



“Shriram City Union Finance Limited Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Shriram City Union Finance Limited Q4 FY'14 Earning Conference Call, hosted by JM Financial Institutional Securities Limited. As a reminder for the duration of this conference all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference to Mr. Karan Singh Uberoi from JM Financial Institutional Securities. Thank you and over to you Sir!

Karan Singh Uberoi: Thank you. Good evening everybody and welcome to Shriram City Unions Earnings Call to discuss the Q4 numbers. To discuss the results we have on the call Mr. Sundararajan, who is the Managing Director and Ms. Subhasri Shriram, who is the Executive Director and CFO of Shriram City Union Finance. May I request the management to take us through the financial highlights subsequent to which we can open the floor for Q&A session. Over to you Sir!

Sundararajan G.S.: Good morning to all of you. While I will let Subhasri discuss in detail the numbers and all that, I just thought since we have had a key milestone, which has come about this time in terms of the board approval for induction of additional capital from the primary side from Piramal. I thought I will upfront talk about that, and then leave it to Subhasri to discuss the numbers.

Piramal as you all know has been interested in coming into the operating entities as well as in the holding company, which is Shriram Capital. We had completed the deal of Shriram Capital for 20% issuance of shareholding for Piramal and that happened about 10 days back. We had completed the documentation and the money also came in. At the same time, you are also aware that Shriram Transport when TPG had exited their stake there Piramal had taken in 9.9% there. At that point in time, Piramal had expressed its keenness to be part of Shriram City Union Finance also. Given the capital adequacy we had and the fact that it is also a growing concern in terms of all the lines of businesses we have. We did have our discussion and we have concluded that by accepting his interest in the board, and we will be awaiting shareholder approval at this point in time. It is definitely going to be completely different set of capital adequacy numbers for us this year. And we do believe that while with the kind of growth which we will be projecting for the next two three years while we did believe that we will have requirement for a QIP or getting additional capital from the market two years later. That is something which we may not require now with this coming of the strategic investor Piramal into Shriram City also.

I think it is a lot more positive in terms of focusing on our business, focusing on what we need to grow all the lines of businesses, rather than running around for capital and that is something which is a positive thing which has happened now. Over to Subhasri on the numbers!

Subhasri Shriram:

Good morning. Thank you all for joining the call. As you must have seen the results, two important things; one is the result and the second is our preferential allotment. As you must be aware that the shareholder's more have approved it and we await the shareholder's approval, which is expected on May 30 and post that the construction should get consummated.

Meanwhile in terms of the performance of Shriram City's last quarter and fiscal year 2014 we have recorded an income from operations of 3173 Crores and a net interest income of 1822 Crores. Profit after tax for the year recorded a 16% year-on-year growth and is at 4021 at a standalone basis, and on a quarter-on-quarter basis the profit after tax recorded a 14% growth. The AUM I think as most of you would have by now expected was slightly lower than our last year March 2013 numbers, closed at 14668 Crores. The year witnessed 7% growth in AUM, but this has been largely on account of drop in our gold loan portfolio. This portfolio has dropped over 49% year-on-year and an 11% dip over last quarter. This was in spite of a higher disbursement during last quarter compared to previous quarter.

The AUM interest segment is around 2453 Crores now contributing 17% of the total AUM and this is compared to last quarter it was 30%. The company continued to focus on our small enterprise finance segment. This segment now contributes 51% of total AUM as against 40% as at March 2013. This segment recorded a 17% growth on AUM on a year-on-year basis. Two-wheeler segment continues to be very robust at 30% growth year-on-year and now contributes 18% of the total AUM. This last year was at 13%.

The disbursal for the year March 2014 was 15448 Crores and excluding gold 10981 Crores. Gold loan disbursal dipped by 50% as compared to financial year 2013 disbursements. Disbursals excluding gold loan segment grew at 30% on a year-on-year basis. This is not completely reflected in the AUM because mainly on account of shorter duration loans during last year. We are yet to go increase the tenure of the loans. That is more or less reflected in lower growth in AUM in spite of higher disbursements.

Net interest margin continues to be very comfortable, March 2014 11.95% as against 11.35% March 2013. This is the year the yield and assets was at 20.81% again higher than the previous year. Cost of borrowing including the mobilization cost which is all being factored upfront at 10.9%. The spread therefore is 11.33% corresponding figure for the previous year was 9.53%. Preprovision profit as a percentage to total AUM for the year

ended March 2014 was at 4.75%. The same for previous year was 4.26%. The gross NPA as of March 2014 2.67% and net NPA 0.6%. Here I just need to bring to your notice this probably was not there in the results submitted but the company has now shifted moved back to 180 days. Just to clarify, the same is only valid for the incremental assets therefore there is no write back or change in the provisioning made till last quarter. Only assets incremental from January 1, 2014 is now going to be recognized at 180-day norm against 150-days norms recognized in the past.

This is more in line with the current changes in the regulatory framework and the company report is being submitted last quarter the company continues to be confident that I think the Usha Thorat Company report is probably behind us right now, and we are quite confident that the new regulations will be more in favor of NBFCs and we will not require to have any additional provisioning at 150-days norm.

