

## Transcript

### Conference Call of SCUF

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#### *Presentation Session*

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**Moderator:** Good morning ladies and gentlemen. I am Moumita, moderator for the conference call. Welcome to Shriram City Union post quarter FY15 results conference call. At this moment all participant lines are in listen-only mode. Later, we will conduct a question and answer session. At that time if you have a question, please press \* and 1 on your telephone keypad. Please note, this conference is recorded. I would now like to hand over the floor to Mr. Karan Oberoi. Please go ahead sir.

**Karan Oberoi:** Thank you. Good morning everybody and welcome to Shriram City Union earnings call to discuss the fourth quarter results. To discuss the results we have on the call Mr. Sunderrajan who is the Director and Ms. Subhashri Shriram who is the Executor Director and CFO. May I request Ms. Subhashri Shriram to take us through the financial highlights subsequent to which we can open the floor for Q&A session? Over to you ma'am.

**Subhashri Shriram:** Good morning all. I will request Mr. Sunderrajan to brief on the initial performance and then I will start the presentation.

**Sunderrajan:** Good morning. Thank you Subhashri and thank you for all your participation. I am just going to make three broad comments after which Subhashri can take on detailing the results and after which I will be available for any questions as well. One is on the macroeconomic policy side, as in, the macro environment has not significantly changed to facilitate anything positive on the ground, things are remaining the way they are on the ground in terms of demand and therefore there is a lot of supply, which is available on the finance side in the segments in which Shriram City is operating. Second is we have had a reasonably good year despite not much help from the environment, especially on the top line, specifically in the two-wheelers and gold space. Third, I think, gold, we have been trying very hard for the last one year to actually move back to a 20%, 22% number in terms of the gold mix of our portfolio and that is something, which is positive where we have come back to a 20% growth on gold as well. With these comments, I would request Subhashri to take on the details of the financials.

**Subhashri Shriram:** Thank you sir. Good morning all today. On the standalone business, Shriram City is for the year ended March 2015, recorded a 9.1% growth in income from operations, and is now at 3482 crores as against 3191 crores for financial year 2014. Net interest income recorded at 16.2% growth as against 2014. Profit after tax is at 558 crores and this is over 7.1% over previous year profits. For the quarter March 2015, profit after tax was 149.6 crores; this is for Q4 as against 142.94 as in Q3. Asset under management recorded a 14% year-on-year growth and now is at 16,717 crores. Small Enterprise Finance, which is our main focus, continues to contribute over

50%, two-wheeler loans and loan against gold constitutes 18% of our books, and the balance constituted by auto loans and personal loans to our retail customers. Small Enterprise Finance recorded a year-on-year growth of 19%, two-wheeler loans 16%, and loan against gold grew by 20% on a year-on-year basis. Loan disbursement for the year stood at 17,202 crores, a growth of 11.36% as compared to FY2014. For year ended March 2015, yield on assets on total assets under management was at 22.19% as compared to 20.93% in the previous year. Our net interest margin at 13.63% as compared to 12.07 during the same period previous year. Gross NPA as of March 2015 stood at 3.12 as compared to 2.67 in March 2014 and 3.02 in December 2014. In absolute terms, gross NPA increased by 30.4 crores over the last quarter. The coverage ratio continues to remain healthy and it is 78.3% as of March 2015. During the quarter, right now we are at 84.55 crores as compared to 83.92 crores during previous quarter. Gross NPA including write off was at 3.64 in March 2015. We continue to have a healthy capital adequacy overall capital adequacy being at 29.55% and tier 1 alone constituting 25.32%. Return on average net worth for the year ended March 2015 is at 15.84% and return on total assets post tax is at 3.24%. During the quarter, fresh securitization transactions to the extent of 300 crores were executed and the (not clear) as of March 2015 is at 5.81% of total AUM. Borrowing as of March 2015 for the year was 12402 crores and bank borrowing constitutes 53% total borrowing. Our retail borrowing continues to be over 30%, the balance through public issue and market borrowings. We continue to have a healthy mix of fixed and floating rates. As of March 2015, more than 52% of our borrowings are on a floating rate, predominantly benchmarked to the respective bank based rates. And the balance are fixed interest rates for the balance tenure. And the weighted average tenure as of March 2015 is 21 months of total liability.

On our subsidiary, Shriram Housing, Asset under Management as at March 2015, is at 737 crores, a growth of 130% on a year-on-year basis. Profit after tax for FY14 is at 20.19 crores, a growth of 41% on a year-on-year basis. The company is currently operating out of 72 branches. From a comparison point of view, this is the first year the company is on a debt, till last March 2014 the company funding out of its equity. So, in terms of comparable, this is the first year the company has interest expenses and probably a reduced quantum of other income. Thank you Karan, happy to answer questions.

**Karan Oberoi:** Yeah, we can start the Q&A session please?

*Question and Answer Session*

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**Moderator:** Yes sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press \* and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request you may do so by pressing \* and 1 again. We have our first question from Mr. Kartik Chellappa from Buena Vista Fund Management. Please go ahead.

**Kartik Chellappa:** Thank you very much for the opportunity. I have three questions. Firstly, more about the AUM mix. I understand that we have been consciously trying to bring down the gold mix and increase the portion of the small enterprises and two-wheelers, but this quarter I see that on a sequential basis, loan against gold is actually grown faster. So, going forward, how should we think about the

AUM mix for FY16 and at what point do we expect the small enterprises and two-wheelers to grow faster than the rest of the portfolio, that's my first question. My second question is, on our employee expenses, which actually continues to rise fairly strongly on a year-on-year basis, can you give us some sense of how much of that is just increase in head counts versus wage inflation, and lastly, if we could have the gross and the net NPA figures for the gold and the non-gold portfolios separately please? Thank you very much.

**Subhashri Shriram:** Morning Kartik let me clarify, I think, we are not at any point of time looking at any reduction in gold loan book. As Sunder mentioned earlier, that we were actually very keen on taking this gold loan book close to 20%, 25% of our book. It has been a challenge for us to grow that book at this point of time in the last one or two years considering the market rates and the competitive space. I will once again reiterate that we are extremely keen on doing gold loan, except that we would like to do it in a particular style, which in the recent past, till about a year or couple of quarters, was not probably in line with what the market practice was. So, it has been a bit of a challenge for us to grow the book, but nevertheless we are keen on doing this business and I think with stability in the gold rate and market actually more or less falling in line with our practice, we are seeing a good traction in that, that is what we are seeing in the last two quarters. Once again, SME and two-wheeler, two-wheeler is on autopilot, I think, growth is a normal, natural process, we will continue to grow over 15%, 20% in that product, much effort is not required. There are enough branches and potential to grow in each of these branches, and as regards our business loan, I think the market and the environment, as Sunder mentioned, was not extremely conducive, there was a lot of challenges or caution was probably the first priority, and that probably led to a little bit of reduced slowdown in growth, which if we have to see some improvement in the macro economic conditions, we are ready to grow that business, I think, we have the people on ground, we have the capital, and we have the capacity to get on to the ground to do the business. So that will be a, definitely it will continue to be our growth driver in the next quarters.

As regards employee costs, in terms of number of employees between December 2014 and March 2015, it is practically not much of a change. This incremental cost to the extent is on account of our incentives and others, which have been paid to the employees. Whenever we have a good quarter, I always say, it follows with a little bit of expenses and income coming in future. So when the business growth is seen, our employee cost or the incentives for businesses are slightly on the higher side and you will see the income streams coming in the next couple of quarters. So, there is no significant change in our philosophy or headcounts in employee costs. In terms of for non-gold, it is 3.31% and including gold it was 3.12% and in terms of net NPA, non-gold portfolio is 0.52 and including gold it is 0.68.

