

Operator

Ladies and gentlemen, good day, and welcome to the 3Q FY '14 Earnings Conference Call of Shriram City Union Finance Limited, hosted by JM Financial. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Uberoi. Thank you and over to you, sir.

Karan Uberoi, Analyst

Thank you. Good morning, everybody, and welcome to Shriram City Union's earnings call to discuss the third quarter results. To discuss the results, we have on the call Mr. G. S. Sundararajan who is the Managing Director and Mrs. Subhasri Sriram who is the Executive Director. May I request Mr. Sundararajan to take us through the financial highlights, subsequent to which we can open the floor for Q&A session. Over to you, sir.

G. S. Sundararajan, Managing Director

Good morning to all of you. What I will do before I hand over to Subhasri for discussing the details of the financials, that is what -- I'll give you an overall -- an overview of what business we are in and some of the environmental factors which are adversely affecting or favorably affecting. I'm sure all of you know that the economy is still going through -- what it's going through specifically in the segments of the micro and small businesses which we are dealing with, as well as in the auto, two-wheeler segments which also we are dealing with.

Gold has been more or less stagnant for most of the industry people, and some of them are going down because of funding availability and all that. The -- some of the things which really -- regulatorily which have worked -- which are (inaudible) trending in our favor has been (inaudible) committee which has made its recommendations.

I'm not sure if I shared with you last time or Subhasri shared with you. We have been working very closely with the Financial Ministry and RBI even before the committee, specifically on the (inaudible) guidelines and more broadly on what all we expect the RBI to do in terms of facilitating NBFCs like us to actually grow their business and therefore contribute more to financial infusion.

In (inaudible) committee, we've been involved with almost -- most of the decisions which have been taken, we've been able to recommend it both through the acquisitions as well as through the company -- the group company themselves. And we've also had individual conversations with some of the committee -- team members as well as the Chairman to get more.

You will know that some of the recommendations which are there are going to be very beneficial to us if RBI decides to recommend them speedily.

Specifically one of them is a securitization measure where if the 8% cap was removed we will have a lot more fund availability which is there. And for a company like us, which is in a way beating the market in terms of having the fully capability to grow in the MSME segment, this will be a big positive for us. We also -- as you know, we have a deposit license and because the -- because of the fact that the retail debenture route was more or less cut off about three, four months back, we have switched over to customer deposits as one more source of funding.

And also because we have a huge customer base, there again the SLR removal recommendation is going to be a big benefit for us. And as you go through the Nachiket Mor Committee, you will find that there are several measures which are going to benefit the NBFC sector.

And I'm not sure if some of you have gone through SHM. One of the most important things of the Nachiket Mor Committee also is to not to look at provisioning and based on whether it is an NBFC or a bank, but to look at it more from a customer segment point of view. This is one important point which we've always been recommending.

And while there have been some players who have switched over to 90 days, 120 days or 150 days, all of us were clear that in some of these segments where we are operating the tolerance level need to be much more in terms of provisioning. And that exactly is

what the committee has defined as looking at risk profile before finalizing provision.

Hopefully, there will be some more discussions with RBI on how we define these customer profiles and how we are going to go about looking at each of these segments definitely. But it is definitely a positive which is there as against the Damocles Sword of Usha Thorat Committee hanging over us for the last two, two and a half years.

And I think what has also happened overall is that regulatively if you look at Vijay Bhaskar's -- who is the -- Executive Director's speech in one of the -- in Assocham, he was so clear that NBFCs are no longer -- should not be regarded as shadow banking. NBFCs should be given a lot more support because they are the only category of financial institutions which can actually go ahead and do the last-mile delivery and financial inclusion.

So overall, I think there are a lot of positives in the regulatory environment and given the new management and leadership at RBI, we do hope that this will all translate into some amount of reality for companies like us specifically.

I don't think this is going to benefit the entire NBFC sector, but people like Shriram Group of Companies especially, Shriram City Union Finance who'll be doing a lot of work in the MSME sector, we should be getting a lot of benefit.

With that preamble, I think I'll hand it over to Subhasri for taking on the financial material.

Subhasri Sriram, Executive Director

Thank you. Good morning. I'm sure all of you would have had the opportunity to see our results, which was last -yesterday morning we had the meeting, Board meeting. And Shriram City's income for operations is now about 796 crores and the net interest income at about 480 crores, this is about 13% growth over December '12 figures.

In terms of profit before tax, we have crossed 200 crores for the quarter and 21% growth over the same period last year. And quarter-on-quarter, the growth is over 7%. There has been this one tax change in -- because of the deferred tax liability, so profit after tax is about 129 crores and it's about 15% growth where the PBT is about 21% growth, mainly on account of tax treatments.

Coming to the AUM, we had about just below 15,000-crore mark. The quarter witnessed a dip of 1% in the AUM over the last quarter and a 9% dip over year-on-year. But it is interesting that we have also managed during this period a lot a change in the portfolio mix. Today, it's largely the SME portfolio which is close to about 50% -- 49% of the book, is our MSME book.

In the same period, the gold book has reduced by 54% vis-a-vis December '12 numbers and currently is around 2,752 crores. This is from an all-time high which we had witnessed in September and December last year -- 2012. And now it is 18% of total AUM. Here, I should say that we are probably looking to growing this portfolio in the near future as the market stabilizes and we're probably looking at about 20, 24% of our book and we will work at it.

The key focus segment, which is small enterprise finance, continues to be on target. We continue to have good traction in that segment. It's now 49% total AUM vis-a-vis 36% in December '12. This segment has seen a 24% growth on a year-on-year basis.

The second most important product for us is the two-wheeler portfolio, which has seen a record 37% growth year-on-year and currently it has attained 17% of AUM. This in December '12 was at 11%. This could be -- also should be seen in light of flattish growth in two-wheeler sales business, and in that light we have managed this growth. And the credit grows to our -- the newer branches, newer segments which we have operated in the north and west and central India where we've been able to get more business. And we -- while at the same time we have been consolidating our business in south, especially Andhra Pradesh and Tamil Nadu.

So summing up, the AUM excluding loan against gold portfolio has seen a 3% quarter-on-quarter growth and 18% year-on-year growth. I think the fourth quarter should also been an interesting one and we should be able to achieve and maintain this. The disposals for the quarter stood at 4,170 crores, a growth of 17% over the last quarter. The disbursement excluding gold, loan against gold, recorded a 24% growth on a quarter-on-quarter basis.

The net interest margin -- in all of this there is no compromise on the margin. The net interest margin continues to be at 12% over and net pre-tax return over 5%, maybe we've reached an all-time high of 5.37%. This is light of a composition change of 49% AUM and 18% SME and 18% is gold.

During the quarter, the yield on assets came at 29.19% and cost of borrowings, this is inclusive of mobilization cost where in case of Shriram all cost incurred at the time of origination is looked upfront and there was no deferrals in respect of (inaudible) the liability and now it's at 11.74%.

The NPA recognition remains to be at 150-day norm for this quarter as on 31st December. The gross NPA as of December is 2.51% and the net NPA at 0.67%. This -- for a comparison from September '13 was 2.46 and 0.65, a 0.2% increase in gross and 0.2% over -- in the net NPL.

And the corresponding figure for December '12 was 1.57 and 0.47, and this needs to be seen in the light of a 30% plus book of gold.