In absolute terms the gross NPA was 340 Crores and net NPA at about 76 Crores and the company continues to have extremely well covered in terms of provisioning. Currently, the coverage is 77.6%, corresponding was 63% last year. The return on average networth for the year ended March 2014 was 20.22% and return on average total assets post that 3.18%. EPS close to Rs.90 per share for the quarter and book value per share at 491.97 as against 403.93 last year.

Very healthy capital adequacy it is getting even better with this proposed issue. Currently, the capital adequacy is 26% with tier I at 20.18. If in case this transaction gets completed the tier I capital is likely to go close to about 25%. As at March 2014, the borrowing mix continues to be with banks at 54%, retail borrowing 28%, and 11% through public issue. During last quarter and beginning of this year, this new fiscal we have completed two rounds of public issue of NCB of 200 Crores each. The first issue we have completed at 153 Crores and second issue was oversubscribed and we are closing it at 200 Crores. The weighted average tenure of our total liability is around 26.6 months and in terms of assets continues to be close to 15 to 18 months. The combined tenure of borrowings including wholesale and retail including on books is 24 months as against with our liability of total books at 27 months including gold loans.

During the year securitization transactions were at 1200 Crores more or less even 600 Crores in two quarters. We continue to get support from almost all banks. We continue to have and this constitutes 13.21% of total assets under management. We did a AAA rated asset and a AA rated pool. Incidentally, the company also got a rating upgrade during beginning of this new fiscal. Currently, the company is rated AA by both CARE and India Ratings as well Erstwhile Fitch and AA- by CRISIL. The highest rating in all its short-term borrowings this is a worry for us fixed deposit program also.

Coming to our subsidiary Shriram Holding Finance Limited, the company sanctioned a loan of 490 Crores and disbursed 357 Crores. As of March 31, 2014 the AUM was 320 Crores. The networth of this company as of March 2014 is 345 Crores and the book value per share at Rs.16. The company currently operates out of 47 branches as against 43 last year. Over to Karan! Thank you so much.

Moderator: Thank you madam. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Rohit Shimpi from SBI Mutual Fund. Please go ahead.

Rohit Shimpi: Good morning. My question is actually on the capital raise and the related use of funds. Sir, you had been quoted in media saying that possibly the group would be looking at acquisitions also. Does this specifically indicate preparation for any such acquisition in Shriram City?

Sundararajan G.S.: There are a couple of reasons why the group never looked at acquisitions. One of course is the fact that we are in niche businesses and culturally we are quite different from what is there in terms of companies and people in the market. There of course is the fact that we were always hand-to-mouth in terms of our capital and the kind of funds we had for any such prospects. I think with this differential if you run with the additional capital, we are getting at least the second part of it will get addressed therefore we can slowly try and change our attitude in terms of trying to see are there light minded companies especially in the areas of housing finance for instance where they are still very small and we can definitely look at opportunities. It will also help us to buy portfolio. I do not know if you guys recall that GE portfolio was brought by Shriram Transport a few years back and that is something which is not really taking over the people and the company but really taking over a portfolio, which we know can give us a quantum jump in terms of our growth. So therefore we will be looking at maybe company related acquisitions or something like a housing finance and obviously portfolio buyouts if it is possible in other areas which we are doing business in.

Rohit Shimpi: The other question I had was on the growth outlook going forward for the non-gold piece now. It has been a bit flattish on QOQ basis and it is down to about just to close to single digits on YOY basis. How are we seeing that in different businesses now? What is the outlook and the growth appetite?

Sundararajan G.S.: On the non-gold side, we do not have a quite robust idea.

Subhasri Shriram: On the non-gold I do not think we have gone to a single digit growth. More importantly, I would say that as I mentioned earlier that we have been a healthy disbursement. So, we

continue to get business but I think the change has been in terms of the tenure of our assets. We have shortened the tenure and we are less likely to give five-year loans now and more granular the loans are. I expect that while the disbursements are to grow, the AUM growth will likely to be seen only with the macroeconomic change. This fiscal I think with both two-wheeler and SME complete stabilizing at least in these two products, we should see a 20% growth. Probably the drag effect has been on auto loans where we have seen more than 20% drop. That again has looked again to macroeconomic settings for us to reverse again.

Rohit Shimpi: Is there any aspect? Can you explain how the small business loan profile has actually changed? Have you cut the tenures there also?

Subhasri Shriram: Most specifically. You must have noticed that in the last two quarters, the average tenure has come down. It has been a gradual movement moving from five year loan to four year to now three and two years. Therefore, this has not happened overnight. It has been there for the last one and a half years. With disbursements not visible the AUM growth has not yet completely visible.

Rohit Shimpi: What is the rationale for that actually? Why we changed the product profile?

Subhasri Shriram: I think with the economic conditions, we feel that the asset valuation and the collateral valuation, we would like to relook at it and definitely in our product unlike housing finance companies and infrastructure companies, their interest rates are fixed when we lend to customers. So we would like to have a revisit that before we make a long-term commitment.

