
- Subhasri Sriram:** No, significant important movement is only this. Because of this, there are certain changes in the profile of the borrowers, like borrowers would otherwise looking for higher LTV, but the only conscious move from the company was to reduce LTV and they started off last quarter, previous quarter and we continue to still maintain but it is only that now most other lenders are fall in line with our LTVs.
- Elizabeth John:** So that was related to the conservative LTV policy of average of 55-58%, so prior to that how much would it be roughly?
- Subhasri Sriram:** At different periods, it would have been 15, but I am saying with the 5% reduction it is Rs. 50 down.
- Moderator:** Thank you very much. Our next question is from Rishendra Goswami of Locus Investment. Please go ahead.
- Rishendra Goswami:** Just wanted to know since you have now moved to 150 day DPD, is the entire portfolio under 150 day DPD now or you have some more provisioning left towards that?
- Subhasri Sriram:** No, the entire book is at 150 day DPD.



- Rishendra Goswami:** Okay fine. So where do you see the provisioning stabilizing for FY14?
- Subhasri Sriram:** In terms of recognition norms or in terms of NPA norms, in the percentages?
- Rishendra Goswami:** In terms of percentages or just the absolute amount flowing through the P&L.
- Subhasri Sriram:** Absolute amount again will not remain the same because I think if you are still looking at 30% growth. We definitely are not seeing a reduction in percentage in the NPA right now, but at the same time we would probably say with confidence that we do not see any big spikes in the NPA terms.
- Rishendra Goswami:** Right, you provided about 2.4% of AUM if you look at the year end number.
- Subhasri Sriram:** And just wanted to probably little bit highlight here that when you do a securitization in the quarter ending which is about 15% of the book to some extent product level percentages.
- Rishendra Goswami:** Sure, for next year you are looking at somewhere around in that 2% type range as percentage of the AUM?
- Subhasri Sriram:** Definitely, not anything more from that.
- Rishendra Goswami:** This year also was a big write-off year overall, do you expect some recoveries from the written-off accounts?
- Subhasri Sriram:** I think we have already sort of saying we have seen recoveries from these two. We will continue to follow the policy of write-off and as we recently said that write-off is where we ensure there is something does not carry any inside affect and there is no overstatement of the income. While that we say that, we continue to at no point of time this portfolio is out of our attention for recovery. So the team which is looking at it collectively continue to focus on this portfolio and we continue to see recovery from this.
- Rishendra Goswami:** So do you expect what? 50% plus kind of thing?
- Subhasri Sriram:** What we have seen in the past is at least about 25% of the portfolio which has been written-off as record within next four quarters.
- Moderator:** Thank you. Our next question is from Ameya Sathe of JM Financials. Please go ahead.
- Ameya Sathe:** One question on the gross NPL side, can we have the gross NPL number excluding gold loans in absolute terms?
- Subhasri Sriram:** Absolute terms in terms of March 13?



- Ameya Sathe:** Is it possible to share?
- Subhasri Sriram:** Yes 233 crores.
- Ameya Sathe:** And for the December?
- Subhasri Sriram:** December 203 crores.
- Ameya Sathe:** And second question on the cost of funds, this quarter we witnessed substantial decrease in cost of funds. So any reason for that because these numbers are changing borrowing composition.
- Subhasri Sriram:** Not very significant. I think this is mainly on account of securitization transaction and as I earlier mentioned, there is always a little bit of trailing affect of seeing the benefit of foreign trade. So some of the interest rate reduction happened in the previous quarter, but you will have PAT reduction after the first rate cut of RBI. So it has taken a couple of quarters to see the complete impact on the balance sheet. So the 25-35 basis points cut is two quarters back, I think it just started seeing benefit. So now whatever we are now seeing in December and March, we should start seeing that benefit in our balance sheet or seeing it in our balance sheet in the next quarter, but from an incremental borrowing definitely we are seeing at least 50-75 basis points cheaper in the previous year.
- Ameya Sathe:** Okay and this securitization done during the quarter, the quantum is around what 675 crores?
- Subhasri Sriram:** Yes, that is right.
- Ameya Sathe:** And what will be PTC of that, you said 100 crores?
- Subhasri Sriram:** 100 crores cash flow and the amount received that is net of our interest component and the margin is 67 crores and the portfolio securitized 611 and portfolio assigned is 67 during this quarter.
- Ameya Sathe:** And just a last question on this gross NPA recognition, if we would have followed 180 days DPD, you said gross NPAs would have been the same as last year right?
- Subhasri Sriram:** That is right.
- Moderator:** Thank you. Our next question is from Umang Shah of CIMB. Please go ahead.
- Umang Shah:** Ma'am, just a couple of question. One, I am sorry if I am being repetitive, but I just wanted to know that do you have any plans to incrementally move towards 90 day DPD kind of NPA recognition irrespective of what comes into the guidelines by the RBI?

Subhasri Sriram: I could definitely say no, we will continue to maintain the 150 days on. We definitely think we as a company and as a group we believe 90 days is not probably appropriate benchmark and we will continue to believe that 180 itself is a more adequate and more appropriate. I think it is more from a company point of view that we looked at 150 as a prudent mechanism. So we did not want to carry any in fact assets, but going forward we will continue to stay at 150 and not proposing to change either at 120 or 90.

Umang Shah: Okay, but if at all let us say, given that the RBI comes up with a final guidelines in line with what they have stated in the draft guideline, what kind of impact could be seen both on P&L as well as on the stock of NPA?

