

Ref: STEC NSE/BSE 530/2022

April 21, 2022

The Secretary,
BSE Ltd
P J Towers,
Dalal St,
Mumbai 400 001

The Manager
National Stock Exchange of India Ltd
Exchange Plaza, 5th Floor
Plot No.C/1, G Block
Bandra- Kurla Complex Bandra (E)
Mumbai 400 051

Sir,

Ref: ISIN – INE722A01011

Scrip Code: BSE – 532498 and NSE - SHRIRAMCIT

Further to our letter STEC NSE/BSE 521/2022 dated April 11, 2022 and STEC NSE/BSE 523/2022 dated April 15, 2022 regarding intimation of call and audio link of the call with M&G Investments respectively please find enclosed the transcripts of the call.

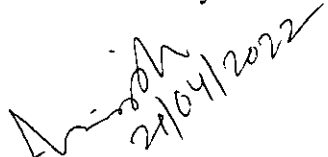
The above information shall be available at the website of the Company www.shriramcity.in.

This is an intimation under Regulation 30 read with Schedule III (Part A) (15) (b) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), Regulations, 2015 as amended from time to time.

We request you to kindly take the above information on record.

Thanking you,
Yours faithfully,

For Shriram City Union Finance Limited,


C R Dash
Company Secretary

Shriram City Union Finance Limited

TRANSCRIPT OF CALL WITH M/S M&G INVESTMENTS, U.K. ON 12th APRIL 02022

Participants: Mr. Greg Newman (M&G Investments), Mr. Jai Singh Ponde (Shriram City Union Finance Ltd.)

GN: Maybe we can start with, I would love to hear from your side about the merger- and what you see as the opportunity now going forward as part of, approvals aside, what you see as the opportunities as part of the larger Shriram Finance entity.

JSP: It is a good idea, and I think both Companies and the Group have been working on it for a while now. It's just that the timing turned out to be right round about this time, the end of this Financial Year. It's definitely going to be a huge plus for both Companies as well as the Group, and the resultant unified entity. The obvious advantages would accrue from things like economies of scale, greater reach, there would be some advantage in cost of funds as well. All of that is fairly given, but also there are quite extensive cross-selling opportunities for both Companies as they exist now. There are opportunities for Shriram City to sell SME loans to Shriram Transport's truck owner customers, truck operator customers, and for Shriram Transport to return the favour to Shriram City because a lot of Shriram City's customers also use commercial vehicles as part of their businesses. So yes, overall it is definitely going to be a shot in the arm for the unified entity.

GN: Was there any relationship before, because I noticed in one of the slides that talks about how "x" percentage, or like five out of ten customers have product with Shriram, but is that just by coincidence or was there an initiative at the Group level before?

JSP: No, at the moment, I mean before, eventually, I mean the cross-selling and the working together etc. will happen only after the merger because as of now, both the Companies operate independently. What you have read about in the merger presentation is essentially some findings from having done a cross-section of each of the Companies' customer base and realized that say, a Shriram City customer also uses, as I said, commercial vehicles, a Shriram Transport customer also applies for personal loans or housing loans and so on. So that's how we have arrived at it.

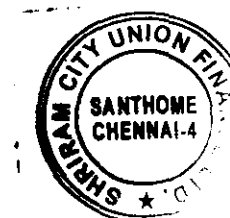
GN: So it wasn't necessarily they have a relationship now, they have a relationship with another provider or so..

JSP: Absolutely. And the other point was that free sharing of data was always a constraint without a formal merger. You know, at best you could have worked on a fee structure or something like that but then it would have still not been a free, as I said, exchange of data, and I think that is going to be the key to a successful merger or the merger itself. Once the merger happens, once the data is shared more freely, it can result into much larger benefits.

GN: Yeah, and from what I understand from my conversation with Mr. Mundra at least was the data you have on your customers is very...at least within the Shriram Transport Finance, but I assume the culture is similar in terms of the borrower is not necessarily salaried or has extensive data, so a lot of it is more informal gathering of more of your proprietary data. Is that the same within the Shriram City Union business?