So especially the non-gold book has not seen any stress and is to be grossed up. We continue to maintain our asset quality in the last one year period. In absolute terms, the gross NPA is about 332 crores as against the 320 crores NPL -- gross NPL as of September '13.

The coverage continued to be one of the best in the industry. We've maintained a 73% over -- 73% coverage and this is to be seen because gold is over 85%. So almost 85% of our stress assets have been either provided for or written off and we don't carry impaired asset on our books.

We continue to manage -- provide for at 150 days and we also have a management provisioning, while at the same time the gold we continue to maintain a 10% provisioning, as we have a physical hold of the gold. The write-off during the quarter was 83.39 crores as against 80 crores during the previous -- quarter ending December '12.

During the quarter ended December '13, return on average net worth, we've seen a bit of a slump, 18.95%, again maybe not a very healthy one compared to -- our returns have always been over 20%. But this should be seen in light of our capital adequacy which now is about 24.26% and Tier 1 being at 18.64%. As a comparison, in December '12 our capital adequacy was -- Tier 1 and Tier 2 together was below 16% -- was around 16%. The earnings per share is about 21.78 as against 21.42, December '12 figure, and book value 467.27 as against 386 December '12.

During this period, as you would have noticed, that there has been a flat balance sheet. Our AUM -- our borrowings have not been very much needed. So most of the time, we have worked at managing the cost or reducing the cost with the bank borrowings now -- stands at 50% of our total borrowing.

We continue to get lot of attention, lot of interest from retail customers -- retail investors. Now, it is about 31% of total borrowing. And during this quarter, we also completed one public issue. This is in light to be seen that we also have a deposit license and we also entered into a public issue. So our private debentures (inaudible) we have a deposit and a public issue route post the RBI guideline change.

And currently, the average maturity of our liability is about 26 months and about 52% of our liabilities are on fixed interest rate. I think we are still yet to see an RBI or change or a directional move. Every quarter, we've been working -hoping for it. I think we will -- hopefully 2014, 2015, we should be able to see some change, and while the next two quarter we will work at reducing the fixed interest liability to -- more to floating.

The company continues to enjoy confidence from its rating agencies. We continue to have AA rating from CARE, AA minus from India Ratings and CRISIL, and we have the highest rating from all three rating agencies for the short-term instruments.

And during this period, we've not done -- we're not entered into any fresh securitization or assignment transactions. And the portfolio and the securitization or assignment off-book is below 15% as on 31st December.

Coming to our subsidiary, Shriram Housing, continues to -- its growth traction. We have sanctioned loans over 387 crores, disbursed over 284 crores. For this period, for the quarter ending December, the profit before tax was 6.31 crores as against 2.81 crores as on September, so almost 2.5 times over the previous quarter. It's probably not to say that December '12 number are very relevant because it was just the first year of business. So, the profit after tax for the December '13 is 5.8 crores as against 2.5 crores.

The company continues to be fully (inaudible) of its equity, yet to go the market for borrowing, and the current network is over 340 crores. And there has been no increase in branches during this quarter, and the business is out of 46 branches. Thank you.

Subhasri Sriram, Executive Director

Thank you all.

Operator

Ma'am, shall we open the floor for Q&A?

Subhasri Sriram, Executive Director

Yeah, please go ahead.

Questions And Answers

Operator

Thank you very much, ma'am. First question is from the line of Kaitav Shah from Anand Rath. Please go ahead.

Kaitav Shah, Analyst

Good morning, everybody and congratulations, ma'am, on a good set of numbers. The gold loan -- so do you think the gold loan is now stabilizing and we can actually see an improvement from here?

Subhasri Sriram, Executive Director

I definitely hope so because I think the -- two things which are in positive signs, one is gold rate movement per se. I think that has more or less stabilized. Market rate for gold has not been -- there haven't been too many volatilities in the last almost two quarters. The second flip to this industry is the current change in RBI guidelines in terms of LTE. We will have to see what -- there has been lot of talk from the Finance Minister regarding the limitations on gold imports and we will have to see the impact of that on the gold price.

Kaitav Shah, Analyst

Okay.

Subhasri Sriram, Executive Director

We are not sure how much of this will get worked up. And I think at least currently even the rupee/dollar conversion is in favor of the gold loan market

Kaitav Shah, Analyst

Correct.

Subhasri Sriram, Executive Director

with rupee weakening. I think we are hoping to the next two quarters we should start seeing good amount of increase in business.

Kaitav Shah, Analyst

Okay. So keeping your gold loan portfolio in mind, overall how much AUM growth can we expect over a two-year horizon?

Subhasri Sriram, Executive Director

I -- we've always been saying that the growth can always be seen without gold only, because gold is a very -- a, it's a shorter-duration asset; second, it's more like a commodity asset. So, the -- from a push or pull, it's going to be a challenge for us to get the customer walking into the branch (inaudible).

I would say minus X gold, the growth should be over -- at least over 20% if not more. But including gold, we'll have to see for some more quarters.

Kaitav Shah, Analyst

Okay, correct. And in terms of geographies, so are we seeing some geographies or some states doing better than others? And -- because second I remember Andhra Pradesh was clearly down and out; how is that doing, a; and overall geography-wise are we seeing some difference in asset quality?

Subhasri Sriram, Executive Director

Let me first clarify the Andhra last quarter, it was nothing to do with Shriram's Andhra, it was the state and the political situation there.

Kaitav Shah, Analyst

Correct, ma'am.

Subhasri Sriram, Executive Director

I think we have -- so therefore we still continue to have the concern over us about what could be today if -- Kiran Reddy is in Delhi and he's talking, we don't know what could be the impact in Andhra tomorrow. So, the state machinery needs to work for us to work.

There have been few challenges in our lending business, but that has not much translated into asset quality or collections. Okay, now going by -- so till such time the Andhra, Telangana issue is fully resolved we are going to have some moment of disturbances there. But hopefully, it will not be a very long duration disturbance; it might be a couple of days and then we're back again.

But with the reference to the other states, I think it is not that we do better than the existing states but the size is -- these are those states which are -- with a business which is just wrapping up. So in terms of percentages, they definitely look much, much better than the most -- more established state. But in -- for -- in rupee terms or in quantum of number of customers with these new branches put together, probably all branches put together can never overtake any of my existing established branches.

Like for example, Andhra Pradesh or Tamil Nadu we have more than 300 branches per state and the rest of the India all put together is about 300 branches. And these two states have large, matured established branches. So we do see a lot of growth in percentage. We could probably see a 50% growth, 70% growth in some of the branches in some of the states. But to be a -- become significant in overall Shriram City's numbers it might take a couple of more years.

Kaitav Shah, Analyst

Okay, sure. Thank you. That's it from me.

Subhasri Sriram, Executive Director

Thanks.

Operator

Thank you. Next question is from the line of Rohit Shimpi from SBI Mutual Fund. Please go ahead.

Rohit Shimpi, Analyst

Yeah, good morning everybody. Congratulations on good numbers. I had just two questions. The first one is on margin. So now if you look at it, as the loan book mix has changed over last few quarters, clearly margins have moved up, what trajectory do you expect for this going forward? Do you think that margins have peaked or there is still some room to improve on the --

Subhasri Sriram, Executive Director

I don't think -- the margin is as I would like to -- I keep reiterating again and again. I think the margin is just a reflection of multiple products.