**Kartik Chellappa:** Okay. Just one clarification madam, so, on a sequential basis, our gross NPA on the non-gold portfolio, has it risen a little bit?

**Subhashri Shriram:** Marginally.

**Kartik Chellappa:** Okay, great. Thank you. I will come back in the queue for more questions, thank you very much.

**Moderator:** Thank you sir. Sir, we have the next question from Mr. Digan S. Haria from Antique Stock broking. Please go ahead.

**Digan S. Haria:** Good morning. I had two questions. One is, in the two-wheeler space if we look at the absolute sales of these two-wheeler OEMs, the sales numbers have not been too robust, but we have been able to grow quite smartly as far as our two-wheeler loans are concerned. If you could just give some colour on how are we able to do this and what should we expect going ahead given that the outlook for the two-wheeler sales is not too robust?

**Subhashri Shriram:** Two-wheeler is one segment, or one product segment, where the finance penetration is hardly ranging from about 30% to 35%. So what we really see is, we don't need an incremental sale number. It is, many a times it is a conversion of the cash customer into credit customer that is itself a 65% of total vehicle sales. So, to some extent, probably with improvement in sale, it will only add to the business. But without even increment or even a reduction in new vehicle sales, incremental sale percentages, there is quite a lot of market available on account of cash sales, which is happening today. Or I would call it as non-credit, credit has not been made available in many dealer counters and therefore right now vehicle sales are going to cash. So Shriram sees an opportunity where we can actually enter those markets and that's what we have been doing in last couple of years. And we are able to increase our portfolio, not actually waiting for incremental sales.

**Digan S. Haria:** Alright, got it. And my second question is on the housing finance subsidiary, so is it 2% gross NPA, is it a normal level to expect or it is too early there and you cannot just go ahead with that kind of numbers?

**Subhashri Shriram:** Yes, we can't say this is a normal or not because it is just a two year old business. But we do really hope and our internal benchmark, so we probably will never come back to 0.5 or 0.6, which is what some of the larger players operate upon. I think, considering that our lending rate and yields are over 15% and the segments which we operate is largely self-employed in tier 2, tier 3, I think, the real expectation of NPA should be anywhere from 1 to 1-1/2%, that is something we will be working to achieving very soon.

**Digan S. Haria:** And my last question now is on, is there any, because we have been able to grow the SME book by around 16%, 17% this quarter despite the economy not being supportive at all. So, if let's say, there is some pick up which happens in the next six to 12 months, can we expect these growth rates in the SME segment to go higher than 15%, 16%?

**Subhashri Shriram:** I am happy that you are glad with our growth, I think, that most of the market consider that we still have not peaked our potential and we would like to also believe that we have not reached our potential or performing to our maximum. So, with macroeconomic conditions improving, we definitely will see a lot of improvement and lot of traction in that segment. This is probably on a maintenance course right now, whatever we are now doing is, which is available probably at the fringes, we are yet to penetrate the market, yet to grow in a market, which is vibrant. And I think, once we see that, I think entire Indian market is waiting for that to turn around and we will definitely be ready to take advantage of it.

**Digan S. Haria:** Alright ma'am, thank you so much. I will come back if I have more questions, thank you.

**Moderator:** Thank you. Our next question comes from Mr. Kunal Shah from Edelweiss Securities. Please go ahead.

**Kunal Shah:** Yeah. So, ma'am again on touching upon the point of this housing finance GNPLs, okay, so considering the book has not yet seasoned actually because when you look at the disbursements, they are like 500 crores, and the AUM is also like 737, but still we are seeing almost like 2% kind of gross NPLs in the unseason book. So does not that seem to be actually on a higher side, how is it?

**Subhashri Shriram:** I don't think, it might, because I think that is sort of stating the obvious. If there are one or two mistakes, on a small book, it will likely show up, we are yet to have a lot of growth in the business to see this. As I said earlier, I don't think this is any indication of the number, which will be on a fully matured balance sheet. As we see, as the balance sheet grows, we definitely are extremely confident that we will come back to 1 to 1-1/2%. No specific concerns or worries that this will be a permanent number across regions.

**Kunal Shah:** Okay. No, because in the initial (not sure), we generally see a lower NPL and 2% seems to be...what is the average ticket size in this?

**Subhashri Shriram:** It is about 10 to 11 lakhs.

**Kunal Shah:** 10 to 11 lakhs is the average ticket size. And how much would be the self-employed within this?

**Subhashri Shriram:** About 80%.

**Kunal Shah:** Okay. And ma'am coming on to the GNPL trends, so maybe we have crossed 3%, but how does the outlook sound, so maybe even on the SME side, as you mentioned, may be things at the ground level have not changed much, so do we see maybe SME portfolio has grown quite aggressively over last two years, so are there say any red flags in terms of asset quality deterioration in this segment or it should stabilize near 3% level?

**Subhashri Shriram:** Fortunately, I don't think there are any pockets or segments of customer worrying at this point of time, and not just in the last one, two year business, I think, there are no such major worries, but to say that is this the peak, we will definitely hope so, and what we are...one thing which I repeatedly have been saying this quarter-on-quarter, but considering the macro conditions, I would not say that customers are turning to be cash surplus or better off than the previous quarter, they probably are at the same level. A customer who right now was delinquent last quarter is unlikely to become current in this quarter. If a customer has any inadequacy or not able to pay, he continues to have that overdue for a couple or more quarters before he is able to get back to his zero bucket. So, we continue to see stress, so therefore some sequential increase in NPLs might happen. That is largely will depend upon how the macro conditions pans out.

**Sunderrajan:** Just to add to what Subhashri said, I think, see also it is going to be related as we go along to the kind of provisioning norms we have. Typically if you look at our SME customers, these are all the micro and small businesses, and to that extent while the environment is conducive and there is going to be some amount of growth, which we see in the overall...or facilitation in the overall environment, that will definitely help these businesses to grow and therefore there will be less irregularity of cash flows. So there are two determinants of any change in the NPAs in SME, one is the environment, which hopefully will never get worse, it will at least remain same or it will only get better. The other one is really the provisioning norm. As we go on to getting to 150 days and 120 days, if we really are focused on these segments, we will see higher provisioning which we may need to do.

**Kunal Shah:** Okay and the other was the, may be the customers are not getting out of NPAs because they may still be under stress, but out of the existing customer base are we seeing that customers are at least making like 1 or 2 months payment or say servicing at least the interest and everything for 1 or 2 months, but not like 6 months to get out of the NPA, so is that trend (not clear)?

**Subhasri Sriram:** There is, see none of our customers are shutting shop or getting out of business, so there are casuals, but it is not enough to get them back to zero, so a customer would come in 1 or 2 interest servicing, it continues to happen. I can assure you that we have not lost contact with any of our customers.

**Kunal Shah:** Okay and ma'am, outlook in terms of margins going forward, so this gold loan is there any change in the portfolio mix or it is like say similar to what semi retail and the wholesale was?

**Subhasri Sriram:** That's all, in the gold it continues to be I think more retail yet to see inflows from the wholesale market that will depend upon the market conditions. Yields are ranging from about 15% to 18% in the case of gold.

**Kunal Shah:** Okay, so maybe we could see, if this proportion goes up then we could see slight say moderation in the yields.

**Subhasri Sriram:** Yeah, that will be, that probably will see whatever we will lose on the yield we will probably gain on that NPLs, provisioning requirements will be lower in the case of gold.