JSP: Yes, that is how it works for Shriram City as well. A lot of our customers, take for example our SME customers, not too many of them would necessarily be filing Income Tax returns, not too many of them would get their books audited, all of those things. But they would still have a robust mechanism whereby they would record their trades, their everyday business, their requirement of cash, how much credit they are giving out and receiving, and so on. So Shriram City's expertise has been thus far in being able to decipher all of this, understand it, make sense of it and convert it into a transaction.

GN: Makes sense, and that kind of has kept the ... I guess how true, maybe this is a good point to kind of touch upon the other product segments and how much of it really stems from the core, this SME,



right? So the other categories than just the same customer but different product, is that how I should think about it? So like the two wheelers or loan against gold, is that stemming from the customer or trying to hit a different customer?

JSP: No, I think at the core of it, the customer type is kind of very similar across products. So let's take it product-by-product. Yes, as you said, SME, a typical SME customer is somebody who props up the local economy, for us typically a trader. A large part of our SME customers are into trade rather than manufacturing. So the typical small-town trader who keeps things going for the local economy, that's the kind of business we finance. Of course, he has to have had a track record. We don't finance startups and so on. But yes, intrinsically, that's the kind of customer we would be interested in. And, when it comes to other products, two wheelers, again, these are people who typically use commuter level bikes, and the bikes form an integral part of either their business or their source of livelihood. So somebody who's a, let's say, a freelance electrician or a carpenter would need the vehicle to move from job to job. In that sense, it virtually becomes a part of his business, a business asset. So, again, yes, the profile of the customer would largely be similar, except that in SME, you're talking about a different ticket size obviously, versus somebody who is getting a two wheeler financed or is taking a gold loan or whatever from us.

GN: So first let's stick with the SME, I guess. Is that traders and kind of mainly working capital lending?

JSP: Yes, it is. It is structured as monthly amortizing term loans, but yes, the end use is effectively working capital because the borrowers typically use it for things like stocking up before the festival season, or generally adding to the inventory in anticipation of better sales or expansion, that kind of thing. In some cases, of course, it goes into let's say, acquisition of some piece of plant and machinery etc., but given our ticket sizes, generally, our ticket sizes tend to be on the lower side, so more often than not the money is used for working capital.

GN: Do you have any, is it secured against anything?

JSP: Yes, there is hard collateral. We take property collateral from the borrowers. We do of course have a small portion, roughly about a little less than twenty percent of our SME book which is unsecured, but then there the ticket sizes are even smaller, and those are only given out to, in geographies where we are very comfortable with the asset quality etc. But bulk of the SME book is collateralized against property.

GN: And then, in terms of ticket sizes and stuff, the terms, that would be helpful.

JSP: In SME, the average ticket sizes would be between Rupees, if you're familiar with lakhs, then it would be between ten and twelve lakhs approximately.

GN: I could do the conversion later, still a bit confused, but let's keep it to that.

JSP: Ten lakhs would be ten hundred thousand. So that's what, a million, yeah. And in the case of two wheelers, it will be roughly about sixty thousand Rupees. In the case of our other products, let's say gold, gold would be anything between forty five- and sixty thousand Rupees. We have our Used Auto loans, those are ballpark around seventy-, seventy five thousand Rupees. Personal loans would largely be between fifty- and sixty thousand Rupees. So, SME is the only product which has, which is in the region of a million or so Rupees.

GN: Which is predominantly, what makes up most of the book I guess.

JSP: Yes, roughly forty five percent as of December.

GN: And that has been coming down, I guess just as a function of slower growth in that segment or is that a function of new growth in other segments?



JSP: It's actually a mix of both, and again it has been brought about because of what happened after Covid, or just after Covid. So, there were severe casualties amongst the businesses that typically we would finance, so we started going a little slow on financing MSME customers. But the heartening thing now is that the current book that we have – I am talking about the SME book – is almost entirely booked after the first wave got over. So, in terms of health, we expect this to be much more robust, and that gives us hope. So we should start seeing growth from hereon.

GN: So meaning that most of this business was written post first wave, is that what you mean?

JSP: Yes, absolutely.

GN: So it's kind of taking into account, a Covid book.

JSP: That's right.

GN; So that kind of leads me to the next question, the terms, the duration on the asset side.

JSP: The average tenor of an SME loan would be ballpark around between thirty six and thirty eight months as of now. The other products have much shorter tenors.