Rohit Shimpi, Analyst

Okay.

Subhasri Sriram, Executive Director

Okay. We haven't changed our lending rates or our costs of funds have not gone up in any significant percentage in the last 1.5

years.

Rohit Shimpi, Analyst

Okay.

Subhasri Sriram, Executive Director

Okay. We continue to be lending -- maybe the gold loan book has slightly come off, maybe that has become irrelevant now. The portfolio itself has become reduced. But the -- rest of the products our lending rates have not been -- we've not changed it for any significant percentage anywhere. And it two years we've got more or less the same rates. So, the margin is more a reflection of asset mix and the cost of funds also has been quite steady, barely -- again a change between retail liability and wholesale liability can change the margin, but in terms of segment-wise borrowing cost, more or less has been stable in the last two years.

Rohit Shimpi, Analyst

Okay, thanks. And second question, ma'am, is just a broader -- just on the overall consumer and commercial finance space. So if you look at it, it's had a downturn now for over two years and it seemed initially that single legs actually of the storey stated falling. So earlier you had -- in commercial vehicles, for example, you had HCV falling and then more recently we've seen even LCV sales decline, whereas still mortgages and certain segments of SME seem to be holding up quite well as seen in your numbers too. Would you exert any caution at this stage on the products which are holding up well or you think that they should continue --

Subhasri Sriram, Executive Director

I totally agree with you. This I think -- everything needs to be look at and looked -- and should be done very consciously and in a calibrated fashion. Not that because something has happened in the other segment it's likely to happen here. But I think more in reference to the MSME customers, they are in the lower end of it and largely in the past have been separate on equity. Today my -- the concern is (inaudible) these customers and there is going to be a bit of good money chasing bad money.

Rohit Shimpi, Analyst

Right.

Subhasri Sriram, Executive Director

If the alternative avenues of lending are not open now and money needs to flow, water will find its own level, hope it doesn't find level with the MSME class which probably is not in a position to absorb too much credit at one go. It has to be [Technical Difficulty] over a period of time. We need to be cautious. I would say we will not rush into it. We continue to basically at 20, 25%, and that is a very healthy number considering that there are no too many lenders there and this barely is scratching the surface.

I mean the entire industry -- when you look at -- gold loan industry can support 40,000 crores, that MSME customers don't even have 10,000 crores money in the segment. And they are talking about consumption can take 40, 50,000 crores in the -- only by (inaudible) put together. I think there is a lot of room for the MSME to do 5, 6 times more, but just that it has to spread out to more customers rather than money chasing a few customers.

Rohit Shimpi, Analyst

Okay. Thanks, m'aam; thanks so much.

Subhasri Sriram, Executive Director

Sure.

Operator

Thank you. Next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead

Nischint Chawathe, Analyst

Yeah, hi. Good morning.

Subhasri Sriram, Executive Director

Good morning

Nischint Chawathe, Analyst

Just one micro number. This is on, what would be the NPLs, excluding gold? I'm not sure if you have mentioned it at the beginning of the call.

Subhasri Sriram, Executive Director

You want in rupee terms or precentage?

Nischint Chawathe, Analyst

Yeah, rupee terms.

Subhasri Sriram, Executive Director

282 crores, gross NPLs.

Nischint Chawathe, Analyst

Okay, okay. Sir, would my reading be right that the borrowing cost has declined a little bit on a quarter-on-quarter basis?

Subhasri Sriram, Executive Director

Yes, very small. As we said, there is a whole lot of team which is -- we have not too much worked to raise money. We have actually been troubling still bankers reduce the rates.

Nischint Chawathe, Analyst

Okay, okay. On the small business -- on the business loan side, just trying to figure out, it seems that the repayment rate kind of increased during the quarter.

Subhasri Sriram, Executive Director

Yes.

Nischint Chawathe, Analyst

But what could be the reason --.

Subhasri Sriram, Executive Director

The MSFE [ph] portfolio has seen a -- while the disbursements have been pretty healthy, the AUMs have not grown or actually are still small, because some of the loans which we have done in last year, December last year to now, the tenures have either been a shorter duration loans or there have been some foreclosure. This is something which I just indicated earlier about the bit of money chasing customers today.

So we have seen some closures, which is okay. We're quite happy about it.

Nischint Chawathe, Analyst

Okay. But do the -- I mean, if there is a foreclosure or something, do you get a foreclosure fee or something of that sort?

Subhasri Sriram, Executive Director

Yes and no. I don't -- we don't insist it -- depending on the circumstances. If somebody who is going to take a loan for two year, three year and close it within two months, we definitely collect foreclosures.

But somebody who has taken a two-year loan and foreclosing at the end of one year, we do not collect any foreclosure in fact.

Nischint Chawathe, Analyst

Okay.

G. S. Sundararajan, Managing Director

So there is a good -- there is a very good chance that customer could come back again, and this we have seen in the past, because many of the customers have the kit behavior pattern, which is whenever there is a price money, they would like to close it, whenever there is a for a short while, they'll come back. So -- and we don't think we should burn the bridges I don't think this customer relationship works well for it.

Nischint Chawathe, Analyst

On the gold loan side, would -- what would be -- I mean, what would be the sense that you would have for disbursements over the next couple of months, I mean, from a slightly more, maybe one, two quarter kind of a guidance. Is -- are things picking up in Jan on a monthly basis and do you see the disbursement or monthly run rate picking up now on?

G. S. Sundararajan, Managing Director

See, if you notice, our disbursements in gold actually have gone up only. Okay, quarter-on-quarter, it's being going up for the last two quarters. But what we are also seeing and very happy about it, is there is quite a bit of redemption in the portfolio. Well, this is isn't -- actually if this reduction did not happen, we would -- have been more concerned because it could be very sticky.

Nischint Chawathe, Analyst

Okay.

Subhasri Sriram, Executive Director

What is satisfy and encouraging is there is a quite bit of redemption. So obviously, our LTVs which we reduced in last 2012 is not -- is benefiting us. If you notice, most of competitors, their portfolio peaked in March.

Nischint Chawathe, Analyst

Yeah.

Subhasri Sriram, Executive Director

In ours, the peak was September '12, which was almost six months before the rest of the market. We started reducing it. So that is what is now being redeemed, or most of it is. So I hope that like in a mutual fund redemption pressure, I hope this still redemption settles down. I don't think from a lending point of view, we have no concerns. It is actually going up. But more in terms of redemption and I think it should find its own level and the next quarter onwards the disposable continue to be healthy and the

redemptions will be lower.

Nischint Chawathe, Analyst

Redemption seemed to be like 1,500 crores to 1,700 crores every quarter and that seemed to be stable for last two three quarters and then there doesn't seem to be any change.

Subhasri Sriram, Executive Director

Yeah, that is portfolio which got originated. So basically, once this new last two quarters portfolio, which we originated should stay because typically the average duration, which used to be three months in the past, in 2012 early. So (inaudible) over 2013 it moved to five, six months.

Nischint Chawathe, Analyst

Okay.

Subhasri Sriram, Executive Director

So the average duration should not be over five, six months, which means because there was a slump in our disbursements in the past. That will stop. Now only last two quarters our disbursements are picked up. And that will stay in our balance sheet for longer period. We are seeing the impact of a lower disbursements, tractions and very high disbursements one year ago. We'll just overcome that cycle and I think we're done with it.