**Kunal Shah:** Okay, but this time maybe incremental business we are seeing more coming in from retail side.

**Subhasri Sriram:** It is yet to see traction in wholesale.

**Kunal Shah:** Okay ma'am, yeah, thanks a lot.

**Moderator:** Thank you. Our next question comes from Mr. Sunil Thirumalai from Credit Suisse, please go ahead, sir.

**Sunil Thirumalai:** Hi, thank you very much. Ma'am, just following up on couple of earlier questions, the first thing I have is, if I look back into my notes from the last quarter, I think you mentioned you overtime you see SME going up to 70% plus of your

loan book and now we are seeing that gold can go up to 20%, 25%, so and I just wanted to get a mix of how you are looking at over the long term the mix of various segments, because that is important because as I think gold loan proportion means lower NIM and now it will be helpful if you can give a long term perspective on that and I will come back for the second question after this.

**Subhasri Sriram:** We have sort of briefly discussed last presentation, if it is of gold in the long term we will be working along with banks. We will probably try to work in collaboration with banks and unlikely to be putting our capital out for the gold loan business. So, the balance sheet of the SCUF capital will be largely being used for the SME business and two-wheeler business. Gold in the long term while we will be growing the business, like we will offer it out of the bank balance sheets. We are working with few banks on a collaborative arrangement that will release the capital out of SCUF for gold loan business.

**Sunil Thirumalai:** Okay, that was helpful, the second question I have is on your capital levels which are actually quite high and we have seen in spite of you beginning the year with a hope of growing fast and disbursing higher amounts, it is eventually being quiet, if you actually look at the exit rate for the fourth quarter your disbursement is up only about 5% on a YOY basis, so I was wondering have you ever thought about lightening of the balance sheet by special dividend or something, I mean, just wanted your thoughts on that, thank you?

**Subhasri Sriram:** I think while we did not, our growth is about 11% in disbursement, but let me just clarify, I think, some of the (not clear), I mean, capital adequacy was, is also looking at a very healthy ROAs, so we have just ensured that the flow back into the reserves is significantly large. That I think is on account of our healthy ROA of more than 3% post tax. I think to some extent, we definitely did not give a special dividend, but I think we have just conveyed to the market about our confidence in future on capital comforts that we have increased the dividend from our 100% to 150%. I am not sure whether that has come and our final dividend is 1.5% and interim dividend was 45, so the year the board has declared a dividend of 150%.

**Sundarrajan:** Yeah, so I think that constitutes about 20+, right Subhasri in terms of the payout ratio. I think that the specific question, we never ever thought that the excess capital is going to be primarily used by organic growth in the business, because we know that with the kind of ROAs we have and the kind of growth which we can practically achieve, we are definitely going to continue to have excess capital. This is the reason why we were looking at acquisition opportunities, we were looking at, be it in housing, be it in the other NBFC space, but as you know, the market is so euphoric that you don't really get something that optimal kind of prices, so we will be continuing to do that and we will be continuing to look at investment opportunities and that is where the capital will really go. In the interim, since in the first year we have not really achieved as much on this particular opportunity, we decided we will have a sustainable dividend policy for the next 3 to 4 years because we know we have the visibility of growth, we have the visibility of capital being there and we also know that we have opportunities available which we can use with the capital which we have. Incidentally rating agencies are overjoyed with the kind of capital we have, but I know that optimizing capital is as important as growing the business, which we will continue to do.

**Sunil Thirumalai:** Okay and just a last question I have is on your NPA recognition, now that from this year the transition as per regulations will begin, what have you thought about in terms of, how do you want to move in terms of timeline on NPA recognition and your provision coverage and that's it, thank you.

**Subhasri Sriram:** I think we have discussed last time, we would continue to follow the exact timelines which is fixed by Reserve Bank, so it is 150 days recognition as on end of March'16 and 120 and thereafter 90 days. We definitely do not plan to accelerate that at this point of time. While as regards coverage ratio it will come down over a period of time. What is a good number, whether it is 50 or 40 or 60, we will probably decide in the next couple of quarters. So at this point of time, there is no plan to accelerate it or do it at earlier than scheduled and therefore you should expect that 150 days recognition will happen in March'16.

**Sunil Thirumalai:** Okay, thank you very much sir.

**Moderator:** Thank you. Our next question comes from Mr. Parag Jariwala from Religare Capital, please go ahead, sir.

**Parag Jariwala:** Yeah, thanks for the opportunity. My question is, see we have seen a sharp drop in yield on a sequential basis, what explains that, I mean, I know that the gold loan proportion is increasing slightly, but that is something which cannot explain quarter on quarter decline?

**Subhasri Sriram:** I think there was in terms of, okay, let me put things in perspective. Our lending rates have not changed. There are no changes in policy in terms of any reduction in lending rates across products. Now, what explains this ill compression, the lending rate compression is to some extent I think in terms of timeline when the disbursements happen, whether it was beginning of the quarter or end of the quarter and whether it is March business or January business or in previous opening balance and whether it has got paid off during the quarter? So just to put in perspective, the company's asset wise lending rates, there have been no changes.

**Parag Jariwala:** Okay, but is it fair to say that this, I mean, what the explanation I am getting is that, this maybe a one off kind of thing and if it is only a quarterly phenomenon then it should bounce back next quarter?

**Subhasri Sriram:** When I say, when the bounce back is 21.69 to become 22.5, it can probably bounce back 22%, but maybe not 22.5.

**Parag Jariwala:** Okay.

**Subhasri Sriram:** This oscillation between 50, 60 basis points up and down is likely to happen.

**Parag Jariwala:** Okay and just one more question on housing finance subsidiary, you said that the normalized level of NPLs could be around 1-1/2 odd percent, but can you just throw some light on a normalized basis, what kind of ROA and leverage do you think you can achieve for the housing finance subsidiary?

**Subhasri Sriram:** Currently the company has an ROA of about 3%, that again we will wait to watch to see as the balance sheet grows, but let me put the ROE perspective considering the capital leveraging permitted, considering that there are differential risk weightages for housing business we actually definitely plan to reach 30% ROE at the earliest.

**Parag Jariwala:** Okay and just one last question, do you even monetize, I mean, do you even sell down the housing finance portfolio, I mean?

**Subhasri Sriram:** We would plan to do it during this year, because it does qualify for PSL as per bank guidelines, so during this year we are planning to do few sell downs and it is also interesting that probably during the....before the end of second quarter I think, Shriram Housing should be able to avail the NSE refinancing option. So, we have already been approved from eligibility point of view and we should be able to draw the money before September.

**Parag Jariwala:** Okay, thank you so much, ma'am.

**Moderator:** Thank you. The next question comes from Mr. Aadesh Mehta from Ambit Capital, please go ahead.

**Aadesh Mehta:** Good morning everyone, thanks for this opportunity. My question is that we are sitting on excess cash and maybe we are looking out for acquisitions, so did that imply that at some point of time we believe that the growth was maxed out in our key segment of SME financing?

**Subhasri Sriram:** No, let me put, there is a level at which SME can grow, it cannot be growing at 70%-80% and considering that we continue to have a, and just growth is not envisaged at a lower lending rates or lower input folio, we will continue to have a very healthy ROE. Now, the capital which has come in during June last year, I think was in excess of what we had planned for the next two years. So if we have to accelerate the capital utilization probably the only immediate option would be probably inorganic acquisition, but as Mr. Sundar mentioned, I don't think we are in a hurry to compromise or pay a high value when we are not certain about the returns which we will get on that portfolio. We will focus, we will continue to focus on our SME business, but it will not be a rushing to business because we have capital, I think it will be caution; it will be quality assets as we build along.

**Aadesh Mehta:** Okay and ma'am, can you articulate a bit about your expansion strategy in non (not clear) regions, like how is it doing in terms of growth, pricing and asset quality?