GN; Do you see a lot of churn in the customers, maybe not so much for SME but for the other products? I am just trying to understand how if the customers tend to be repeat customers like in the transport finance business, they are very much like that – they have a vehicle, the customer ages that vehicle, then sells it and moves to a ten year vehicle, and comes back to Shriram again. So to what extent is the City Finance business like that?

JSP: No exactly. In certain products, yes, you see a higher proportion of repeat business. So for example, SME would be reasonable high, Gold would probably be the highest, gold loans, you would keep getting the same customer over multiple cycles. SME, to an extent, yes, it works, but then, after a while, beyond a point, the customer's requirements probably become too large for Shriram City to be able to cater to them. But we get satisfaction out of the fact that we've helped the customer move up the value chain. So he can probably then borrow from a bank or somebody like that.

GN: So just trying to understand the customer journey, I guess. So before they are Shriram City customers, they tend to either not have financing or maybe they'll get it from the community somehow?

JSP: Absolutely right. That's correct. That's usually how our customers start their journey with us.

GN; And then what would they be paying, is that something you can see? Or is it like a family lender or a town lender?

JSP: Yes, so we have the moneylender concept in India. These moneylenders are very popular with the business communities, despite the fact that they charge a fairly high rate of interest. The ease of doing business with them is probably their greatest attraction. And this ease is born out of the fact that both the borrower and lender know each other. I mean, they are part of the same community or the same locality. But the way these businesses strategize on this is that they try and bring in, just to put figures to this, let's say they would probably bring in ninety percent of their requirement of funds after borrowing from friends, relatives, family and so on, and for the balance ten percent they would perhaps approach a moneylender. So even while the interest outgo is high, it is only on a smaller portion of the total requirement, which they can afford to pay. And at the earliest opportunity they close that loan. So Shriram City has kind of moved into that space and we have replaced the moneylenders to an extent.

GN: Then would you say that the mix when Shriram City is involved is more fifty-fifty in terms of what funds they need, or going to the ninety-ten...?



JSP: Maybe not fifty-fifty, but it would probably move into...I'll tell you why, because the next cycle that they have expanded now and they wish to add on, maybe one unit has to be made into two or three units, so basically he's buying a new shop or something like that, he comes to us, at that time his requirement would be more and therefore the ninety-ten could become something like seventy-thirty perhaps. But at the heart of it they still try and get their funding requirements fulfilled largely from within the community or within the family or friends. So I mean that there is obviously greater acceptance of borrowing from the organized sector, but they still try and keep it low.

GN: And then on the moneylender side, what rates are we talking about in terms of from what I see at least your kind of twentyish percent?

JSP: A little less than that because our SME lending rates range from something like eleven percent to about twenty two-twenty three percent – it depends entirely, it has a lot to do with the kind of customer you are dealing with, his track record and so on. But obviously the moneylenders would command a much higher price than that, would charge a much higher price.

GN: Fifty percent plus?

JSP: Quite possible, at least in some geographies.

GN: There is a real incentive to ...

JSP: That's right.

GN: And what would be the reason for not coming straight to you? Is it the size of the loan that they require or is that they haven't quite got the documents, or maybe they are a startup or something?

JSP: I think what's happening now is that with greater awareness of financial products and with the kind of options available to borrowers, I think that has probably started happening a little more now, but a large part of the borrower market is still centred around the factors that you mentioned, about the requirement not being very large, ease of doing business being a major factor. You don't want to get into documentation and stuff like that if you can just walk into the moneylender's office and walk out with the funds that you require.

GN: And they'll typically be cash? Is that all cash?

JSP: I think largely, unless they have ... yes, I think that still continues to be the predominant way of doing business there.

GN: And how much of your business, I guess on the SME portion, how much of that is cash?

JSP: None of it. All our disbursements, all our collections are electronic or through the banking system.

GN: Is that changed post demonetization?

JSP: No, it was always like this. There is an element of cash sometimes in collections, but that is more to do with essentially products like two wheelers and gold. So while we disburse everything electronically or through the banking system, at times lower ticket products such as two wheelers, where the repayment could be as little as, say, three and a half thousand or three thousand Rupees a month, the borrower might say "look, I have cash ready with me, and I am already behind by a day or whatever, so please collect it", and we would be happy to do that.