Rohit Shimpi: Thank you so much. That is all from my side.

Moderator: Thank you. The next question is from the line of Nikhil Garg from BNP Paribas. Please go ahead.

Nikhil Garg: Good morning everyone. My question is how are you seeing the impact of rural slowdown on the overall growth not for your company, but overall growth in MSME credit and the asset quality not only for yourself but for the industry in general?

Subhasri Shriram: Did you mention, rural?

Nikhil Garg: Yes, rural areas.

Subhasri Shriram: Shriram City does not do business as much as rural as some other finance companies are.

Nikhil Garg: There will be a growth effect, right?

Subhasri Shriram: I think it is not very relevant because our business is largely in the tier II and tier III towns. We are not financing and definitely we are not doing the farmer financing. It is for the other business activities and not completely allied to farming activities or agricultural activities, but again you are talking about slowdown, I think we are yet to see anything in our market.

Sundararajan G.S.: But overall in the industry is a slowdown because of two reasons, one is the fact that whenever there is a stress and economy and whenever there is stress with large corporates that actually cascades down in terms of cash flows for the MSME especially, the MSME, which are catered to by the banks and the larger NBFCs. So given that there will be delays there and that step will make the credit growth to slowdown that is something which definitely happens and one of the reasons why the MSME book of some of the players who are dealing with mid corporate segment. It is definitely going to go down, but as Subhasri was saying in our case since even today almost 70%, 75% of our MSME book comes from the chit fund businesses that community which we have been lending to always and those people are serving only their own local markets and none of them go even to outside the state to in terms of doing that business. So given that I think they are very local and the local consumption is semi-urban pockets which continue to be growing and to that extent we have not seen any dearth of growth in our segment.

Nikhil Garg: If you look at the entire MSME segment like you said that large part has catering to the local market itself. Can you break up your MSME segment into apart from these local players, what would be the large segment may be are there any small contractors or are there any small government contractors or road contractors or whatever?

Sundararajan G.S.: At a higher level, we are dealing with micro and the lower end of the small, if you look at the whole MSME segment and we largely have local traders, we have got some very small manufacturers and those kinds of profile. We have a very small business which we do in the western part of the country where we do deal with the medium enterprise segment as we call it. But that is very small in there, we have really not since our market shares are very low there even we have not seen any dearth of growth there also. But I think if you look at our own players who are catering to the local market. They are all catering to consumption in the local market and that consumption has not gone down.

Nikhil Garg: Sir, you also mentioned about the growth opportunities for next two, three years and because of which you have raised capital now rather than two years later. How much growth are you looking at and what segment are you looking to grow particularly?

Sundararajan G.S.: Specifically in the MSME segment as I said, we have a two pronged approach, one of course was to increase our penetration within the chit fund geographies and the chit fund customer base which we have and since we have less than 15% penetration of the chit fund

customer base we do believe that we can grow in the segment for the next three years, may be at least one-third to 40% of the chit fund customers we will continue to be available for us to be graduated into tough credit. On the two wheeler side, we are amongst may be handful of players who are doing extremely well in terms of the overall portfolio management and because we are in Tier 2 and Tier 3 dealers, the dealers are favoring as a lot, because we are able to give them enquiries a lot more than what other people do and given that I think two wheeler business with a kind of ROAs we have and on the ground management which we do is extremely efficient that has enabled just to have that kind of ROA, therefore we believe that as long as we do that well that again will continue to grow. There are market share again a very small, therefore we have large scope for us to do. MSME and two wheelers, we see significant growth coming in over the course of the next three years and gold because it has come down to a much lower than what we really expected we do believe, we have underground strategies for us to ensure that we enhance this back to 20% plus of overall portfolio.

Nikhil Garg: Do you think from 17% right now if it grows above 20% then basically you are looking growing little faster than the overall company?

Sundararajan G.S.: Exactly.

Nikhil Garg: So, that is primarily led by again the increase in either geography or more of increase and productivity of the branches?

Sundararajan G.S.: I think what has happened in the last one-and-a-half years, when we consciously brought down the book, we did not want to bring it down to less than 20%, but what happens when you go and tighten loan to values and have a conscious effort in bringing down the book, the speed at which it came down was faster than what we have expected. So, today we really can afford to actually build that book in the same geographies we have by both increasing productivity as well as by ensuring that penetration in those market is much higher.

Nikhil Garg: I had one doubt in the mind, if you can clarify that. Right now, you are seeing that MSME growth is very strong for your company, how many of your customers actually you know deal with actually bigger banks also may be some of the PSU banks or regional?

Subhasri Shriram: The way one is that all of them have a current or savings account. If you talk about credit lines of our customers have with public sector or old private sector bank probably about 10% to 15% of our customers would have had some past credit lines or some very, small overdrafts for the moment, that is all maximum.