Subhasri Sriram: There is two ways to look at it. One is the probability of event happening. So we believe that it is not too high. Okay, second is if in a scenario it does happen, we expect the timeline of compliance even in two to three years window. Now if both these to be done, it will happen and 2-year or 3-year window is given, then this question comes to whether the company needs to maintain the same coverage ratio. So we can actually maintain this with a lower coverage ratio instead of having 70% plus coverage ratio. We could settle at 50% coverage ratio. It is probably again mean that there is no particular additional requirement required. Okay, now to answer your question maintaining 70% plus coverage ratio, moving to 90 day DPD and all to be done at one go, probably at this juncture, at this balance sheet with this portfolio, we probably see a 90 crores impact and probably even lesser may be close to about 80 crores because of standard asset provisioning and other things which is taken care of.

Umang Shah: I understand and just one more thing, you mentioned that the probability of the event happening itself seems to be low. So is it that you as in all the NBFCs together are kind of in consultation with the RBI regarding this?

G. S. Sundararajan: Yes, we have been working quite closely with RBI and the Finance Ministry on this and we also have the stakeholders who are our customers who also have been taking up with RBI, trying to reason out with them in terms of the increasing tolerance required for this category of customers because of the irregular cash flows and all that. That is one of the reasons why the whole thing is being delayed and we still don't have a certainty of when it will come, but having said that we definitely are not also sure that this will not come, only thing is that the probability is much lower than what it was one year back.

Umang Shah: I understand. Just one more question that I had regarding TPG wherein we have also proposed something what Shriram Transport did regarding reverse mergers. So any timelines by when TPG plans to exit its holdings?

G. S. Sundararajan: TPG is very clear that they are doing this exercise of giving themselves liquid shares by down streaming the mezzanine vehicles primarily because they have seen that experience which



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Shriram Transport it took about nine months. So they want to ensure that they are there in liquid form as soon as they can in Shriram City. They have made it very clear that they have no intention to exiting for the next 2-2.5 years and we are inclined to believe them because they are very good partners with us.

Moderator: Thank you. Our next question is from Nischint Chawathe of Kotak Securities. Please go ahead.

Nischint Chawathe: Just wanted to crosscheck some numbers. You did mention in the call that your gross NPLs excluding gold loans and absolute amount has moved up from 203 crores to 233 crores from the third to the fourth quarter. So does this mean that your gross NPLs in the gold loan book have moved from 23 crores to 61 crores.

Subhasri Sriram: That is right.

Nischint Chawathe: And any specific trend or how do we read these numbers then on the gold loan side?

Subhasri Sriram: No, on the gold loan side I think one number is once you moved to 150 day norm and as I mentioned earlier that we do have portfolio which is tenure is extending from 4-5-6 months and one point I need to bring out here is that as the lending tenure which used to be one year in the past which is the tenure for recognition for the post recognition, we have reduced the tenure of the agreement from either to 6 or 9 months now. So I think that is a big differential. I think I need to bring that Nishchint I think we should able to bring this out but our lending tenure itself now in the last due date it used to be one year for lending and now got reduced to either to 6 months or 9 months depending on the borrow profile. So the recognition of NPA starts earlier than what it used to be in the past.

Nischint Chawathe: So that is something that has already been affected from the quarter end, is that the reason for the change or is it something that you saying incrementally?

Subhasri Sriram: The point is this tenure should start around September-October last year. So the portfolio being eligible for giving in the 6 months past dues....

Nischint Chawathe: So the other question is slightly qualitative, just trying to understand as to on an incremental basis now that all the employees already on your payrolls, etc. What would be the linkage which Shriram Chits on an incremental basis because the reason why I am asking is that there have been some of the media reports about the chit fund business and specifically after some concerns have been raised on chit fund business in distant parts of the country. There is some thought process developing that there is going to be regulation out there more for some of these entities and in that case or in that scenario how does Shriram Chit business gets linked, what could be the impact on Shriram Chit business at that point of time?



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G. S. Sundararajan: Many other market related issues which had cropped up, I do not think I as a media or anybody who is talking about it have looked at which is the company which is defaulting in West Bengal. That company is not a chit company. Chit Association has taken it very strongly with the media with somewhere along there it is a corporate which is not authorized to collect deposits, it is going and collect deposits. Unfortunately because it is small ticket and because it is more particular category of customers, people have decide it labeled it as a chit. It is not a chit fund business and therefore anything which is generating out of that as consequent should not be linked to chit fund at all. That is one part of the answer. The other part is as far as Shriram Chit is concerned even in the case of chit business, there has been some failure which has happened in the past, but Shriram survived all of that and because of the kind of infrastructure, network and equity that build around the community which each of the chit branches are doing that is what has helped the group to actually leverage and do all the businesses that we are doing till now and chit fund business continues to grow at about 10-12% and that will continue to be one of our major backbone in terms of providing the necessary infrastructure, although not in terms of profits.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Karan Uberoi for closing comments.

Karan Uberoi: On behalf of JM Financial, I would like to thank Mr. G. S. Sundararajan and Mrs. Subhasri Sriram of Shriram City Union Finance and all the participants for joining us on the call today. Thank you and good bye.

G. S. Sundararajan: Thank you so much.

Moderator: Thank you very much. Ladies and gentlemen on behalf of JM Financials Institutional Securities Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.