GN: In terms of, I've just kind of looked at the historical growth on the AUM side, and part of it, obviously there's a slowdown and starting now to recover, but part of that I guess '19 was just the economy at large? And then '20 is Covid and then '20 –'21? I look at '18 and maybe 2017 depending on the calendar year end, calendar year versus fiscal year, but essentially you used to grow kind of high teens, twenty percent, and that's come off. So just trying to understand why you think, long term



obviously one is the organic side the City business is growing, and the economy will rebound, and then the other element is we're now a part of a much bigger entity, so what kind of growth will come as we kind of cross sell, expand into different geographies where Transport Finance has a business. So I guess quite a lot in that question and maybe you can help me understand the growth rate.

JSP: Actually it's not just 2017-18, it goes back to before that, but I'll take it in chronological order. So, until about 2013, we were growing faster because the larger portion of our book comprised Gold loans. Of course, it was also a low base effect, but essentially the pace picked up in the few years before 2013 because we were disbursing more of Gold loans. It was obviously an easier product to develop. Then we sort of changed our strategy after 2013 and we decided to go with the longer-lasting value of MSME loans, to an extent two wheeler loans etc. Look, gold lending is great, it has its advantages but we wanted to be in a different space and make a difference in MSME, because that is really where the long term benefits could be seen, both for us, for the market in general, for our borrowers, for the economy in general. This combined with the fact that just before 2014 the economy had slowed down considerably. I think this was just before the general elections of 2014. So things had slowed down somewhat, and we also preferred to be slightly on the conservative side and we were not going flat out after growth. But after that, I think from 2015 onwards the growth came back in, and things seemed to be doing well until, I think, demonetization happened. Demonetization obviously was a disruptor because it affected our core community of borrowers, which was the MSME people, small businesses. So it took them a while to recover, and while obviously demonetization helped formalize a lot of processes which otherwise would have flown under the tax radar or whatever, it took businesses a while to recover, as I said. By the time everything was factored in, the businesses had started to recover, we had a few blowouts in the NBFC space. I think this was late calendar 2018. That resulted in liquidity at least getting, if not restricted, it certainly, you know, from a flow it became a trickle, with institutional lenders wanting to wait and watch and stuff like that. Then obviously the stronger players managed that situation very well. Again we took the upward, the climb began towards growth and this and that, and then we had Covid. So it was back to the drawing board, back to scaling back, this that and the other, but as the evidence is there to see, the stronger NBFCs have managed all these events quite well, and I think unless there are again black swan events or something happening which we don't know about now, I think by and large the NBFC space is in a, the industry is in a good spot at the moment.

GN: As part of this history is what you think the reason maybe for the decision a few years ago at the Group level to bring the two businesses together? Tough ride or you don't think it was to do with ...?

JSP: No, the decision to merge, or rather, the discussions about the pros and cons of merging predate all of these events. In fact, the merger talks were put on the backburner at the time of Covid because each business had to essentially first recoup and then survive, and all of that. But the merger discussions go back a long way before that.

GN: What is the history then, maybe this is a good time to just get a history lesson in terms of why the decision to have two entities in the first place.

JSP: Well, it's not just two, we began with, before 2002-2003 there were actually four NBFCs in the Group. Three of them merged into Shriram Transport, and the fourth was Shriram City. All four NBFCs were into truck financing, but obviously Shriram Transport was the biggest, and there was another entity down South which was kind of similar-sized balance sheet to Shriram Transport. So all of that happened, the merger happened, and they all folded into Shriram Transport, the truck financing companies. Shriram City, of course, in terms of comparison we were very small, especially compared to the two larger NBFCs, the Shriram City book was fairly insignificant at that point. So it was thought that it would be easier a) it was felt that we needed to be in the consumer/stroke retail financing space and b) given the size of the balance sheet, the ability of the executives etc., it was felt that Shriram City would be the right choice to make that happen. So that's how it all began, our second makeover, if you want to call it that, began in 2002-2003. We started with a pilot project of funding two wheelers, and in



those days we also would finance consumer durables, which are basically White Goods. We tried them out, we tried funding these in a small way in certain territories in the South of India. It worked out well, so then we expanded our product line to include SME, gold, used auto, eventually we added personal loans as well. Over the course of the next four or five years we phased out the consumer durables part because of various reasons but basically because it was not considered remunerative enough and there were some other issues with it. We then added housing finance as a subsidiary somewhere around 2012. We then added a couple of new products in the form of preowned two wheelers, this was in I think Financial Year '20, and then we added one more product in the last financial year which was essentially loan against property. But loan against property etc. is still a fairly fledgling product for us. It's not a focus product as yet. So this is how we evolved from the time we changed our focus from truck financing to retail small ticket financing.