Nischint Chawathe, Analyst

Your duration seems to be like, I mean, because the reason is of the duration seems to be less than six months, so in all possibilities this could be an impact of maybe the first quarter or something of that sort--?

Subhasri Sriram, Executive Director

(inaudible) the five, six months -- the five, six months is the average duration now. We obviously got less than three months in the past.

Nischint Chawathe, Analyst

On the two wheeler portfolio, there seems to be kind of improvement on quarter-after-quarter. Any guidance that you would want to go there -- sorry, give your what's exactly -- what is that we can see, I know it's not that large, but still--?

Subhasri Sriram, Executive Director

Well, it is -- I mean, more than being large, it is the most interesting portfolio, very profitable for us, maybe the best portfolio from a profitability point of view. It is -- what I have been saying in the past that when you open branches, when you establish markets, you probably don't believe for a long period of time. But to see that exponential growth, you need to wait for a time. Fortunately, what effort we put in 2009-'10 and all of it were the open branches of the Northern, Southern India, Western India. Today, we have good experienced team in these branches. And as I said earlier also, that two wheelers is the first business you start in all these branches, so two wheeler is not going to be a very matured business even in these branches.

So the branches are also getting to -- getting a lot and lot of market share in two wheeler business, especially I should say the credit should go to our Northern region where we have actually done very good and that was an area where we were practically not present. So the earlier business with two wheeler was largely coming from South. Now, I would say, 25% of our two wheeler business is coming from West -- barring the two Andhra and Tamil Nadu states.

And going forward, I expect more growth in this market because the markets like UP or Delhi or Rajasthan is very large in terms of the number of vehicles getting sold and financials are not too many either. So I think we've -- room for growth is predominant [ph] there.

Nischint Chawathe, Analyst

Okay. And the NPLs here are similar to the portfolio or they could be slightly higher?

Subhasri Sriram, Executive Director

No. Average NPL is slightly higher than the MSME portfolio, but it is very profitable because it is -- from a credit cost net risk adjusted yield, I probably would say it's even slightly better than MSME.

Nischint Chawathe, Analyst

And the cost to income ratio?

Subhasri Sriram, Executive Director

There is an origination cost, even if you factor the origination cost, that is where -- because it's a slightly shorter duration asset, not been on more than two years whereas MSME is more than -- more in the line of three years. So it is -- considering the origination cost, it may be a little equivalent, but simply on credit cost and lending cost net of creditors, I think the two wheeler is one of very profitable part.

Nischint Chawathe, Analyst

Okay, okay. Thank you very much and all the best.

Subhasri Sriram, Executive Director

Thank you.

Operator

Thank you. Next question is from the line of Mr. Amit Ganatra from Religare Invesco. Please go ahead.

Amit Ganatra, Analyst

Two questions. One is, can you provide the absolute amount of disbursement for each product lines for this quarter?

Subhasri Sriram, Executive Director

For the quarter disbursement?

Amit Ganatra, Analyst

Yeah.

Subhasri Sriram, Executive Director

Sir, I'll give you broadly. The MSME was about 1,600 crores.

Amit Ganatra, Analyst

1600. Okay.

Subhasri Sriram, Executive Director

Two wheeler is close to about 900 crores.

Amit Ganatra, Analyst

900 crores.

Subhasri Sriram, Executive Director

Auto is about 350 crores. And personal loan, consumer loan all of them another 200 crores.

Amit Ganatra, Analyst

And gold?

Subhasri Sriram, Executive Director

Gold is about 1,100 crores.

Unidentified Participant

Gold was 1,100 crores disbursed?

Subhasri Sriram, Executive Director

Yeah. That's right.

Amit Ganatra, Analyst

Okay. Now, about this two wheeler, you mentioned that in a market which has not grown, you've managed to grow. So basically means that you've gained a large market share. So --.

Subhasri Sriram, Executive Director

Yes. Because two wheeler is a segment which continues to be largely supported by cash sales than credit. So I'm probably not taking much business from our competitors, but I'm actually moving into the -- taking a bit out of the cash business.

Amit Ganatra, Analyst

So, you're saying that it's not that some organized player has large market share but it's just that --

Subhasri Sriram, Executive Director

Not necessary, because if you look at the sales as well as credit, the credit (inaudible) sales. So if I'm a market -- if I have a 10% market share, it effectively means I only have 3% overall. If the 10% of --10% with total (inaudible) will be 30%.

Amit Ganatra, Analyst

So, you are saying that total vehicles financed by credit itself has gone up over last one year?

Subhasri Sriram, Executive Director

Yeah, that's right. It is going up in -- most of all in smaller markets, not the big cities, definitely the Tier-2, Tier-3 towns it is moving up.

Amit Ganatra, Analyst

Okay.

Subhasri Sriram, Executive Director

I think to some extent, we should thank and -- think for the rural prosperity. I think that the more customers are confident about they getting into that, I mean owning vehicles.

Amit Ganatra, Analyst

Okay. Thank you.

Operator

Thank you. The next question is from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal, Analyst

Yeah. Hello, ma'am.

Subhasri Sriram, Executive Director

Morning.

Pankaj Agarwal, Analyst

Morning, yeah. My question was on operating expenses; if I see your AUM has been largely flat on Y-o-Y basis for last two, three quarters but your operating expenses have increased 18% Y-o-Y for first nine months of the year. So is it because of higher expenses for collections or due to inflation or any other reason?

Subhasri Sriram, Executive Director

I wouldn't say inflation, generally salary increase is 10%, so I (inaudible) 18% salary is 80 -- 90% and that will translate to 8% -- 10% increase, so the new -- increase. But more I would say the OpEx is again reflecting the asset mix.

Pankaj Agarwal, Analyst

Okay.

Subhasri Sriram, Executive Director

In the gold your -- the OpEx is -- the yield is low and the OpEx is low.

Pankaj Agarwal, Analyst

Okay.

Subhasri Sriram, Executive Director

So, the NPS is low.

Pankaj Agarwal, Analyst

Okay.

Subhasri Sriram, Executive Director

The minute you move of that, even a two-wheeler business, the OpEx goes up.

Pankaj Agarwal, Analyst

Okay.

Subhasri Sriram, Executive Director

Obviously, if you're going to lend it at a higher rate there is -- obviously everything is not retained at the company and there is reason for the rates which are being charged. So there is origination cost, there is a recovery cost shift up. (inaudible) cost is lot more in a collection intensive business.

Pankaj Agarwal, Analyst

Okay. So it's largely because of change in the portfolio mix?

Subhasri Sriram, Executive Director

Absolutely.

Pankaj Agarwal, Analyst

Okay. And maybe --

Subhasri Sriram, Executive Director

just the inflation numbers.

Pankaj Agarwal, Analyst

Okay. And my second question was on your net interest spread. So hypothetically, if we imagine that if you cost of funds goes up by 50 to 100 basis points over the next one year

Subhasri Sriram, Executive Director

Yeah.

Pankaj Agarwal, Analyst

Given the demand scenario and given the stress in the economy, would it be possible for you to pass on this increased cost of funds to your --

Subhasri Sriram, Executive Director

I don't know whether you're prophesying or you are -- the 100 basis points increase is not at the anybody's even in wildest night mares.