- Sundararajan G.S.:** Because 80%, 85% of our customers are unbanked. It is only the balance 15% were under banked, so to that extent that percentage of customers who may have bank lines, but it will be very minuscule, it will be a very smaller overdraft facility, which is what the banks are willing to do for them and to that extent they are willing to take term loans from us also.
- Nikhil Garg:** And you do not see banking penetration going up in those areas over the next few years?
- Sundararajan G.S.:** Actually if you look at it Subhasri has been going and meeting most of the large banks and telling them that you will never be able to understand this business, why do you allow us to partner with you and then allow us to core share in terms of losses. We have even gone to the extent of saying we will be buying out anything which is beyond 90 days, but there has been very little response. There is an inherent apprehension in the minds of the bankers that this segment is not something which they understand well and they will be able to manage the collection fees as well as what we do. So, I do not see any big spurt in bank lending to MSMEs at least in the micro and the small parts of the MSME in the near horizon.
- Subhasri Shriram:** I am surprised, because of Tier 2 and Tier 3 towns, you said that the large presence is in and now even guys like HDFC Bank and all our expanding in those towns Tier 2 and Tier 3, so why would not they be aggressive in MSME lending over there?
- Sundararajan G.S.:** I do not think we have any dearth of buying branches in these areas, if you look at take SBI for instance. I do not think we have any dearth of bank branches in these areas if you take SBI for instance they have so many branches across all the taluks across the country and HDFC Bank also is going through all that, but I think in this behind specifically is doing this more from a liability standpoint than from a credit standpoint and as long as the risk aversion is there it is largely in my opinion. Nikhil just to complete my response it is more related to the fact that the risk aversion has been noted here both by RBI and by the banks themselves. So therefore while people may have branch presence there I do not expect them to actually go ahead and even reasonably aggressively lend to MSMEs because they believe they do not understand the business and again the other thing I want to make a point here is anything which you do as one more vertical in a large bank which is what most know universal banks are all about. It will never be sustainable because this is a segment where we have to completely be there that should be your bread and butter because they go through ups and downs in terms of their own cash flows and there is a lot of pressures which are there on a day-to-day basis in managing those accounts. So unless there is a very concerted effort from banks to learn this business and then do it consistently this is not going to, we will

continue to have the deficit, we have on funding which will goes to NPA to MSMEs.

Nikhil Garg: Sir one last question from me. If there is a stable government at the center would that change materially your growth outlook for your business or any ways you are growing well or it would continue to grow at a historical growth rates?

Sundararajan G.S.: I think if there is going to be not only a stable government more related to some of the policies which are there, some of the stuff which the Nachiket Mor Committee has recommended since RBI does manage to implement those recommendations which are largely in favor of NBFCs those will be definitely what do you call more than enough for us to maybe step up our guidance in terms of how much we will grow, but without that we do believe we can have at least a 15% kind of growth in the MSME and the two wheeler business with that support we will obviously be able to do much more.

Nikhil Garg: So basically a stable government and the growth in the general economy that would not change materially the outlook of the business?

Sundararajan G.S.: Not in the current target market wherein two wheelers yes two wheelers will definitely go up significantly because today the two wheeler business also is not doing well in terms of vehicle sales and as we were mentioning earlier the auto business also is largely related to the market in terms of growth. So if those are going to grow it is only going to add on to the overall growth which we can project.

Nikhil Garg: Thank you very much.

Moderator: Thank you. The next question is from the line of Ketav Shah from Anand Rathi. Please go ahead.

Ketav Shah: Good morning everybody. Congratulations on your good set of numbers Madam. My question is related to your NPA provisioning policy so we have now moved back to 180 days on all product lines?

Subhasri Shriram: Yes all product lines but business originated from January 1, 2014. So whatever the assets which are there on the book as in 2013 where there has been

provisioning because it has hit the 150 day norm. It has not been reversed to anything we continue with 150 day norms.

Ketav Shah: There was continued to be, so there has been no reversal of provisioning?

Subhasri Shriram: No reversal complete, no reversal or write-back of any provisioning which has done in the past, only for the incremental mode.

Ketav Shah: Just some though process there additionally. So you all actually saying that this is since no longer going to come it does not make sense?

Subhasri Shriram: Exactly and I think it when we are trying to explain to Reserve Bank that why 180 day is a requirement, I think it is best way is to do it ourselves at 180 days. There is no point moving to 150 and then request for 180. We have to continue to pressurize and explain our view about 180 day being relevant I think the best way to start is that we should be at 180. Earlier we were a little concern from being more of conservative but I think after the report coming from Nachiket Mor Committee and which has given a heads up on this I think it is absolutely fair that we should move towards the old model of 180 days and the fear about Usha Thorat Committee being implemented it should be went up.

Ketav Shah: One other question is on NIM outlook so while our product mix has been changing towards high yielding portfolio and that has benefited in terms of NIM. How do you see that going ahead?

Subhasri Shriram: It is a product mix as we have suggested we should still have a gross lending rate over 20% and a little over 20% and with reference to cost of funds I think the universal consensus is that rates will come up at least during the end of this year, not in the first two quarters at least from Q3 onwards, so we really do not see any stress or pressure on the NIMs and we should continue to have over 11%.

Ketav Shah: One final question, it is on the NCD route debenture through in the New Companies Act. So I know you have represented to the concerned authority but any views there?