GN: I guess it would be interesting from what I understand at least the geographical overlap between the two businesses now is somewhat limited. I guess you guys are more concentrated and they are more kind of pan-India. Is that correct?

JSP: Yes

GN: What I want to try and understand then is, the understanding of the business and lending is that it's very localized, you are the next step up from the moneylender, and therefore your involvement in the community must be quite key and your understanding of how the industry operates. What I'd love to hear about how you enter new communities and how you go about that, who you bring in to do that lending, and then how you build your relationships to really grow the business as it scales. I guess it takes time, right, it must take a lot of investment to really understand that new community you are entering.

JSP: The way we go about it is that there is no distinction between us and the community that we service. What I mean by that is that when we set up a branch or an office in a location that we want to cater to, the people who represent us are from that community. They speak the same language, they live there, they are aware of all the smaller things that go into community life as well as commercial life. For example, if we have a branch there, the branch manager is expected to know about the businesses in his geographical limits and who does what and how capable a particular business is, and what are the pros and cons of lending to a particular business, those kind of things. So we are a part of the community, we do not really have to make an effort to blend into the community or work our way into it. What however helps us is the fact that we wait and see how the other Group companies have performed in a particular location or a locality or a state or a town, and we largely draw lessons from their own learnings. So if we feel that, let's say for example it could be Shriram Transport or it could be one of the insurance companies of the Group or whoever..... We are very much part of the community. We exist as part of the community. What I was telling you where we lost the connection was that we learn from our Group companies' experiences in locations before we get into those locations. So if we hear about, say, a Shriram Transport or a Shriram General or a Shriram Life Insurance or somebody like that having had a good experience in a particular location, and we think that it might have potential for Shriram City's businesses as well to grow, then we would enter that in a small way with maybe one product like two wheeler. That's usually our starting point. Our launch pad is the two wheeler product. We build that over a period of time. Once that business gets a little seasoned and we get a fairly decent handle on customers' behaviour, repayment behaviour essentially, we then introduce more products. So that's essentially how we go about it.

GN: And where does that, the first, I guess the branch manager within that community, are they already known to the Shriram Group companies or are they already working in the industry?

JSP: We tend to pick them up either as freshers or then from the industry. So we have a process whereby they have to take certain exams, entrance exams and things like that, and then they are put through a



fairly rigorous training course. We have constant refresher courses, online, developed by our HR team, and that kind of equips them. But nothing equips them better than practical experience, and that they get plenty of at the branch level because a lot of free thinking, independent thinking and autonomy in the way you operate is given to the branch level, especially the branch managers. That helps them develop as executives, and eventually as senior executives.

GN: I guess the one thing we didn't touch upon and I was thinking before the call dropped, you were mentioning about the customer essentially over time leaves because they get too big and they move on to maybe a bank or something. We talked about the customer journey pre-Shriram City but we didn't really touch on that after, the next steps and why you lose out on the business.

JSP: It's largely to do with the ticket size of the loan. Let's say that we are essentially comfortable, currently our average ticket size is about ten to twelve lakhs, but let us assume that even with a good customer we could go up to twenty or twenty five lakhs, which is fine. It's when the requirement goes beyond that we are unable, much as we would like to service that customer, much as we would like to finance him, beyond a point we prefer.. and look, this market is fairly, there's a fair degree of demand here, especially now after Covid when businesses are coming back into, trying to get back into the normal level of commercial activity, there is a fair degree of demand. So call it conservatism at this point, maybe things will change once the two companies have merged, but that's not happening overnight, at least for now. So the ticket sizes may inch up...

GN: Yeah, I guess that was my question. Whether you become part of a bigger balance sheet, whether that can creep up? I understand your point, you want to stay enough in your current sweet spot and don't need to stretch. But it is still a shame to lose customers. I guess as they get better, they are towards the 11% anyway, right?