Pankaj Agarwal, Analyst

I know, nobody thought it--

Subhasri Sriram, Executive Director

Okay. Even for this year, hopefully this doesn't happen, but we'll guess that happening. I would say that we will not from a market stand point of view, we were not unlikely to pass on the rates immediately at one go.

Pankaj Agarwal, Analyst

Okay.

Subhasri Sriram, Executive Director

We will wait and watch. I think we will be able to absorb it. We will have to be steadily more tighter than our other things, but I don't expect us push pass on every rate, which we get in the market to push to the customer. I think that doesn't work in India. We have to work at our own efficiency and other things. And that's how we will be doing.

So, unlikely, so neither will I say that there will be pressure on our margin, neither will I say that we're going to pass on everything and therefore there will be no pressure. We'll be able to manage it judiciously by some other process, some regions who are passing on the rates, some continue to lend at the old rate, where we are entering into the market and as well as at the time, we should be able to tighten our wealth and to be able to reduce the cost otherwise.

Pankaj Agarwal, Analyst

I understand that any point of time, it's difficult to pass on increase.

Subhasri Sriram, Executive Director

For the theoretical model, passing on the cost is not difficult, okay, I can -- it is just a number, it's like and the customer pay an EMI amount of INR1,800, he pays INR100 more like 1000 [ph] rate which has passed on.

Pankaj Agarwal, Analyst

Okay.

Subhasri Sriram, Executive Director

Okay. So that's not a very -- it's not a rocket science, it's not very difficult to pass it on. But actually, there is a question of market competitiveness. If the rate are going to be across uniformly, everybody is going to have a different rate, I think the market will settle down the price.

Pankaj Agarwal, Analyst

Okay, okay.

Subhasri Sriram, Executive Director

And this -- but I am answering your question more straightforward, this market of us, the interest rate is extremely flexible.

Pankaj Agarwal, Analyst

Okay.

Subhasri Sriram, Executive Director

The electricity is there and passing on rate is not difficult. There have been times, even in commercial vehicle industry new vehicles rates have been over 20% in the past.

Pankaj Agarwal, Analyst

Okay, okay.

Subhasri Sriram, Executive Director

So, it is not as if it is impossible to absorb these rates.

Pankaj Agarwal, Analyst

Okay. Okay. Thank you very much.

Operator

Thank you. Our next question is from the line of Rajdeep Anand from ICICI Prudential. Please go ahead.

Rajatdeep Anand, Analyst

Hi. Good morning. Can you hear me?

Subhasri Sriram, Executive Director

Yeah. Morning, sir.

Rajatdeep Anand, Analyst

Hi, congrats, good numbers. If you can give us some color on asset quality and how you have managed to hold up, because certain other NBFCs, their gross NPA, net NPA they have spiked and they are saying that it is because of some -- certain crops, MSPs, were delayed and things like that. And your road map to move towards 90-day NPA recognition, so both of these if you can explain to us.

Subhasri Sriram, Executive Director

Okay. First let me answer the first question, it's about our asset quality.

Rajatdeep Anand, Analyst

Yeah.

Subhasri Sriram, Executive Director

As I say -- I've been saying in the past, I think they've been diligent and been very focused on the customer segment which we operate. And continue to manage the relationship-based lending. I think we are on track. We are not pushing business for the sake of business, so customers are not -- is not encouraged to borrow or expand in a tight market.

So I don't see so much -- and as long as our ticket size was small, granular business structure, I think we are on a very safe wicket, not really comparative to other -- some NBFCs where we are probably much more closer aligned with any particular industry.

Now answering the second part of the question about 90-day NPL, I only like to recall what our MDO just spoke earlier. So, now that we are talking about clearly seeing the not happening of the Usha Thorat Committee and then I don't think we are -- clearly we should be worried about that committee policy being implemented or recommendations being implemented, and -- while at the same time if we have to have rope on it, (inaudible) recommendation implemented, obviously it's not our recommendation which has come subsequently (inaudible) from what it is. So, obviously this has been more relevant than what Usha Thorat Committee gives.

And if it's a question of -- only now a question of time and the way it is going to be implemented, whatever it is, it is definitely not the 90, 120 which is from -- suggested by Usha Thorat. So, going to -- answering your question, we are not seeing 90, we are not seeing 120, on the contrary we are hoping to see 180 very soon.

Rajatdeep Anand, Analyst

Okay, thank you.

Subhasri Sriram, Executive Director

Thank you.

Operator

Thank you. Next question is from the line of Vibha Batra from EXAR Limited [ph]. Please go ahead.

Unidentified Participant

Yeah, good morning, and congratulations on good set of numbers. I have a couple of questions. One is on this housing subsidiary. How much is the synergy with either chit fund customers or your existing asset class customers? And how do you see the AUM growing in next year?

Subhasri Sriram, Executive Director

See, we try -- I would say that we are not actually sitting on the -- working along with the chit funds branches, like, definitely our executives of sales team are working in the chit local market.

Unidentified Participant

Okay.

Subhasri Sriram, Executive Director

Okay, and they work along with chit sales executives to sort of lower reference for housing loan. Housing loan is fairly a longer ticket, high value loans, it is not (inaudible) decision. But we are actually working closely with our chit branches and other Shriram branches, including Shriram City branches and there is a lot of (inaudible) detail. That is the reason probably we don't have to expand branches, more branches to do more business.

Unidentified Participant

Okay.

Subhasri Sriram, Executive Director

The reach is already available across the pan-India. The part of our growth, see, the numbers are so small, 300 crores numbers, for 350 crores what you can probably see in March, the growing about maybe 60%, 70% is not very difficult now.

Unidentified Participant

Sure, in absolute terms.

Subhasri Sriram, Executive Director

Yeah, till we reach a couple of thousand crores portfolio, you will probably likely to see a very steep jump quarter on quarter.

Unidentified Participant

Okay. So what kind of AUM can one expect in next three years from the housing company?

Subhasri Sriram, Executive Director

I'll put this -- you please look at any company, which is a four-year track record -- at the end of three years, it's probably fifth year, any company in the fifth year, whatever the company has done if you tell me a number, we will be doing 30% more than that.

Unidentified Participant

I didn't get that, sorry.

Subhasri Sriram, Executive Director

If you have an x company, which is in the fifth year of its business, if that has done 100, I can tell you Shriram Housing would have done 130.

Unidentified Participant

Okay, okay.

Subhasri Sriram, Executive Director

I'm just looking at the traction of year-on-year from the date of origination. The date of starting business, commencing business and I definitely I'm very confident that we will do 30% more than the market, but market has delivered so fast.

Unidentified Participant

Okay, fair enough. And what percentage of your customers, also the portfolio is small, are they overlapping customers, I mean, how much--

Subhasri Sriram, Executive Director

No, not hardly maybe I just can count it in one hand, the number of the customers (inaudible).

Unidentified Participant

Okay.

Subhasri Sriram, Executive Director

There's no overlapping of customers at all.

Unidentified Participant

Okay. My second question is on LTV is although RBI has relaxed the LTVs now to 75%, what is your internal thinking till which till what LTV are you going up to?

Subhasri Sriram, Executive Director

In fact, we are not asking -- actually if you ask me personally, we did not want RBI to tell us what the LTV is. I think the LTV should be market driven. I don't think risk is going to be (inaudible) we have not given any risk protection or anything. So I don't see any reason why that should be in control over that number, which is not the case of then, so, neither am I happy--

Unidentified Participant

No, it is the case of banks, too. They have the same LTVs for gold loans. It's been -- the regulation has been changed so the banks and NBFCs are at par on LTVs for gold loan.