Subhasri Shriram: Yes we are still awaiting feedback from I think post election results and the government I think that is not going to happen in the immediate. So but while we

are waiting for this I think the company is quite comfortable and I think also a couple of days back there has been a clarification that 293 resolution earlier taken is valid for 181. So I do not think there is an immediate pressure in terms of, if in case company needs to raise money there is an option available without going to shareholders for approval immediately but with reference to DRR and SLR I think we await for a clarification.

Ketav Shah: Thanks a lot.

Moderator: Thank you. The next question is from the line of Jigar Walia from OHM Group. Please go ahead.

Jigar Walia: Madam, congratulations for the numbers and also the fund raise quite fantastic. Madam couple of queries; you have explained in terms of growth coming in from for MSME and two wheelers but keeping this thing apart normally what is the strategy for SCUF going ahead particularly in the backdrop of two things last year we saw the gold portfolio rundown and a lower tenure portfolio running down and now that is also quite adequately very healthily capitalized pre fundraise and more particularly post fundraise. So the preference for higher yielding and short duration portfolio versus a more stable in a higher tenure but may be slightly lower yielding portfolio maybe a trade of between the two going ahead, maybe slightly longer in there?

Subhasri Shriram: Let me clarify I think Shriram has never gone in terms of choosing or looking at margins as for a reason why we should get into lending. I think it is more appropriate that where there is an dearth of capital and where there is an appropriate fitness for Shriram is where we get into. It is not I do not think is search for go out of the way to find products which is looking attractive optically looking nice. So we continue to look at the credit stock markets where our MD just clarified that banks continue to keep away from it irrespective how close if the customer is to their own branch banking but the segment continues to not miss out and Shriram will do it and it is a question of the market and the security angle which will decide whether we take a longer call or a short duration call and appropriately pricing the product for the risk and the cost of servicing and many at times I need to clarify that Shriram's pricing is not definitely in terms of a complete market relevance it is also to the understanding what is the cost of

servicing. Some of the loans are managed well because we price it correctly. Not necessarily it looks attractive. So we will continue to focus on the MSME category of customers. The price will reflect the risk and the cost of managing the portfolio. Gold is not because of low yield that we have kept away. It is a question of the market dynamics on the gold and the regulatory challenges which was prevailing last year. Now with that stability, I think, gold will continue to be the irrespective whether being a low yielding product and for us gold, I said earlier it continues to be a way of acquiring customers in the MSME space. Shriram City lending to customers is largely relationship backed and not a transaction backed lending and gold will move towards relationship lending and from erstwhile what has been done as the transaction banking and this will move to increasing our customer base for MSME.

Jigar Walia:

This is interesting and can you throw some highlight that while our gold loan portfolio went down how much of this we would have converted these clients to and MSME clients?

Subhasri Shriram:

Not so much last year because it still the gold price was completely more either volatile to the lender or being very flat but what we have definitely build is a couple of thousand customers whom we see potentially a long-term association with. We are right now in a very low profile or small loans, but definitely in a positive macroeconomic scenario we were extremely confident that this couple of thousand customers will move to our long-term association and moving from a three months gold loan to a two to three year business loan. This is likely to happen sooner than later we just waiting for the green signal from the macroeconomic numbers for us to take a view on that.

Jigar Walia:

Great, madam a follow up on this MSME. We said that we are still sourcing say may be about 70% of our business comes through the chit fund based, two numbers. One is on what is the size of the current chit fund base? Second when we are sourcing clients from the chit fund primarily attracting are ideally we would be first attracting the first bidders who are normally in the normal chit fund process, the way it would go, those would still be some decent yielding bidders. So as we increase penetration through the chit fund base is it that as we move on to the second category bidders, the second bidder, and the third bidder the yields may come down slightly?

Sundararajan G.S.: I think overall in terms of the number we have about 3.5 million customers of chit fund and the chit fund business which are there in all the four states in which we are doing business. Today we have about 0.5 million to 600,000 customers who have come into the top fold from that particular customer base. If you look at it the chit fund customer base consists of savers and borrowers and it is not that the saver permanently remains as a saver and the borrower does not save at all. That is something which keeps alternating. As long as we have enough comfort on the business that is why we are saying we will never be able to penetrate 100% of chit fund customers. Our belief is from the kind of profile which are there in specific markets. We believe that we can definitely do 35% to 40% penetration over a period of time and that whether over a period of time also depends on the state, on the evolution of that customer business and how much of credit he needs and does he really need this kind of a credit for him to grow. Those are things which we assess and that are why the penetration has been relatively slow like in the last five years we have penetrated only about 13%, 14%. It is because we are not in a hurry to do that we would like to do it only where we know the customer needs funds to growth and while we have not lent as much to savers as we have done to borrowers we also know that that keeps changing and therefore we will continue to have the opportunity of having a track record of borrower they are in chit funds which we will use as well primary means of lending in the SME business also.

Jigar Walia: Sir the base for the chit fund would be what about more than 5000 Crores right now the year for the group chit funds.

Subhasri Shriram: It is about less than 4000 Crores.

Jigar Walia: Madam, I missed out on the branch numbers that you towards the end of your opening remarks?