**Subhasri Sriram:** Definitely well, we have I think not, especially with two-wheeler business north is performing extremely well for us. In fact I think between south and north there is a very healthy competition now. South is no longer the leadership position within Shriram in the two-wheeler business. North is doing extremely well; I think north and central western India. During end of last year we started east, I think in the next 1, 2 years we will see some expansion and growth in branch opening in eastern region and now that the two-wheeler business is stabilized, manpower is stabilized in north during second half of the last year we have added new products in the northern region, largely on the SME business. So, currently it is very, very small, insignificant in

the overall scheme of things, but the next couple of years we will see a lot of growth coming in the small loans from western and northern regions.

**Aadesh Mehta:** Okay, ma'am and then can you elaborate a bit on how the pricing or asset quality could be different between say north and south?

**Subhasri Sriram:** Right now there are no differential yields between regions in these products, but with reference to asset quality it is probably slightly even better because there is so much of credit concern, since this is a new market I think we are extremely cautious, it is performing extremely well today. Probably the one yet to reach the best sales in terms of OPEX as we are planning to grow that business we do have to maybe some extent an excess staffing there and branches are getting prepared, readied for growth, so we will see more growth coming from this region in the next two years.

**Aadesh Mehta:** Okay ma'am, that was helpful and ma'am, one last question, ma'am historically we have always had high write offs over the past 3-4 years, but now that we are migrating to a 90 day NPA recognition norms over the next three years, should we see write offs coming down and we recognizing more of NPAs and then providing for it?

**Subhasri Sriram:** No, right now it has always been an option between higher provisioning vis-à-vis write off.

**Aadesh Mehta:** Yes, yes, ma'am.

**Subhasri Sriram:** I have already clarified that, unfortunately for NBFCs; provisions are tax not allowed expenditure, so if we have to have any more tax efficiency in this part of the P&L it is better to write off than to provide.

**Aadesh Mehta:** Okay, so ma'am we will continue writing off aggressively.

**Subhasri Sriram:** We will maintain it, I think that is more tax efficient at this point of time, till, if in case the income tax guidelines changes, regulations changes then we can look at more provisions instead of writing off.

**Aadesh Mehta:** Okay ma'am, thank you ma'am. That's it from my side.

**Moderator:** Thank you. The next question comes from Mr. Kashab Zaveri from Capital 72 Advisors, please go ahead.

**Kashab Zaveri:** Yeah, hi, good morning. I just missed out, just to recap the numbers on the NPLs that you gave on gold as well as non gold.

**Subhasri Sriram:** Yeah, in the case of non gold gross NPL is 3.31% including gold it is 3.12% and in the case of net NPL non gold alone is 0.52. Including gold the net NPL is 0.68.

**Kashab Zaveri:** And what was the number in previous quarter, so 3.12 was 3.02 and 3.31 would be?

**Subhasri Sriram:** 3.31 will be 3.05.

**Kashab Zaveri:** So 3.05 has gone up to 3.31?

**Subhasri Sriram:** And 3.02 has gone up to 3.12.

**Kashab Zaveri:** Right, okay. The second question is on the overall loan book, now earlier if I look at our loan book growth gold was something which was bringing down the overall loan growth for or EM growth for us, if now I exclude let us say the other segment which is like four-wheelers our growth have been something like about 18% in AUMs, so in four-wheeler what is the reason we are shrinking our loan book or how long does that continue?

**Subhasri Sriram:** I think in the long term that will be a marginal product. We could only focus on growing our SME business and two-wheeler business and we are not dragging that business from the front. It will continue to be a sub 10% part of the bunch.

**Kashab Zaveri:** Which as of today anyways is like about 7-1/2%, so versus about 1200 crore number as of today where do you see...

**Subhasri Sriram:** We will probably remain at same 1200 while this percentage will start dropping because that is how the balance sheet will be growing much faster.

**Kashab Zaveri:** Okay, right and in terms of your, let's say earlier there was question about this employee expenses also, now if I look at on full year basis also, full year employee expenses have gone up by about 52 odd percent. If I look at even excluding some of the segments which did not grow within AUMs the growth probably would not be more than 18%, 20% on a full year basis, so what explains such sharp payouts in terms of incentives?

**Subhasri Sriram:** We are talking about the last quarter; I just clarified about the last quarter.

**Kashab Zaveri:** No, I am saying full year also...

**Subhasri Sriram:** Full year it is not, I clarified for the last quarter where the number of employees have not increased vis-à-vis December'14 and March'15, but in terms of March'14 to March'15 there has been a 5000 employees, that is 20000 employees have increased to 25000 employees.

**Kashab Zaveri:** Okay, so about 25% growth in terms of volume and probably a similar number growth in terms of incentives or let us say total payouts, right and last question in terms of margins, as you pointed out in your opening remarks we have now started sort of borrowing in the market having deployed all that equity money which came in April of this year, where do you see margins stabilizing now?

**Subhasri Sriram:** This I mentioned is for Shriram Housing, which was operating fully out of equity till March '14 has now commenced borrowing during second half of this year...

**Kashab Zaveri:** But similar would be case...

**Subhasri Sriram:** Pardon me?

**Kashab Zaveri:** Similar would be case in the parent also, right, because versus about 12000 crores borrowing in March '14 we came down to about 11300 crores in December '14 and then moved up to about 12400 crores now.

**Subhasri Sriram:** Yes, yes. So the capital, which had come in during June last year for the parent company we were surplus till about September, but thereafter we have gone back to borrowing.

**Kashab Zaveri:** Right. So where do you see let's say, spreads as well as margins, you know, versus a full year this year.

**Subhasri Sriram:** One I clarified in terms of between fixed and floating rate. our incremental wholesale borrowing rates as have been more or less close to the bank base rates and as I said earlier there are no immediate plans of reduction in the lending rates, so as such lending rate being around 20% combined one across products we will continue to enjoy over 10% to 12% in terms of gross spread.

**Kashab Zaveri:** Spreads?

**Subhasri Sriram:** Yeah.

**Kashab Zaveri:** And margins given that we carry about 22% tier 1 spread margin should be about 12-13+.

**Subhasri Sriram:** 13+

**Kashab Zaveri:** Right. And if I look at our credit cost versus about 3% or 3%+ for the last about three quarters, now seemingly it is coming down below 3% now, so where do you see that for FY16, I mean excluding that 150 days past due if that were not to be there?

**Subhasri Sriram:** I don't see, keeping stop at 180 days there will not be any significant improvement in or change in the gross NPLs. So the sequential of 150 days will have it impact.

**Kashab Zaveri:** Right, right. Sure. Thank you so much.

**Moderator:** Thank you. Our next question comes from Mr. H. R. Gala from Panav Advisors, please go ahead.

**H. R. Gala:** Hello?

**Subhasri Sriram:** Yes.

**H. R. Gala:** I just wanted to know if you can provide the breakup of his 491 crores gross NPA amongst our operating divisions, like how much was from SME, auto, etc?

- Subhasri Sriram:** In terms of quantum?
- H. R. Gala:** Yeah, in terms of quantum, this breakup of 491 crores gross NPA.
- Subhasri Sriram:** Out of which about 200 crores is for the enterprise loan, approximately. I'm giving you the approximate number.
- H. R. Gala:** Two hundred is...? Hello? I couldn't get it madam.
- Subhasri Sriram:** Two hundred is the business loan, small enterprise loan.
- H. R. Gala:** That is SME.
- Subhasri Sriram:** SME.
- H. R. Gala:** Okay. Gold will be how much?
- Subhasri Sriram:** I'm giving you ballpark numbers, 150 crores will be two-wheelers.
- H. R. Gala:** Okay.
- Subhasri Sriram:** And about 70 crores will be gold.
- H. R. Gala:** 20 crores will be gold.
- Subhasri Sriram:** 70, 70.
- H. R. Gala:** Pardon?
- Subhasri Sriram:** 70 crores will be gold.
- H. R. Gala:** 70 crores, okay.
- Subhasri Sriram:** Auto loan will be around 50 crores.
- H. R. Gala:** How much?
- Subhasri Sriram:** 50, auto loan.
- H. R. Gala:** 50, okay.
- Subhasri Sriram:** And personal loan will be around 20 odd crores.
- H. R. Gala:** Okay, okay. And, madam, we have made the provisions and contingencies of 458 crores, which jumped quite substantially resulting in lower growth in PBT. So that 458 crores basically represents what? Partly it will be the provisions stored in NPA.