Subhasri Sriram, Executive Director

Then it is -- the only usually it's (inaudible). Okay, so having said that -- so I've not -- we are not wanting the Reserve Bank of India to tell us what we should do and -- to manage our risk. So we continue to -- long and short of it, 60 is not going to go 75 tomorrow. We continue to watch. It might go to 64, 65. We will continue to review the portfolio, reviews the gold rate movement over a period of time and also, the 75% will be very selective for customer, selective products and selective locations. But across the board, we are not taking RBI's statement -- statement of overnight changing the rates; no, we are not doing.

Unidentified Participant

No, RBI in any cases prescribe the maximum LTV -- I mean --

Subhasri Sriram, Executive Director

Yeah, that's fine. So there are lot of other challenges, but we would like to wait and watch.

Unidentified Participant

Sure. And my last question is on restructuring, the new guidelines that RBI has introduced for the NBFCs, how much would be the impact on -

Subhasri Sriram, Executive Director

No, not relevant, not at all relevant. They don't have long tenure infrastructure funding.

Unidentified Participant

No, but on -- for other loans also the --

Subhasri Sriram, Executive Director

No, we don't have any such. We are not getting into that restructuring at all.

Unidentified Participant

Okay. Thank you, Subhasri.

Subhasri Sriram, Executive Director

Thank you.

Operator

Thank you. Next question is from the line of Mr. Saurabh Kumar from JPMorgan. Please go ahead.

Saurabh Kumar, Analyst

Yeah. Good morning, ma'am. Ma'am, my question was essentially on your borrowing mix. It seems to me that you have -- at least have some leeway to improve the mix to basically control your borrowing loss. One, obviously -- way is obviously securitizing better.

So, what we understand now you can essentially do it low base rate, so probably you get something like --

Subhasri Sriram, Executive Director

That's right.

Saurabh Kumar, Analyst

And second is also -- I mean, just alter the mix a bit, so what are your thoughts about how your borrowing costs should trend? I mean assuming you'll probably see another 25, 50-basis point hike from there?

Subhasri Sriram, Executive Director

Yeah, thank you for observing that we do have a lot of elbow to improve on our cost. But nevertheless, this current structure which you have come in is mostly more on account of flattish AUM and the retail window which is very healthy, the retail flow is very healthy. I would say this liability mix will address -- will get addressed by itself the minute the balance sheet starts growing in numbers, not just the product size.

Across all products in the mix when the growth starts coming in, there definitely you will see the liability focus changing dramatically and moving towards bank borrowing, so there is a percentage growth. And that will immediately be seen -- within the next same quarter you will see a change in the cost of fund.

Saurabh Kumar, Analyst

Okay. Fair enough.

Subhasri Sriram, Executive Director

So it's a pretty nice story, I think, we just have to wait for a growth in the business, including gold for us to see a more margin improvements (inaudible).

Saurabh Kumar, Analyst

Okay. Thank you and that's very clear. Just one final thing. What will be the cost of these retail NCDs and deposits including brokerage and commissions, what will be the net cost to you?

Subhasri Sriram, Executive Director

Three-year money could go up to 12%, including brokerage and brokerage everything.

Saurabh Kumar, Analyst

Okay. Thank you. Thank you very much.

Operator

Thank you. Our next question is from the line of Suruchi Chaudhary from Edelweiss Capital. Please go ahead.

Shruti Choudhary, Analyst

Good morning, ma'am. Hello?

Subhasri Sriram, Executive Director

Yes, good morning, ma'am.

Shruti Choudhary, Analyst

Yeah. Ma'am, I would want your thoughts on are we evaluating moving to the any of the bank structures advise by Dr. Nachiket Mor from the current NBFC structure? Though we understand that we have applied for a bank license, but there are quite a few conditionalities there whereas we do see some relaxation as per Dr. Mor's recommendation?

Subhasri Sriram, Executive Director

Okay. I think we're still in the steady receding the policies of the recommendations and evaluating the pros and cons. So I don't have an answer of that have we decided on one and is there a plan of action for it, no. So there are very interesting options available, but I think as we've seen in full entirety of holistically because we still don't have the margins, maximum details about how it's going to work. It's a very (Technical Difficulty) thought process which has been documented.

We'll get the execution, we'll have to get more details from RBI and understand how it is going to be done. And post that we actually have any clear decision on that. It's only a thought and idea or a very forward looking, but I don't think the complete report is very detailed in terms of execution and that will come in force RBI accepts the recommendation.

Shruti Choudhary, Analyst

Sure, ma'am. Ma'am, next, your thoughts on, you've mentioned that the AP scenario is still under watch and though your payments and credit quality continues to be healthy as far as the lending business is concerned, have we changed our processes, have we changed our credit screens and just got more cautious there in terms of lending also now?

Subhasri Sriram, Executive Director

No, no. See, when I think we need to clarify, the lending was not in terms of credit risk, it was about just the process of he is doing the credit delivery itself. We could not do the registration of properties, we could not do the vehicle registration, we could not check the ownership of vehicles. For example, the last ten days in Agra, the writers of (inaudible) this office on the (inaudible).

Suruchi Chaudhary, Analyst

Okay.

Subhasri Sriram, Executive Director

So we have a small (inaudible) mode or whatever they call it, so there are small disturbances in the government machinery there. That is also disturbing or creating a little of a hindrance for us to complete the loan delivery process. So what could normally take a 15 days, 10 days might take a month now. So, there are some -- purely due to external reasons. And that is what we talked about delay or slowdown in lending, but to have -- per se I don't think there is a credit risk at this point existing [ph]. I mean other than small stages about whether it is going to be shared capital or not and whether there is an -- those things you need to -- that's probably more local micro decision making.

Suruchi Chaudhary, Analyst

Okay.

Subhasri Sriram, Executive Director

But at the state level, nothing very specific. It's just the time taken to do a job is lot more than what used to be earlier.

Suruchi Chaudhary, Analyst

Sure, ma'am. And ma'am, in terms of the branches outside of south, you've mentioned that you're using two wheelers as the first

product. But overall, how are these branches shaping up in terms of the profitability vis-avis- the south branches?

Subhasri Sriram, Executive Director

Profitability, as I have said earlier too, that almost all branches get into the profit mode within a month or two. We -the very simple way we start of is -- we probably don't even have a physical branch, brick-and-mortar branch till our particular level of volume is reached. To this effect, we have the support of other [Technical Difficulty] group company where our executives where our executives initially spent a couple of months, because in two-wheeler business much of the work in either at the dealer showroom or at the customer place, not at the branch or at your office.

Only when we have seen good growth number, good numbers, good set of employs stabilize there that we go to physical brick-and-mortar branches. So, branch profitability has never been an essential to us. But that growth projection, that doing 100 vehicles to doing 500 vehicles, that is -- that comes in only when leadership is good and stable.

As a result, yes, our northern branches, central, rest of India, the leadership has now -- there is a proven team leader and a team to support the leader. I think we are hoping to see good ties in the next one, two years in this segment.

Suruchi Chaudhary, Analyst

Sure, ma'am. Ma'am, next if you can give us some sense of what is the overall PSL component in our book and also how does it shape up segment wise?