Subhasri Shriram: I did not mention about Shriram City's branches. I mentioned about Shriram Housing branches. Shriram Housing is got 47 branches. Shriram City currently operators a little less than 1000 numbers.

Jigar Walia: Madam last question from my side, do we have any target for home loan business any numbers?

Subhasri Shriram: Definitely I think at this stage of the business cycle I think we should be able to comfortably double the AUM. We should see 100% growth in AUM and related numbers also.

Jigar Walia: 100% growth in AUM over the coming few years year after year?

Subhasri Shriram: No. I am talking of immediate one year. I do not think that progress I can give you right now.

Jigar Walia: Thank you madam. Congrats and all the best.

Moderator: Thank you. The next question is from the line of Mithun Soni from GeeSee Investments. Please go ahead.

Mithun Soni: A few queries on our different segments. One on the gold loan so post the changes what we have done are we changing the texture of the gold loan to whom we are providing the gold loan and for what is the tenure and anything like that?

Subhasri Shriram: No, see what I mentioned earlier gold loan continues to be as is the market. It is a collateralized lending but the only difference is that when you do this transaction you normally are indifferent to the customer or we are trying to know why he borrows and what the purpose of borrowing and how does he repay and all that. In verily when a gold loan your comfort comes from the collateral and less you are interested about the borrower and many at times it is reduced just to filling up of KYC documents, because regulator interest upon. We are just moving away from that and we have been looking at customers and that is our approach to lending itself across Shriram. So we are sort of mapping the customer, his business purpose of taking the loan and his ability to repay and this is what we have been working at it for a last couple of years it is not just a few months, and today we have 3000 to 4000 such customers whom we know and we have a long-term association with probably they are not borrowing adequately right now or the borrowings have come down in the last one year, I am talking of gold loan borrowings, at an appropriate time relationship will move towards a long-term association with the customers rather than a three months, two months loan.

Mithun Soni: So the idea is that you are saying that the gold is the way to look at it is rather than just using gold as one of the ways the customer is looking at you are saying that

there is a purpose of earning and for which the gold is used as one of the collateral so it is just like an SME but it is finance to gold?

Subhasri Shriram: Exactly because as you must have by now known that in Shriram the one way of customer acquisition SME is the chit fund which is a track record, a pre-approved track record. In many places we look for such associations. The gold is one way of acquiring customers into MSME space.

Mithun Soni: So as of now of the total gold loan customers what we were having how many of it broadly would be as a gold as a collateral for the SME business or that we club it as a part of SME?

Subhasri Shriram: No, it is clubbed as gold only right now. There is no change in the classification. I am saying these customers gradually will move to an MSME when the economy scenario changes when the business needs more money than what the gold can offer right now. Currently the customers are themselves are not in need of money right now their requirements was shorter but their economic thing does not encourage them to lend or borrow in a big space to grow the business.

Mithun Soni: That I understand. The idea is what I am trying to understand is that the characteristic of these customers are these in line with what we have as an SME customer or they are at the lower end of the value chain.

Subhasri Shriram: Not necessarily. It is both. There are lower end of the customers who require 5 lakhs, 2 lakhs loans there are customers who require 10 lakhs to 50 lakhs also.

Mithun Soni: What is the average ticket size of the loans we have here?

Subhasri Shriram: Since they have gold loan they continue to come in small tranche as and when they require since gold gives that flexibility. It can be pledged and taken loan on per unit basis and they can redeem it as and when they have the cash availability so from a transaction point of view it continues to be sub 1 lakh. But as an exposure over a sequence of transaction it can go up to 5 to 10 lakhs.

Mithun Soni: So one customer, overall will have an exposure were 5 to 10 on an average?

Subhasri Shriram: Yes, but over a period of time since the portfolio is built over a period of time.

Mithun Soni: The second thing is with respect to SMEs target what we are doing you said that we are reducing the timeframe with that tenure from five years to three years what is the primary understanding other than does it also has to do with the ALM mismatch or anything like that?

Subhasri Shriram: No. Purely it is a market. When we do have collaterals, we do have property loans, security and others, and interest rate as I mentioned earlier is fixed for the longer duration. Last year before we did not want to have a long-term commitment or long-term lending for fixed rates so more of 2013-14 and second half of 2012-13 we had moved in for a lower duration contracts.

Mithun Soni: But will this have sort of any change to our lending yields or anything like that?

Subhasri Shriram: Nothing to do with ALM, nothing to do. It is just are it is more a credit call rather than a treasury call.

Mithun Soni: These will be floating rate loans right?

Subhasri Shriram: All are fixed rate loans.

Mithun Soni: They are also fixed rate loans?

Subhasri Shriram: Yes, all are fixed rate loans.

Mithun Soni: But then in terms of the liability side we have 47% - 53% mix in terms of the floating, so how are we managing that part?

Subhasri Shriram: The only point as I mentioned earlier the liability is for a longer duration. The assets are for shorter duration so if the rates go up we have may be a two quarter window to reprice our loans if the rates go down it is up to us whether we pass on that to our customers or we hold on to the extent possible. So it will not be perfectly aligned. It is not a completely floating and not that be aligned with both our fixed liability.