**Subhasri Sriram:** We just explained the 491, what is the 458 you're talking about? What is that 458 you are talking about, sir?

**H. R. Gala:** No, 458 covers what? In addition to the provision what else does it include? Because, see, 491 is a gross NPA position as on a particular date, that is 31<sup>st</sup> March, whereas during the entire financial year we have made provisions and contingencies of 458 crores is P&L.

**Subhasri Sriram:** I think this includes provisions and write-offs; the write-off is about 85 crores.

**H. R. Gala:** Okay. So out of 458 how much would be the provisions and how much would be write-off.

**Subhasri Sriram:** I don't have off the cuff, maybe off-hand you can send me a mail I can give you the break up between the provision and the write-off.

**H. R. Gala:** Okay. Fine. Madam, going ahead as you said that, you know, the macro environment is still not very encouraging, so what kind of growth do you anticipate?

**Subhasri Sriram:** We are prepared to grow over 20%. We have the capability, we have the infrastructure, we have the people, we have the business segment, which can absorb a 20% growth.

**H. R. Gala:** Okay. That is as far as asset fund or management is concerned, right?

**Subhasri Sriram:** Exactly.

**H. R. Gala:** But in some, say, bottom line, what kind of growth do we expect?

**Subhasri Sriram:** Bottom line I think considering that the cost of funds are not going to go up, I think we have stabilized our OPEX we should be able to...without much leakage we should be able to translate the growth in AUM to be translated into growth and profits.

**H. R. Gala:** How much?

**Subhasri Sriram:** I don't have the numbers, specific numbers, but if we're able to grow at 20% I think the profit growth should be at least around 15%.

**H. R. Gala:** Okay, okay. Fine, fine. That is helpful that is what I wanted to know. Thank you very much, madam, and wish you all the best. Thank you.

**Subhasri Sriram:** Thank you.

**Moderator:** Thank you. We have the next question from Mr. Mithun Soni from Gee Cee Investment, please go ahead.

**Mr. Mithun Soni:** Yeah, hello.

**Subhasri Sriram:** Yes, sir. Good morning.

**Mithun Soni:** Just one question on the competitive intensity in the SME finance. You know, it's an asset-backed loan book for us and everyone is now looking at what you call as a lakh as a product and trying to finance these businesses. Are we seeing any sort of competition getting into our space, our category, any pressure over there, how are you reading that part?

**Subhasri Sriram:** If we I have to break our business loan customers into two, which is customers with less than 20 lakhs and customers over 20 lakhs. The less than 20 lakhs loan exposure is the main source of business for us. There, in that segment, the competition is rarely there. We don't find either the organized or NBFCs or the banks keen on serving the customers whose requirement is 5 lakhs an 10 lakhs. It's not whether it is secure or unsecured, I believe to assess the customer and I believe to monitor the loan over two to three years' period I think this is grossly missing or not available right now in the competitive space.

But if we were to go over the 50 lakhs, 1-crore customer, you are right, more players are coming into that space and that again is largely right now restricted to big cities, not to the tier 2, tier 3 towns. So we still have an advantage that we operate in the smaller towns. Though it is a very common product in big cities, it is yet to move down, so we are not...competition is not a significant issue right now, not important right now.

**Mithun Soni:** For us what would be the mix of loans ticket size below 20 lakhs versus above 20?

**Subhasri Sriram:** Our average is about 11 lakhs, so obviously significant portion is in the less than 20 lakhs.

**Mithun Soni:** Okay, okay, perfect. The second question is with respect to; you said that we are getting into a deal with the banks wherein the loan book will be passed on to them. What is the structure of the deal will be able to share something?

**Subhasri Sriram:** We are trying to be an originator and portfolio manager of the goal product for banks. So the banks can accept the benefit of PSL assets and agri assets while we will be the originator and we will be the portfolio manager for the banks and what will be the cost of funds might...the spread will come back to us as a fee income.

**Mithun Soni:** Okay. So basically, say, if we are able to raise the rate 15% or 16% yield, but we sell down to the banks at about 11 odd percent as a PSL so we get to retain the spread and...

**Subhasri Sriram:** This is as good as our borrowing and lending.

**Mithun Soni:** As food as that?

**Subhasri Sriram:** Yeah.

**Mithun Soni:** Okay. In terms of the business you said that our potential to grow in the SME is much more, today we are putting up the team and everything in north India, central India and also we have a very good team in south, what is the medium to long term or if I say over the next three to five years for us as a potential to grow in the SME business. Can we, like putting inflation and everything together, the value growth. What is the volume growth, number of customers that we can add? Like, when you say 20% you are targeting, but what is the potential?

**Subhasri Sriram:** My portfolio is close to about 9000 crores.

**Mithun Soni:** Correct.

**Subhasri Sriram:** The market is 200,000 crores.

**Mithun Soni:** Correct.

**Subhasri Sriram:** What is my growth I think is sky is the limit today. If we were to do a 50,000 crores it will still be less than 1% of the market.

**Mithun Soni:** What I mean to say is our potential to what sort of growth we can take every year.

**Subhasri Sriram:** The question here is what we can manage effectively rather than what is available in the market.

**Mithun Soni:** Right. That's what I'm trying to ask.

**Subhasri Sriram:** See, I think we should be able to comfortably grow over 20%, 20-30%, but considering the macro conditions probably right now we will probably be not able to grow immediately.

**Mithun Soni:** That's fair. I am asking you over the next three to five years is it fair to say that the SME business can grow at 20%-25%?

**Subhasri Sriram:** 20% growth in this space without having any strain in asset quality or people not being able to manage I think we should be comfortably able to do.

**Mithun Soni:** But, you know, when we have an ROA of about 3.5%, 20% growth, so it means that its not just about utilizing the cash what we have in front we will be releasing a lot of cash.

**Subhasri Sriram:** I agree with you. I think we are in a very unique situation that while we grow we are also adding back to our capital.

**Mithun Soni:** Yeah because...don't you think that we can try to grow at 25% - 30%?

**Subhasri Sriram:** While that a wish, I think it will take us...

**Mithun Soni:** The reason I'm asking is...you're today talking of making an acquisition where the culture and everything may not fit exactly the way we want and the

way we have developed this organization, so from that perspective maybe we are better off trying to target a higher growth in our business, our culture, our organization, 30% growth may be doable because given the size of the business what we are today is very small.

**Subhasri Sriram:** I totally agree with you and it's not something we should not attempt, but considering that this is a segment which will require a little more close interaction with the customers. I do recall that we have discussed some time in the past that while unlike a two-wheeler loan or a vehicle loan, in some part even vehicle loan is probably very similar to SME, but once the customer we acquired we will keep him for lifetime. So growing beyond 20 might still be possible without making too much effort once again because this is an acquired...the customer is already in our space.

**Mithun Soni:** But if you see our vehicle business, our truck business, I would see that as a more difficult business where the underlying asset is depreciating, over there the group has done a very healthy growth during...