Subhasri Sriram, Executive Director

So, PSL point of view the MSME is a Tier 2 PSL which is 49% of the book. But the only challenge is that 8% margin which our MD was talking in the initial discussion. So to have at only 8% over the cost of funds, we do not have too many available. Our margins typically is (inaudible) which you would have seen already. So portfolio which is coming which is at 8% is limited, so that sort of restricts our ability to securitize more than what (inaudible).

Suruchi Chaudhary, Analyst

Sure, ma'am, that's it from my side.

Subhasri Sriram, Executive Director

Thank you.

Operator

Thank you. Next question is from the line of Mr. Jyothi Kumar from Spark Capital Advisors. Please go ahead.

Jyothi Kumar, Analyst

Hello, ma'am; just a couple of questions. What explains this Q-o-Q jump in the employee expenses? Is there any lumpy number that is there?

Subhasri Sriram, Executive Director

Okay. Two points, one is from earlier -- last analyst call. When the business -- last analyst call, we'd explained -- you must have noticed my -- Q-on-Q mu employee expenses came down.

Jyothi Kumar, Analyst

Correct.

Subhasri Sriram, Executive Director

Okay. But I'd explained at that point of time that it is because when you have a lower business, okay, we do have incentive for lending and collection. So there is a variable component in the employee cost. So first of all, the base Q2 is a number which is seen in -- should be seen in light with the business which happened in Q2. And Q3 we have seen both -- that is one asset of higher volumes, higher business which is reflected in the higher employee cost and also being the quarter ending -- quarter where the Diwali bonuses (inaudible) payments are there.

Jyothi Kumar, Analyst

Sure.

Subhasri Sriram, Executive Director

So it is on account of both these that the employee costs have gone up.

Jyothi Kumar, Analyst

Other question that I had was, what is the proportion of the current loan book which is from non-chit customers and in terms of incremental disbursements as well, how would that breakup be between chit and non-chit?

Subhasri Sriram, Executive Director

Look, I'm not sure that I've understood. Are you talking about non-chit customers or you're talking about non-chit locations? If your question is non-chit customers--

Jyothi Kumar, Analyst

Customers. Chit customers of chit referred customers.

Subhasri Sriram, Executive Director

If it is chit referred and chit customers, only point where you can have a chit reference customer or chit customer is in MSME.

Jyothi Kumar, Analyst

Correct.

Subhasri Sriram, Executive Director

Okay. That -- probably about 80% is that way. The rest of them are all nothing to do with chit customer or chit reference, it is just the market closing. But more from a quality point of view, it is employees who manage this or the cost of managing those business is from the Shriram pedigree.

Jyothi Kumar, Analyst

Okay, sure. That's it. Thank you.

Subhasri Sriram, Executive Director

Thank you.

Operator

Thank you next question is from the line of Elizabeth John of CRISIL. Please go ahead.

Elizabeth John, Analyst

Yeah. Hello, ma'am. Good morning.

Subhasri Sriram, Executive Director

Good morning Elizabeth.

Elizabeth John, Analyst

I have a small question in terms of a SME disbursement and the AUM, you explained to us on [Technical Difficulty] Hello?

Subhasri Sriram, Executive Director

Yes.

Operator

Excuse me, it's the operator. Alright, ma'am, you may continue. Thank you.

Subhasri Sriram, Executive Director

We had a good break. Elizabeth, please.

Elizabeth John, Analyst

Yeah. So, I was highlighting that you mentioned that on a sequential basis the SME disbursements were up and the AUM was flat, and you highlighted there was two reasons short-term loans, tenure loans and the foreclosure. So any particular reason why we are seeing the short-tenure SME loan or do we see that as one-off thing, do we see that as trend going forward or something like that, can you throw some light on that?

Subhasri Sriram, Executive Director

For a trend to happen at least we should have one -- more than one month -- one quarter to tell you -- whether -- tell you it's a trend. So it's too early right now. And the other part of the question is, is it -- are we consciously looking into the market, looking at it, not -- it's not the case. We are not soliciting business in short duration or any of such things. And whether it's a trend, we'll have to wait and watch.

Elizabeth John, Analyst

Okay. And also if you can share, I mean you highlighted in terms of gold loans and the other product, but overall AUM I mean what kind of number would -- trend would we see in quarter four and then the next year?

Subhasri Sriram, Executive Director

Elizabeth, I'm -- unfortunately I don't have this -- that number on the gold, because I really have never understood the -that segment's growth. There are so many reasons why what it happens.

Elizabeth John, Analyst

Sure. AUM excluding gold if you could just highlight.

Subhasri Sriram, Executive Director

I'd like -- excluding gold I would say 20%.

Elizabeth John, Analyst

Okay.

Subhasri Sriram, Executive Director

Year-on-year 20% is excluding gold.

Elizabeth John, Analyst

Sure. And one more thing that you highlighted is that in the Andhra Pradesh, we had this difficult in completing the loan delivery process and all. That time the Q2 disbursements also got impacted. But Q3 we had still managed to have a good disbursement growth. So any particular reason, is it that the intensity of that has gone down or something like that if you can highlight?

Subhasri Sriram, Executive Director

Yeah, definitely. What we saw in Q2 was an different scenario, we had the entire state machinery closed, okay. That was when -- where some telephone to power to transportation everything was shut. What we are seeing now is more selective, more of localities, not across the state and not across all departments.

Elizabeth John, Analyst

Okay. Sure, this is helpful. Thanks.

Subhasri Sriram, Executive Director

Yeah.

Operator

Thank you. Next question is from the line of Anil Tulsiram from Contrarian Edge. Please go ahead.

Anil Tulsiram, Analyst

Yeah. Thanks, and good morning, everyone, and thanks for taking my question. Ma'am, I have three questions and all the three questions pertain to your SME product. First question is during the loan approval stage, how much (inaudible) is given to the credit history of customers and (inaudible) collateral vis-a-vis the business model of the customer and industry they are operating in?

Subhasri Sriram, Executive Director

It is largely I would say the credit history. It is reference, it is the number of years in business, it is borrowing -- other borrowings if any, the capital infusion, the margins which you operate in the business, they are more relevant. The second point is collateral security. I think from an industry point of view, we are not very focused -- segmental -industry we are not very segmental. We do have the more traditional negative less, which I don't think -- which is across all lenders and we keep away from that, that's all. Post the -- after that first level of filter, we don't get into further bifurcations.

Anil Tulsiram, Analyst

Okay. Thank you. And ma'am, the second question is on the increased foreclosure question which was raised earlier. Is it because

(inaudible) your SME loans are against collateral of renewable property where the interest still is around 17 to 18% and lot of competitors are entering the loan against property product, which are being offered against 13 to 14%, so that's why a customer is going for foreclosures?

Subhasri Sriram, Executive Director

As I said earlier, I don't think I can give you a pattern, a one quarter view. But to guess, not that I have data right now, but that is -- your assumption or your guess is probably unlikely to happen for what -- one or two good reasons. One is the customers we lent to are not coming in, in the property as their principal reason for borrowing from us. It is a business, there is a monthly payment and typically the (inaudible) longer duration, five to seven years, and from LTVs and stuff like that, and in our case this is largely a three-year, four-year loan and monthly amortized, cash flow has become very critical, customer is in a hurry to close it.

