

Operator

Ladies and gentlemen good day and welcome to Shriram City Union Finance Q4 FY11 Results Conference Call hosted by JM Financial Institutions Securities Private Limited. As a reminder for the duration of this conference all participants line will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Karan Uberoi of JM Financial Institutional Securities Private Limited. Thank you and over to you sir.

Karan Uberoi

Thank you Vivian. Good evening everybody and welcome to Shriram City Union Finance's earnings call to discuss the fourth quarter numbers.

To discuss the results, we have on the call Mrs. Subhasri Shriram, who is the ED and CFO of the company. May I request Mrs. Subhasri Sriram to take us through the financial highlights, subsequent to which we can open the floor for Q&A session. Over to you ma'am.

Subhasri Sriram, Executive Director

Good evening. Thank you all for coming over. Welcome to the Q4 call. The financial year 2010, '11, I would say has been very satisfying in spite of several challenges on account of regulatory changes and several interest rate hikes.

Shriram City has effectively handled all this and has come out successfully. The performance has been consistent all the four quarters and the trend is also positive in spite of uncertainties before us.

Shriram City has been successfully growing its assets quarter-on-quarter and currently is over 8,000 crores... This is over 53% of growth compared to March 2010. It's also heartening to note during this period, we have also controlled the delinquency and currently the gross NPAs are 1.86% and the net NPA is at 0.43%.

In terms of rupee the gross NPA has increased nearly by 22 crores, only compared to March 2010 and is currently at Rs. 130 crores as on March 2011. The NPA coverage ratio is also around 80% after considering bad debts provisions and write-offs.

You would recall that Shriram City has had two prong strategies towards its growth plans, growth from loans to small business enterprises and growth from increase in secured loans through loan against gold.

Under the small business loan category disbursements have grown by 88% and are currently around 20 to 24% of the AUM. And the loan against gold is also around the same percentage. It should be noted that during the period loan against new two-wheelers are also growing handsomely and has touched a fresh disbursement of around to be 1,200 crores.

Since the interest rates have been raising consistently and the lending rates are not elastic in the case of loan against purchase of consumer durables, we have enforced to de-grow the book and it is less than 2% of the portfolio.

We have been reasonably successful in our effort to increase the average lending rates in spite of higher percentage of gold loan in the book. The blended lending rate on the average AUM is about 21%. It should also be seen here that during the year the company's securitization program has increased significantly and it is today over Rs. 1,000 crore compared to the portfolio being less than 500 crore as of March 2010.

The current securitization book is around 12% of AUM and this will also have an impact to the yield as yield considered in the case of portfolio securitized is net of interest discounted and we -- and as the practice of Shriram Group, the future income has not been considered.

The incremental borrowing in the last quarter is higher by 50 to 70 basis points and it has effected the overall cost of funds as the company had tied up more funds for fixed rate of interest for reasonably long period.

Currently, 73% of this total borrowing by way of fixed rates is at as on March 2011. This excludes securitized portfolio which

obviously also carry concept margin through the -- of the assets. During this fiscal, we have had the change in interest hedging from PLR to base rate.

Expected changes in guidelines and securitization and private sector classification being modified, these are with a lot of uncertainties in the future. Now moving on to the liability side of the balance sheet as discussed before, 73% of the liability has interest rate fixed to the tenure of the contract and it is also to be noted that from the average duration of the contract in the case of fixed rate loan is around 21 months from period beginning April 2011.

This excludes the retail liability of the company which is currently to around 28% of the total borrowings and these also carry fixed interest rates, still maturity and have a balanced maturity period of over 30 months.

Currently, the company's capital adequacy is over 21% but Tier I capital being around 17%. The company is now very well placed to handle growth aspirations with internal liquidity also not being an issue. The company has over Rs. 3,000 crores, combined liquidity buffer consisting of unutilized cash credit limits, fixed deposits, cash and current account balances.

The year 2010, '11 is also an important year in more than one count. The company has had an upgrade in its credit rating done by Fitch and also received its first time credit rating from CRISIL. With this, the company has been rated AA minus, on long-term basis for all the three rating agencies.

CARE, CRISIL and Fitch also has the highest rating in the short-term program from all the other -- from all these three rating agencies. In its effort to increase new source of debt Shriram City plans to raise listed debentures through public issue during the course of this year.