Mithun Soni: On the MSME side in terms of the securitization in terms of the security what we have mostly we take property, house property or anything like that are we changing in terms of the security coverage requirement have we made any changes over there in the recently?

Subhasri Shriram: No that maybe I should add here that we are since the loan amount is we are looking at 2 to 5 lakhs loan quite actively in terms of the more of our portfolio are significantly incremental portfolio comes with a lesser property security.

Mithun Soni: Then what sort of security we get over there?

Subhasri Shriram: There it would be a chit lien. The amount which they have so far paid with share on chits is lien or pledged with us and other sureties we do not take property security.

Mithun Soni: But more or less 100% if the MSME will be secured portfolio?

Subhasri Shriram: Yes, 80% I would say 80% to 90%, sub 5 lakhs it could be only sureties and that is largely to only to existing and repeat customers.

Mithun Soni: Old customers what we have?

Subhasri Shriram: Yes, the old customers because it is not the first loan for the customer with Shriram Group. It could be a second or third loan after in the last year. Shriram City has been in the SME finance since 2006. We are more or less 3 to 4 cycles completed now.

Mithun Soni: In your earlier remark you also said that the growth we are targeting approximately 15% to 18% in the segment. I wanted to understand like on an average what sort of organic growth usually you see from an existing customer and how much of the growth you will have to get from the new customers so how will that trajectory be and how much of the growth you are targeting from other states other than the Southern India?

Subhasri Shriram: I would say breakup between repeat our second loan or organic thing and so many of customer origination I do not think we have a complete data right now. I think it is most in terms of getting the customers in rather than from where and who the customer is and the branches continue to make effort to seek out new customers, but it could be the new customer the loan exposure to be lower amount and the existing customer loan amount could be higher so in terms of AUM mix or the disbursal mix I am not sure about the percentages. With reference to your southern states and non southern states, in terms of growth percentages the non chit states

will be far higher but continue to contribute as maybe less than 20% of the total investment, but they are right now very small so the growth percentage might look very large but in the overall picture they will continue to be small. It will take a couple of more years for this to change significantly.

Mithun Soni: How has been the scenario for us in the Andhra Pradesh area, which is approximately if I am not wrong 35% odd of our total AUM?

Subhasri Shriram: Or even more but I think currently the thing about Telangana the political disturbance is behind us. Definitely we will have to see the end of the election results and since the state has gone for local elections also, but from a business point of view it is peace personified there is no disturbance and everything is as in the past.

Mithun Soni: But are we increasing our disbursements?

Subhasri Shriram: No we are not decreasing our disbursements. We are not unduly worried about Andhra. So that is the way I can say it. I do not think we have gone out of the way to do more lending in Andhra but definitely we are not going out of Andhra or get disturbed and worried about Andhra portfolio. No growth from Andhra.

Mithun Soni: So from the growth outlook perspective let us say for FY 2015, FY 2016 if we have to say what is the sort of growth rate we are targeting in each of these segments like MSME are we saying the 51 can go to 65 and accordingly grow faster what sort of mix and what sort of growth we are targeting for each of our segments?

Subhasri Shriram: Here I would probably like to say it is rather than a one year view we could look at a couple of years, three year view eventually Shriram City will have more than close to about 70% of its book from MSME. The balance 30% will largely constitute of two wheeler, gold and rest of the products.

Mithun Soni: So the gold can be in the range of about 15% to 16%?

Subhasri Shriram: Yes that is the question of about growth percentages so I do not expect gold to be a very large chunk of the book, but definitely I think we should be arresting during this year we fall in gold book. I am unable to give you a precise number. It is a

question of the growth percentages and what is in the balance sheet vis-à-vis what is the disbursement; the gold is shorter duration asset so unable to it is not, I could give you a precise number about percentages.

Mithun Soni: So as of now the MSME will be about 3 odd years the gold will be say about 12 to 18 months?

Subhasri Shriram: Gold will be six months.

Mithun Soni: Two wheeler and autos will be approximately?

Subhasri Shriram: 2 years.

Mithun Soni: So autos will also remain a part of the 30%?

Subhasri Shriram: Absolutely.

Mithun Soni: But within autos any particular segment we will focus on?

Subhasri Shriram: It will be largely used one used cars and three wheelers. More on the passenger route rather than the commercial vehicles.

Mithun Soni: So this year FY 2015 given the base now we have corrected can we say at least a 20% growth is something what we are targeting on a normalized basis?

Subhasri Shriram: Yes we definitely hope to do 20, but I think the best to have this call post election results.

Mithun Soni: Yes that is fair.

Subhasri Shriram: So there are no negatives no shocks and the economy is in the right track, if we are able to get back to 6% to 8% growth, I think 6% growth at least consistently for next three years then Shriram can look at a growth over 15%, 20%. If we are going back to 4% and 5% growth which is being a negative growth for the overall economy, it could be a challenge. It is for everybody not for Shriram for anybody who is in business.