**Subhasri Sriram:** My point was that a truck operator will always be a truck operator; a businessman will always be a businessman. Considering the depreciating trucks we will have to once again at the end of four years buy one more truck. So you will be associating with an exiting customer and you might have a repeat customer with a different vehicle this time. Similarly in an SME loan what we have built over the last four-five years, over 1.25 lakh customers, we should expect at least 20-30 of our customers coming back to us in the next two to three years. There is a natural growth available right now, but that will largely depend upon the macro economic conditions.

**Sunderrajan:** Also I think just as I mentioned earlier this micro and lower end of small businesses don't grow as fast or they're not easily amenable to taking credit because we had the chit infrastructure and the chit customer base we are using that to slowly encourage them to make use the credit, which we can give them and therefore grow their business. Unless you really see, what do you call, inclination from them to actually very much existing there, we cannot go and penetrate there.

Theoretically we can because we can we have about 22%-23% penetration chit customers, but for us to double that is definitely possible, but we would not like to force fit that into their own, you know, aspirations and their businesses. And, which is why I am not saying 25-30% is not possible, but that will also come along with an environment facilitation and support, which will motivate these people in the micro and small businesses to look for credit and grow. Till then we will continue to grow the way we are growing.

**Mithun Soni:** Fair, fair. Just on this point. How many of our customers today or how much loan is from the chit versus non-chit in the SME?

**Sunderrajan:** It's quite large. It's almost about 78%-80% of the SME business. Right, Subhasri?

**Subhasri Sriram:** Yeah, but I think in terms of number of customers probably it is largely of reference of customers and their leads rather than actual same chit customer. Right now he might not be a chit customer.

**Sunderrajan:** Yeah, I'm saying from the chit ecosystem as we call it. I think it will be close to about 75%-80% because there are lot of savers and borrowers there, right; it's a community there. In the community we are quite dominating as far as our SME business is concerned.

**Mithun Soni:** Okay. Okay. One last question, as we are talking of this acquisition, which we may get inorganic opportunity, if we are targeting this opportunity any particular...because given the type of business we are doing what sort of opportunity, is this going to be an SME, can you elaborate a little more on that?

**Subhasri Sriram:** We are right now largely focusing only on...we will only be focusing on either home loan or SME loan.

**Mithun Soni:** So (not clear) also will be of...

**Subhasri Sriram:** Only on the lines, which is the main focus of the business.

**Mithun Soni:** Okay, okay. Perfect. Thank you very much.

**Subhasri Sriram:** Thank you.

**Moderator:** The next question comes from Mr. Harish Krishnan from Kotal Mutual Fund, please go ahead sir

**Harish Krishnan:** Ma'am, you said that the total employee count is 25,000. Can you give a number for your sister company, the chit fund, what the total number of employee base is because if I recall there was a migration moving in from that entity to this entity.

**Subhasri Sriram:** The migration is what people who were already working for Sriram City, trained and working with Sriram City moved to Sriram Chit, it's not a chit trained employee moved to Sriram City and I don't have as such at the moment and I may never will have the number of employees in the chit fund.

**Harish Krishnan:** Okay. Let me put it the other way around. Are there anymore such people who currently are not on the rolls who will eventually come on to the rolls?

**Subhasri Sriram:** No, no. In the last quarter itself it was largely...if there is addition or deletion it is only from the market.

**Harish Krishnan:** From the market, okay. So the next year the employee headcount should be in the similar 25,000 levels, because you believe you have infrastructure to grow even...

**Subhasri Sriram:** Probably yes, there will be maybe a marginal change, but unlikely to go up significantly. I don't think people find recruiting people that easy, so I don't think we're going to be able to do that...this was possible only because we had that trained number available.

**Harish Krishnan:** Okay. My second question, ma'am, is...I don't know if this got covered, but among your two big states, AP, Telangana and Tamil Nadu, if you can give...because we get to hear very divergent trends in both of these states. Both in terms of your existing book, in terms of, say, the asset quality as well as in terms of growth opportunities, can you maybe quickly touch up on both these different trends, ma'am, if you are seeing any change?

**Subhasri Sriram:** In the case of Tamil Nadu, I think in spite of whatever is the political situation here, but from an...otherwise the environment is not too stressful. I don't think we have too much of issue about monsoon or power cuts and any other regulatory challenges in the state. So in spite of maybe not a very robust government right now, but there is not too much deterrent in the business environment. With regard to Andhra Pradesh and Telangana I think it is right now two states, which are working hard to build an independent identity, so a lot of work going on, maybe different cities get different levels of attention and probably lack of attention a lot of competition going on, lot of infrastructure building is going on. I think we see a lot of opportunities in these two states, but it's too early. It will take a couple of more years. It's an eight-year program so we don't think you can do...Rome was not built in a day!

**Harish Krishnan:** Okay. My last question, ma'am, is on your asset quality. Is there any kind of state level trend there when you say that it is possibly 491 crores or 3.2% or 3.4%? Is it far more in...?

**Subhasri Sriram:** If you talk in rupee terms, yes, some states will take a little less because that state contributes larger part for our business, but in terms of percentages I think it's more or less, as I mentioned even north, maybe north is slightly lower NPLs, gross NPLs, it is only because I think they're yet to grow aggressive or grow slightly more than (not clear). So optically the results will appear to have slightly higher NPLs that is only because south is more confident about affirming this and has the bandwidth to manage this portfolio and north is still working on building the team and NPLs are marginally lower than south.

**Harish Krishnan:** Okay, ma'am, thank you so much.

**Subhasri Sriram:** Thank you.

**Moderator:** Thank you. The next question comes from Mr. Abhishek from India Infoline, please go ahead.

**Abhishek:** Hello?

**Subhasri Sriram:** Yes, sir.

**Abhishek:** Yeah, good morning, ma'am.

**Subhasri Sriram:** Good morning.

**Abhishek:** Ma'am, just going back to gold loans, considering your plans to largely have it underwritten by banks, would you say that the current disbursement rate would continue or do you think that this rate could actually fall once your agreement with banks gets in?

**Subhasri Sriram:** No, no. What we grow, what we disburse is not very relevant whether it is a bank or Sriram book. It is only in which balance sheet the loan is accretive. So we will continue to focus and leverage our infrastructure, except that we may not use our balance sheet.

**Abhishek:** Sure. So whatever remains on your balance sheet that could be lower than the 1600-crore kind of...?

**Subhasri Sriram:** Correct, correct. Incremental book might go to a bankbook.

**Abhishek:** Yes, exactly. So in terms of mix and in terms of growth, specifically in the gold loan portfolio, we should not actually be looking at the 40% kind of disbursement growth that we saw in FY15 over FY14.

**Subhasri Sriram:** The disbursement might happen; the income will not come in as interest income it will be from a fee income.

**Abhishek:** Yeah, retained, whatever we retain on our books that part would not...

**Subhasri Sriram:** Yes, sir. The percentages will change. On book balance sheet mix will change.

**Abhishek:** Absolutely. So in terms of overall growth SME, we do not really target or probably the environment is not correct to grow very aggressively. Two-wheelers we are looking at 15%-20% and retailed loan against gold would, again, be, slightly lower than what we have done. So in terms of overall disbursements growth, what kind of.....

**Subhasri Sriram:** I will just put this perspective that while we will continue to focus in our two-wheeler growth and we don't see too much concern at this point of time, SMEs, where we are ready and we are focusing and we are growing, the big growth will come in only when the macro economic conditions get better. Gold we will continue to focus and while we endeavor to do it through other avenues, but there will not be any slipup or any changes in our growth plans. It may or may not reside in our balance sheet, but we will continue to focus on the growth of the segment.