As indicated in earlier reports, the company has floated its fully owned subsidiaries which is seen in the published reports with an objective to commence housing finance and the same is awaiting approval from its regulator at this point of time. During the year -- during the coming year 2011 and '12, the company is hopeful of getting its approval and commencing business soon.

Coming back to the performance of 2010, '11, the company's return on equity is over 25% and return on assets over 4%. And the book value per share has increased by over 22% during the year and currently stands at Rs. 248.74.

Considering that there are no serious surges in expected growth rates in its current product line of financing small business enterprises, in the Tier II and Tier III towns, the company sees no reason why it cannot maintain a growth of over 30% conservatively.

Thank you so much. With these initial remarks, I leave the forum for any questions and I will be happy to answer the same.

Questions And Answers

Operator

Thank you ma'am. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions]. The first question is from the line of Sachit Motwani with B&K Securities. Please go ahead.

Sachit Motwani

Yeah. Hi, ma'am, a very good afternoon. Just a couple of questions, one related to the branch network expansion in the year?

And secondly like you mentioned 1,200 crores of disbursement in the two-wheeler segment, can you give us a breakup from, like how much were the disbursement from small business loans? Second question. And the third question is with regard to your cost of funds, the impact on cost of funds due to this withdrawal of priority sector lending for like bank loans to NBFC's?

Subhasri Sriram, Executive Director

Thank you. To answer your first question, in terms of branch expansions, I think we have quite -- as discussed earlier we would like to reiterate, growth is not entirely dependent upon opening new branches. We prefer doing growth, having a growth to multiple products in the same branches and getting more volumes out of the same branches.

While at one end we are looking at expanding more branches, but the business growth and immediate growth is over more products at

the same branches.

Answering the question in terms of branch expansions, we have expanded both in Southern States. In Andhra and Tamil Nadu, we have had an increase in branches. And also more importantly the branch expansions have been quite successful in the regions of North States like UP, Delhi and Rajasthan and in State of Gujarat.

We would have had a close to about 200, 250 branches getting opened out during this year. And during this year, we also had access to the branches of Shriram Transport, where we have commenced gold loan business. And currently more than 350 branches of Shriram Transport have commenced business in gold loan.

Sachit Motwani

Okay.

Subhasri Sriram, Executive Director

And in terms of disbursements breakup, I think as I said about -- two-wheelers have been about 1,200 crores. Business loans have increased close to 1,600 crores. Auto loan is about 1,200 and personal loan is around 600 crores.

Sachit Motwani

Ma'am can you repeat the auto loan figure.

Subhasri Sriram, Executive Director

1,200 approximate.

Sachit Motwani

Okay.

Subhasri Sriram, Executive Director

And personal loan is about less than 600 crore.

Sachit Motwani

Okay.

Subhasri Sriram, Executive Director

And close to about 3,300 crore is the loan against gold.

Sachit Motwani

Okay. Ma'am and the question...

Subhasri Sriram, Executive Director

And regarding the cost of funds on account of priority sector being withdrawn, if you would notice, only the segment which has been considered for private sector, in our case is a small business loan and a portion of it has been considered from the loan against gold, portion of loan against -- and may be around 50% of auto loan.

So, effectively we have about 60% of our portfolio having had benefits of priority sector. But before answering the private sector I think as I mentioned in my initial comments the base rate has actually made a sea change in the way the banks are pricing the loans.

So, with the withdrawal of benchmark lending rates the base rate has, more or less has capped the subsidy which was available for priority sector assets.

Sachit Motwani

Okay.

Subhasri Sriram, Executive Director

So, the differential between the priority and non-priority during the course of last one year has actually dropped below less than 1%, in fact in some periods it's as greater as 50 basis points.

Sachit Motwani

Okay.

Subhasri Sriram, Executive Director

So, I would say that I think the interest rate increase regime is more worrying than the priority sector returns worrying.

Sachit Motwani

Okay.

Subhasri Sriram, Executive Director

The concern is more on the rising interest rate because irrespective of the priority sector anyway it has always benched to these rates. See it's not as if the priority sector rates are lower than fixed -- where the interest -- it's not increasing only in a non-priority sector assets.