- Mithun Soni:** One last question on our gross NPAs would you be able to share like what would be our gross NPAs percentage in MSME auto and two wheeler broadly?
- Subhasri Shriram:** MSME would be about 1.5, rest of them is about 4% and the gold is about 2%.
- Mithun Soni:** Gold we are facing any pressures over there because normally, usually we do not loose capital there?
- Subhasri Shriram:** Yes but we need to provide for it the tenure is lapsed.
- Mithun Soni:** Fair enough. Thank you. That is it from my side.
- Moderator:** The next question is from the line of Swati M from UBS. Please go ahead.
- Swati M:** My question is regarding the interest expense. If I see this has been a sequential decline but your borrowings have gone up quarter-on-quarter if you can just?
- Subhasri Shriram:** Interest expense borrowings on quarter-on-quarter, one is because of lower growth I think there has been less requirement to borrow it throughout the year and whatever you see it was the borrowing as in the quarter ending is more at borrowing during the last few days of the borrowing of the quarter and there has not been very significant change in the cost of funds. We continue to raise money at about 10, 70 odd rates so the cost of funds continues to remain quite stable.
- Swati M:** Madam just for book keeping can you just mention the net spread and the NIMs for this quarter?
- Subhasri Shriram:** The net spread is about 5.79 and NIM is about 13%.
- Swati M:** Thank you.
- Moderator:** The next question is from the line of Nikhil Garg from BNP Paribas. Please go ahead.
- Nikhil Garg:** My question has been answered. Thank you.
- Moderator:** Thank you. The next question is from the line of Nischant Chawathe from Kotak Securities. Please go ahead.

Nischant Chawathe: Do you see any seasonality in the business loan segment?

Subhasri Shriram: We should not but what we are now seeing is that I think the second and third quarter, since we have largely dependent on Andhra there was bit of a carryover or hangover whatever you call it that is some of the things which we could not complete in second quarter we did have to do it in third quarter. March has been quite I would say not the usual. Normally March in a different type of economic phase, I think March use to be little more active and more vibrant. We did not see that much in this March. That is typically not to do with the market condition. I think that largely the orders, the targets are quite and demands are also there in the market for March so typically March picks up but this time around it was quite muted I would say. So the seasonality has nothing to do with either with business cycle or farming or anything with the venture but it is more in terms of macro situation.

Nischant Chawathe: If I have to look at like the immediate term maybe next one or two quarters how would you see things based on this time would you have for the business right now?

Subhasri Shriram: I think the first quarter I could say we should be lucky if we are able to maintain the last quarter numbers.

Nischant Chawathe: Last quarter mean?

Subhasri Shriram: March quarter numbers.

Nischant Chawathe: In terms of disbursements?

Subhasri Shriram: Yes in terms of disbursements and I think subsequently all other parameters, actually the second quarter is slightly weak. It has never been very strong, but third quarter onwards it picks up then the festivals and everything comes up.

Nischant Chawathe: So broadly the business loan book could kind of maybe grew by 10% or be slightly flattish in next one or two quarters?

Subhasri Shriram: Yes it will pick up.

Nischant Chawathe: In terms of gold loans given the fact that the tenures have come down, would my assessment be right that you will need to increase the disbursements by like 200 – 300 Crores per month to kind of maintain the loan book?

Subhasri Shriram: Yes, I think growing the gold is not very difficult it is disbursement gold is not difficult it is to manage the tenure is difficult.

Nischant Chawathe: But now the tenure is broadly stabilized in line with peers. I mean is that the right way to look at it and then say that okay fine with the reality?

Subhasri Shriram: Yes, I am trying to actually find out the benchmark for us where I should benchmark ourselves with, because the banks are with the NBFCs. So I would probably wave we are somewhere in between so we will have to create our own benchmark.

Nischant Chawathe: But then in terms of things are still not stable so possibly things can still saying one or two?

Subhasri Shriram: Absolutely, that is why I am not in a position to give a very firm number on that, because gold is from tenure the market is active and more vibrant now but the tenures are still very unpredictable.

Nischant Chawathe: Thank you very much.

Moderator: Thank you. The next question is from the line of Aditya Shrinath from Quantum Mutual Fund. Please go ahead.

Aditya Shrinath: I just wanted a clarification you spoke about the MSME loan. There is the security peace the first time you are 100% secured. Next time and the third time when the person comes for loan I just wanted to get the clarification right so will you just explain a bit more?

Subhasri Shriram: Yes, see the point here is say first time around we might give him and say example of 5 lakh loan and if he secured but assume the third time of the six years, five years he comes back and we have settled the 5 lakh loan taken another 6 lakh loan the third loan assume it is a 10 lakhs loan the security might not be for adequate

for the 10 lakh component it could only be for the 5 lakh when a loan component.
So rest the part of the loan will be unsecured now.

Aditya Shrinath: But you will take securities you will take right?

Subhasri Shriram: That is what I said the security will never be given off but it will not be adequate the same coverage might not be there as it progresses. So when we are comfortable with the customer we do not insist on it there will be a small unsecured component also in the loan or lower coverage will be there.

Aditya Shrinath: Thank you.

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

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

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