**Sunderrajan:** And also as a strategy I think the whole thing is our attempt is to ahead and do it through some of the banks, but it also depends on how much they facilitate this process. So, therefore, while the strategy is we know that we want to go through the transition, whether that will get facilitated by the bank, whether we will be able to completely transform our gold book into portfolio kind of a thing we don't know. Secondly, the AUM is not going to change, right, because we're still going to manage those assets. Yes, there will be a reduction on the balance sheet, but with the kind of growth that we have got in two-wheelers and the projected growth in SME, I don't think we will be shrinking balance sheet significantly.

**Abhishek:** No, actually if you are underwriting something for the bank that would not show up in your AUM.

**Subhasri Sriram:** It will be like an off balance sheet asset for us, that's what he mentioned.

**Sunderrajan:** Yeah, it will off balance sheet. We will be managing the asset.

**Subhasri Sriram:** It is as good as your securitization transaction.

**Abhishek:** Okay, okay. And, ma'am, the other question is in terms of these incentives that you are paying out to employees, these would be mostly towards driving better growth, better disbursements or...?

**Subhasri Sriram:** It's also for recovery and also for collections. If there are good collections incentives are paid out immediately, not just for business.

**Abhishek:** Okay, okay. And, ma'am, can you help me with what would be the gross additions to NPL probably in FY15 and FY14?

**Subhasri Sriram:** In terms of quantum?

**Abhishek:** Yeah, gross additions in terms of quantum.

**Subhasri Sriram:** Could you just write to us? I think we will probably give you the details. I don't have it at the moment.

**Abhishek:** Sure. I can do that. Okay. Thanks a lot. Those are my questions.

**Moderator:** Thank you. We have the next question from Mr. Digant S. Haria from Anitique Stock Broking, please go ahead, sir.

**Digant S. Haria:** Just a follow-up question, ma'am...on this two-wheeler sales, it is a cash sale? How is the cash component mode, like, what percentage of sales still happen through cash and how has that number changed over the last few years?

**Subhasri Sriram:** I think it gradually, from 2009 onwards, it's a six-year progress, pre 2009 it used to be 60%-70% sales through credit, moved down to almost 20%. Now in some of the biggest cities it has moved up to 40%-45%. So average is about 30%. There are new locations coming up, which are moving from complete cash to credit and some locations in bigger cities have a larger percentage of credit, like, big cities almost 70% credit, smaller towns is almost 70% cash.

**Digant S. Haria:** Okay, okay got it. So it is moving up everywhere, but yeah, the smaller ones the cash component is still very large. That is what you are saying. All right. Thanks ma'am, that's it from my side.

**Moderator:** Thank you. The next question from Mr. Sunil Tirumalai from Credit Suisse, please go ahead, sir.

**Sunil Tirumalai:** Sorry, my questions have been answered. Thank you.

**Moderator:** Thank you. Our next question comes from Mr. Nischint Chawathe from Kotak Securities, go ahead, sir.

**Nischint Chawathe:** Just trying to understand, I know this has been discussed a little bit, this is on the originating gold loans for banks and you did mention that this is very similar to securitization as far as accounting is concerned. But from the practical point of view I just wanted to clarify that gold will continue to be...the loan will continue to be originated at your branches, it will be within with the lockers of Sriram City...

**Subhasri Sriram:** It will originate at our branches and storage will be at our branch.

**Nischint Chawathe:** Yeah, the only thing is that the loan will be booked in the name of the bank, so the forms, etc., will be the forms of the banks (not clear) itself.

**Subhasri Sriram:** That's right.

**Nischint Chawathe:** Okay. And just second one was if you could give any guidance as far as the cost to income ratio is concerned. I know you mentioned that cost is already stabilized, but anything that you could, you know, guide on this front?

**Subhasri Sriram:** Probably we will say that we will not...there will not be any great increase in the ratios right now, what is over 40% will not go over at this point of time, but whether we will bring it back to below 30, close to 30 is probably couple of quarters will be required.

**Nischint Chawathe:** And is there any breakup, which you could share on this between fixed and a variable component, which might just help us to kind of model the operating leverage in the business.

**Subhasri Sriram:** See, there are two components. One is OPEX has its employee cost. Employee cost probably 70% employee cost if fixed and 30% is variable and in terms of OPEX again, 80% is fixed and 20% is variable.

**Nischint Chawathe:** Okay. Thank you very much.

**Subhasri Sriram:** Thank you.

**Moderator:** Thank you. The next question comes from Mr. Prem Tucker from Unilazer Ventures, please go ahead, sir.

**Gaurav:** Hello, ma'am, Gaurav here. Ma'am, on your housing finance book just wanted to understand what is that we do differently because our yields are much higher than what our listed peers would be generating? Is it the target segment, which is different or the clients are different or the regions are different?

**Subhasri Sriram:** The first instance is this is part of Sriram Group. I think Sriram Group typically operates in this space, where across all our products and to be specific for Sriram Housing we are focusing largely on the tier 2, tier 3 towns and again predominantly the self-employed category. So we are not going for the low-hung fruits

of large builders, apartments, readymade apartments where we are not getting into those target class customers.

**Gaurav:** Right. But that is similar business model that companies like (not sure) would follow, but their yields are between 12-13%.

**Subhasri Sriram:** They do, but I think they tried growing the balance sheet also from other markets.

**Gaurav:** Okay, okay. So that is what we don't do. So in spite of that do you expect the growth to continue at the same levels for the next two to three years?

**Subhasri Sriram:** Yeah, because I think what we do is...what people find difficult to do is what Sriram focuses on doing it.

**Gaurav:** Right, ma'am. That's it from me. Thanks.

**Moderator:** Thank you. The next question comes from Mr. Rishindra Goswami from Locus, please go ahead.

**Rishindra Goswami:** Hi, ma'am. Just a couple of clarifications on the gold loan portfolio, the 3000 crores AUM that you have today how much of it is on book versus out book?

**Subhasri Sriram:** The gold is entirely on book, 3000 crores is entirely on book. What we have not talked about is just more a plan...work in progress right now.

**Rishindra Goswami:** Okay. So, I mean, from near term, let's say next one-two-year perspective, the on book portion is still going to grow from here, right?

**Subhasri Sriram:** Yeah, it will, it will. While we will focus on on book we will work on out book growth, long-term strategy. It's not as if we are shutting down on book or anything. Growth and on book continues to be focus.

**Rishindra Goswami:** Okay. Great. And then just a quick clarification, this quarter there seems to be a decent growth in the gold loan book, so just wanted to understand, I joined the call late, sorry, if I am kind of repetitive.

**Subhasri Sriram:** This is more in sequential, even the previous quarter there was a bit of growth and the previous quarter. To some extent I think we are getting the benefit of reaching the bottom the last two years, so we've just seen small revivals and that is what you are seeing up in the growth, but nowhere are we near to 2012 numbers.

**Rishindra Goswami:** Right. So the growth that you saw this quarter is it any region specific or any size specific?

**Subhasri Sriram:** No, across markets.

**Rishindra Goswami:** Okay. So, I mean, we expect this group to now kind of show some kind of a quarter on quarter trend going forward.

**Subhasri Sriram:** We do hope, we do hope. Because as I always say gold is not something I can push.

**Rishindra Goswami:** Right. And just, ma'am, on the auction side, if you could give us a sense of how much auctions did you have to do this year on the gold loan side?

**Subhasri Sriram:** I think after first half, up till September, auctions have been quite minimal.

**Rishindra Goswami:** Quite minimal, okay, that means maybe...

**Subhasri Sriram:** It's not very large. I don't think it is not very significant. I don't have it, but it is not very significant.

**Rishindra Goswami:** Okay. So probably less than 100 crores for the whole year?

**Subhasri Sriram:** Post September I think we have not...there was not much of requirement auction gold.

**Rishindra Goswami:** And then just a quick question, ma'am, on the GNPA percentage side. I know you mentioned about 150 crores worth of GNP on the two-wheeler side, the percentage look a little high, about 5% of the portfolio. So just wanted to get your perspective, is that a normal level for you or do you think it's on the higher side?