Sachit Motwani

Okay.

Subhasri Sriram, Executive Director

So it's always been increase on both the product lines, which was not the case earlier. 2008 and 2009 it would probably, the priority sector as such would still be priced much cheaper and if there was any cost of funds increase in impact the banks would have only priced the non-priority assets loans higher.

Sachit Motwani

Okay.

Subhasri Sriram, Executive Director

Which has not been -- anyway it is not possible anymore.

Sachit Motwani

Right. And ma'am one last thing on the priority sector. Ma'am like, you have done a little heavy securitization during this -- last quarter. Ma'am do you expect the same to continue going forward and what would be the discount that you would be get in these -- on the off-book lending AUM.

Subhasri Sriram, Executive Director

I would say, okay. Further question will we get securitization. Currently there is no concern. Securitization still being -proposals are still being discussed with the banks. But what could be post June -- I mean I think is anybody's guess.

But at this point of time, yes it is still possible and we are still discussing with banks for new transactions, new tranches to be done. Now in terms of pricing or the discounting rate, I would say that between on-book and off-book rates in terms of securitization of a priority sector asset has not been very significantly different.

In fact, the two benefits from a -- between securitization and on-book liability for a bank is that securitization actually provides a very fixed rate of interest.

Sachit Motwani

Okay.

Subhasri Sriram, Executive Director

And also a perfect ALM match that I think should be very difficult to get from any bank loan. And I think also getting a fixed loan for a duration of two to three years is also much of a challenge.

So, securitization actually provides hedges to the company against arising interest rate.

Sachit Motwani

Okay.

Subhasri Sriram, Executive Director

And to add further that there is a bit of cost that needs to be factored in terms of collaterals in other transaction cost which I think more or less compensates for the arising interest rate.

Sachit Motwani

Okay. Okay ma'am that's it from my side.

Subhasri Sriram, Executive Director

Thank you so much.

Sachit Motwani

Thank you very much for taking my question.

Operator

Thank you. [Operator Instructions]. Mr. Uberoi, there are no questions in the queue at the moment sir.

Karan Uberoi

Subhashri ma'am, could you just give us a sense as to the kind of growth rate that you would be looking during the current financial year and whether gold loan and small business loans will continue to drive growth?

Subhasri Sriram, Executive Director

As I said, I don't think in the locations we are focusing which is Tier II and Tier III towns. We don't see any reason any of those economic concerns to be a very serious impact. And so far, we don't see any difficulty in growing our, first of all the small business loan.

I think as I said the 30% growth -- conservative growth is definitely doable, the market is so large and it's currently untapped, and more or less we have a monopolistic position in this sector. Today, we probably can say to be the largest financial in this segment of small business loans.

There are only few money lenders and unorganized lenders but has been -- not much success has happened in the organized sector in the past. Now with reference to the gold loan, I think going by the market trend in terms of the prices and the market awareness about gold loans, I think there is lot more scope for gold to come -- household gold to comfort the market for leveraging and I think this is still to grow.

To put a number to it with this market being so large and very well -- I mean awareness being there today, I think we still have a growth of more than 30% in gold loans and I think it's up to us to grab the market share what is available. So, with more branches and more awareness, I think the business has further growth.

Karan Uberoi

And on your housing finance subsidiary if you could share some plans out there?

Subhasri Sriram, Executive Director

I think we have already -- we have published in our application with the housing regulator and we should be able to get the license hopefully sooner than later and to the terms of the business plan I think we are looking at only locations say we are currently also present which is more than the Tier II, Tier III towns and which will be combination of home equity and mortgage.

Karan Uberoi

Great. Vivian if you could check is there any more questions otherwise we would be.

Operator

Sure sir. [Operator Instructions]. No questions in the queue at the moment Mr. Uberoi.

Karan Uberoi

Great. On behalf of JM Financial I would like to thank Mrs. Subhasri Shriram of Shriram City Union Finance and all the participants' for joining us on the call. Thank you ma'am and good bye.

Subhasri Sriram, Executive Director

Thank you so much.

Operator

Thank you. Ladies and gentlemen on behalf of JM Financial Institutional Securities Private Limited that concludes the conference.

You may now disconnect your lines. Thank you.