So he is not wanting to be debt trapped and LTV is incidental. So I don't see a very complete match between a large customer and Shriram City customer. But occasionally, you are in that spot and you will have to see whether there is a -- there is more reason, more than what we see right now.

Anil Tulsiram, Analyst

Okay. And ma'am, the last question is I understand Shriram City Union is not covered by this SARFAESI Act 2002 which (inaudible) the fast recovery of the asset. So how easy or difficult is it for you to get repossession of the immovable property in case of default by customers?

Subhasri Sriram, Executive Director

Okay. First answer is SARFAESI Act is very well applicable to all (inaudible) companies now. Though on paper they are right to have it, but it is to be separately applied for and got. And I don't see the last SARFAESI given to -- I think way back in 2010 or '09. Post that, the companies which have got NHP license have not got SARFAESI as of automatic licensing.

Okay, now coming back to the -- NBFCs obviously are not part of SARFAESI and (inaudible), but just to draw reference to Nachiket Mor Committee report, it has been strongly recommended that it should be available to NBFCs also.

Okay, now answering the other part of the question; how difficult or easy for as to do using an alternative of SARFAESI, I think NBFCs typically never use such measures to recover because our relationship or contact with customers or communication with costumers, typically we obviously we don't break it, where even if there is a legal action going on, the conversation with the customer will continue. So we've never -- not too often -- not very, very limited all the time have we ever had to go for auctioning or attaching the property.

So it is largely we will engage with the customer to encourage him to pass his property (inaudible) loan rather than taking it on our own over control of the property and dispose it off. So, the NBFCs typically work in the local community and the communication obviously -- the conversation with the borrower is -- even when there is a (inaudible) it continues.

Anil Tulsiram, Analyst

Okay, I understand that, ma'am. I'm thinking from the worst-case scenario, suppose unfortunately --

Subhasri Sriram, Executive Director

I don't know how many of the SARFAESI users (inaudible), but I don't have that experience. I can only tell you that it has not been so -- it maybe takes a couple of years. But it's possible, you can get a property attached and you can get it ordered for disposal. It will take a while. It will -- depending on -- see, it all depends up on the borrower's interest to settle the loan. If the borrower is not interested and there as an ulterior motive, even a SARFAESI 10 years cannot help him. So there are enough loopholes in the SARFAESI why you cannot auction the property, why you can't take it for public auction, and those can always be used (inaudible) default.

Anil Tulsiram, Analyst

Okay, that's it form my side. Thanks a lot.

Subhasri Sriram, Executive Director

Thank you

Operator

Thank you. Next question is from the line of Ankit Sancheti from Kotak Mahindra. Please go ahead

Ankit Sancheti, Analyst

Yeah, hi. Just wondering, can you share with us what is the yield on two-wheeler portfolio of yours?

Subhasri Sriram, Executive Director

Anywhere from 24 to 27%.

Ankit Sancheti, Analyst

24 to 25%?

Subhasri Sriram, Executive Director

No, 27.

Ankit Sancheti, Analyst

Okay. Second when you motioned was you follow 150-day NPA recognition norm. Is it standard across all the portfolios, be it gold loan --

Subhasri Sriram, Executive Director

Yes. Across all products; unlike some of them, across all products.

Ankit Sancheti, Analyst

Okay. In the initial remarks you mentioned that as per the committee recommendation. The committee is giving a view that the NPA recognition norms can be different for different portfolio -- it depends on the customer profile rather than bifurcating into banks and NBFCs.

If that is being followed in a hypothetical situation, do you think that for you MSME or -- for more specifically for your two-wheeler portfolio where you also mentioned earlier that the risks are slightly higher compared to MSME, do you intend to follow from a 150-day norm to 120 or 90-day norms?

And doesn't it -- more prudent that even if these norms are not recommended or not followed, on your own as a prudent -- because now two-wheelers are 17% of your portfolio, if I've heard it right, so isn't it much more prudent to follow a more stringent norm rather than following a 150-day norm for two-wheelers specifically?

I'm not talking about MSMEs where you have large security whatever, assets and stuff like that. In gold you have hard gold, but in two wheelers I'm slightly more worried. So can you explain more on that?

Subhasri Sriram, Executive Director

Yeah. I heard you. But what you have to understand is some of the times it's (inaudible) because you have a higher credit cost, this spends money and recovery is going to be -- you choose between writing off and recovery -- spending money to recover. Okay. Just because there's an option write off and there's margins available I don't think that is the first choice. So the recovery efforts continue to go on.

And if you are able to handle the seizing, selling and close watch on the portfolio, I think 150 days is [Technical Difficulty].

90 is too tough because by the time the check bounce happens and we start (inaudible) you don't even give time to the customer to make good the (inaudible) and come online. I would say, yeah, 120 probably is a little bit closer number than 150. But we will observe it. But now the (inaudible) company is fully recommended -- is adopted, we will take our enough data available in the static area for the last 10 years for us to make a view, which is the time when the loss is crystallized and there is no further recovery.

We have seen in the past that we have enough evidential data, right now I can tell you. Between 150 and 180 there is lot of recovery happening. Now, I don't have a number (inaudible) between 120 to 150. We'll evaluate it and if that -the number is not large enough, not significant enough, then we can seize it at 120 also.

Ankit Sancheti, Analyst

Okay. So what to -- specifically for two-wheelers, as of now you don't intend to follow that 120-day norm?

Subhasri Sriram, Executive Director

We are very clear we're not changing the numbers for any product at that point of time. But we are waiting for Nachiket Mor Committee report to take it to a more legal form. And then we will evaluate it and probably automatically even whether you like it or not, that decision towards a lower -- deadline will be probably for two wheeler and higher for SME loan, but we will wait and watch.

Ankit Sancheti, Analyst

Okay. And two wheeler, which is right now 17%, do you want to cap it at, say, 20, 22% or no -- there is no need for capping because it's so widely spread. There is no fear of anything there because it's not an industry driven -- the customers could be salaried, could be self-employed, could be in trading business, could be anything anywhere in the country and per customer it's about 35, INR40,000 -- 50 to 70,000 customers a month. I don't think there is any of any capping on that. We should go ahead, do more of it as long as our asset quality is -- continue to be and our effort to recover is not lost.

Ankit Sancheti, Analyst

Typically in two wheeler, what kind of security is there in a two wheeler?

Subhasri Sriram, Executive Director

You don't need us to -- for INR1,800 (inaudible) per month I don't think we can ask your property, but we do have purchase debt and obviously the vehicles -- seizing the vehicle (inaudible), it's again not very challenging though unlike the commercial vehicle it is very localized, not too much of our issue.

Ankit Sancheti, Analyst

Okay. Thanks a lot.

Subhasri Sriram, Executive Director

Thank you.

Operator

As that was the last question from the participants. I would now like to hand the conference over to Mr. Amey Sathi [ph] for closing remarks. Thank you and over to you, sir.

Amey Sathe, Analyst

Yeah, thanks. On behalf of JM Financial, I would like to thank Mr. Sundararajan and Ms. Subhasri Sriram of Shriram City Union, and

all the participants for joining us for the call today. Thanks a lot. Bye.

Subhasri Sriram, Executive Director

Thank you so much.

Operator

Thank you. On behalf of JM Financial, that concludes this conference. Thank you for joining us and you may now disconnect your lines.