**Subhasri Sriram:** It is slightly higher, but I think this is, again, not too much of a concern.

**Rishindra Goswami:** Not much of a worry, but is there a trend in terms of a region or something in that two-wheeler portfolio?

**Subhasri Sriram:** No, no.

**Rishindra Goswami:** Okay. And you're comfortable with that number per se?

**Subhasri Sriram:** No issues.

**Rishindra Goswami:** Okay. And do you see that coming down going forward?

**Subhasri Sriram:** No, no.

**Rishindra Goswami:** It's going to be in that 5% range?

**Subhasri Sriram:** Absolutely, yes.

**Rishindra Goswami:** And similarly on the auto side, ma'am, also it is about slightly more than 4%.

**Subhasri Sriram:** Yeah, 4% correct. It will likely to be.

**Rishindra Goswami:** Likely to be. Okay. Thank you. That's all.

**Moderator:** The next question comes from Mr. Karthick Chellapa from Buena Vista Fund Management, go ahead, sir.

**Karthick Chellapa:** Yeah, thank you for the opportunity again, just two questions. Firstly, when you mention that you are looking at M&A targets mostly in the home space or the SME space is it more of the kind of buying from portfolios or buying from customers or is it some other skill set, which you are looking to acquire, if it happens?

**Subhasri Sriram:** We would...unless we do a portfolio buyout where we will also look at managing the portfolio. In the case of Sriram Housing they probably would continue to look at opportunity of investing in PTCs of small housing finance companies and therefore a buying portfolio to manage portfolio is not something neither Sriram City nor Sriram Housing will envisage. But with reference to acquisition or merger we will definitely look at either a differential (not clear) or differential location or geographical presence for different markets, which we operate on.

**Karthick Chellapa:** Okay got it. And lastly the recent initiative of the government to announce this MUDRA Bank with a corpus of around 20,000 crores, does that impact our business in any way either from a funding availability side or maybe a competitive intensity side, because I think they are going to be offering a lot more subsidized loans, although it is yet to take off at this point of time.

**Sunderrajan:** Yeah, I think the MUDRA thing has to get evolved first because while there is lot of effort, it has gone on from various constituencies in the NBFC space and the trade association space; the government has actually gone ahead and put it as a subsidiary of SIDBI to start with. It is designated to be the regulating and refinancing agency for financials engaged in micro and small businesses. It will definitely be positive if it actually takes that shape going forward, but we are not yet clear as to what shape it will take given that you cannot have two lending regulators and all that. But solely as refinancing it will definitely help because our dependence on the commercial banks will to that extent go less, but today I think it's still in the drawing board stage. It will take another six months to evolve as to what the nature of the beast will be.

**Karthick Chellapa:** Okay. Thank you very much.

**Moderator:** Thank you. The next question comes from Mr. H. R. Gala from Panav Advisors, please go ahead, sir.

**H. R. Gala:** Hi! I just wanted to know that we had a stupendous growth in the housing disbursement, now; at what rate do you expect assets to grow from 730 crores odd?

**Subhasri Sriram:** It's still...it's too small considering the market we are going to operate.

**H. R. Gala:** Yeah, that's true.

**Subhasri Sriram:** We will continue to see very healthy, if not once again 100% growth, so we should be able to grow next two years at last.

**H. R. Gala:** Okay, around 100%?

**Subhasri Sriram:** Close to it if not 100.

**H. R. Gala:** Close to 100%. Okay. And the sharp increase in the NPA, what was it due to in the housing space?

**Subhasri Sriram:** I think you should look at the quarter-on-quarter that has actually been decreased in gross NPLs. So I think we are, rather than seeing from March '14 to March '15 number, if you look at December '14 to March '15 there has been significant improvement in gross NPLs. So we do expect this to come off over the next couple of quarters

**H. R. Gala:** Okay, okay. That's fine. Thank you very much. Thank you.

**Moderator:** Thank you. The next question comes from Mr. Aadesh Mehta from Ambit Capital, go ahead, sir.

**Aadesh Mehta:** Thank you. Ma'am, one small clarification; these gold loans downsizing, which we would do would that be an assignment? If yes, then how would we manage given that if we need to get a PSL tax there has to be six months of retention in our book?

**Subhasri Sriram:** No, no. It will not be an assignment or securitization. This will be a collaborative arrangement with the bank.

**Aadesh Mehta:** So it's a unique kind of arrangement altogether.

**Subhasri Sriram:** We will have to work through the structure.

**Aadesh Mehta:** Okay. Thank you, ma'am. Thank you. Thank you very much.

**Moderator:** Thank you. The next question comes from Mr. Kunal Bhatta from Lastaki Advisors, please go ahead.

**Kunal Bhatta:** Yeah, thanks for taking my question. On the same point, which you have been mentioning on the call about the kind of arrangement we are trying to pursue with banks, in the past securitization used to be a major source of funding for various NBFCs in the gold loan space, but after the (not sure) that kind of became irrelevant. So when we look at the scenario today is there any visibility we have in terms of the kind of appetite, which banks may have for an arrangement of this sort and what would be the benefit, which you foresee the banks to gain out of this because across the board all gold loans would not give them any PSL sector benefit is my understanding.

**Subhasri Sriram:** Yeah, I think this...let me say that this works only where there is a partnership...a very healthy partnership where we are able to provide a lot of technology support and high quality governance. I think this is...for me to say what do I

have as an option available I think it's too early right now. But there are opportunities...I would probably rest this saying that there are opportunities before us.

**Kunal Bhatta:** Understood, understood. And one more thing, in other emerging markets like Sri Lanka, we are seeing introduction of credit guarantee schemes for gold loans given to the agricultural sector borrowers and stuff like that. If something like that were to be introduced at some point in India what do you think would be the impact of that?

**Subhasri Sriram:** If I have to go by the experience what the credit guarantee is now available for SSIs?

**Kunal Bhatta:** Yes.

**Subhasri Sriram:** I think I only go from that because currently it is already, I mean it has been in existence for decades now. It is not as if SSIs are being able to access bank funds liberally.

**Kunal Bhatta:** Right.

**Subhasri Sriram:** So unless there are more change in process I do not expect much to happen in this space.

**Kunal Bhatta:** Okay, okay.

**Subhasri Sriram:** I am just going by the past experience in this space, so unless there is some change in the model, completely hypothetical, so I only go by past experience.

**Kunal Bhatta:** Right, right. And in terms of the overall lending rates in the old loan space there is a general consensus that across industry some of the higher cost service providers, like Manappuram and Muthoot, they will see reduction in their realization, the yield. So do you think we will also.... we are likely to see some pressure on our yields going forward?

**Subhasri Sriram:** We already are few hundred points lower than most lenders in this space.

**Kunal Bhatta:** Okay, okay. So what you are saying is essentially the differential between you and others will narrow, but you may not see so much pressure.

**Subhasri Sriram:** Yeah, obviously.

**Kunal Bhatta:** Right, right. Thanks. That answers my question.

**Subhasri Sriram:** Thank you.

**Moderator:** Thank you. Now I hand over the floor to Mr. Amey for closing comments, please go ahead, sir.

**Amey:** Yeah, thanks. On behalf of JM Financial I would like to thank Ms. Subhasri ma'am and Mr. Sunderrajan of Sriram City Union and all the participants for joining us for the call today.

**Subhasri Sriram:** Thank you.

**Moderator:** Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have...

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**Note:** 1.This document has been edited to improve readability.  
2. Blanks in this transcript represent inaudible or incomprehensible words.