JSP: Yes, exactly. So it's not as if we turn them away. See, for example, the loan against property product that I just spoke about some time back, which we introduced last year, that essentially caters to that segment. And while it is still nascent at this point in time, the idea is to grow that as we move into the next couple of years.

GN: So you kind of move them to a different product, try to keep that business but not necessarily in the SME business, and that's kind of focussing on returns per se.

JSP: That's right.

GN: One thing I'm interested in, trying to figure out the NIM in terms of what's really driving it. It seems the cost of funding has come down over time but maybe there has also been pressure on the asset side as well. Maybe you can walk me through what's really driving it – might be a mix?

JSP: Our lending rates, the rates we charge for our products haven't really moved probably over the last three or four years. The only time we make any concession there is during the festival season which typically happens around October-November to coincide with Dussehra and Diwali. That's when we charge a little lower for our two wheelers. But other than that, and that's an annual feature, it happens every year because there are incentives, there schemes and so on, we book much larger numbers of vehicles at that time. But if you go back over some years, you will find that our lending rates have pretty much remained static. Our cost of borrowing has, yes, it has come down. On occasion it has spiked, you know, the incidents about the NBFC blowouts that I mentioned. After that, yes, money was a little expensive for some time. But since then it has again started declining, the cost has been declining, which means that we should be able to hold on to our NIMs if not at least in the short run make them look better. We don't know how the next few quarters will look like because there's all this discussion about interest rates going up and so on. But I think we are reasonably comfortable on that front because our NIMs are very healthy, and even a slightly higher or hike in cost of funds I don't think will swing the needle much for us because to some extent we'll be able to absorb it. It's only beyond a certain pain



threshold that we might have to ask the borrower to share it. But that would then happen across the industry, so we wouldn't be doing anything different.

GN: And the asset side is fixed?

JSP: Yes

GN: On the borrowing side, just kind of looking here, I think this is December '21. So just under 50% from bank borrowing.

JSP: That's right.

GN: So what is the structure of that?

JSP: These are largely Cash Credits and Term Loans, and that has pretty much been the structure all through the years that we've been borrowing from banks.

GN: And then what, typically three, five years, something like that?

JSP: Yes, an average of actually four years. So we have a positive mismatch because our average tenor of liabilities is around 39 months versus our average asset tenor of about 30 months.

GN: So in rising rate environment it's helpful.

JSP: Yes

GN: I think you also moved into deposits, right, at some point in time?

JSP: We've had a deposit licence for more than twenty years now.

GN: But have they grown as a percentage of the book?

JSP: Yes, if you look the last, probably about eight or nine years, we've grown considerably. Today the deposits make up almost anything between twenty two to twenty five percent of our liabilities, and it's growing well, I mean that product is doing well.

GN: and I guess as the mix is, if I can remember Transport Finance correctly is kind of around twenty – twenty five percent from each category, and as you kind of come together, credit rating will improve and that kind of helps on the cost of funds side. And also at some point you will be able to, that will only creep through in time, right, because you have to recognize that.

JSP: Yes. The advantages from the merger will probably take, while some of them will kick in immediately, I think for all of them to play out it will be probably close to a year-and-a-half to two years.

GN: A couple of things I wanted to touch on, the asset quality, but before I do that, maybe just on the liquidity and the leverage. What do you think is an appropriate number for leverage. I think the Transport Finance business running at five – five-and-a-half times, maybe pushing even more. You guys are considerably well-capitalized versus that so is there, how much of that is what you've been through over the last five years? How much of that is natural, the nature of the lending or conservatism of the management.

JSP: I think largely that whatever our leverage levels, our CRAR as well as our liquidity reservoirs indicate, are largely to do with, I mean they are largely a reflection of the environment in which we operate, the business environment, as well as our management's basic tilt towards conservatism. If you see our December numbers, we are below four times leveraging, and we are more than healthy as far as CRAR is concerned. And in addition, we had at that point a very comfortable liquidity backup position as well. I don't think these things will change drastically immediately or leading up to the merger. Post the merger, yeah, to answer your question, why the numbers look the way they do, is because of the



pace at which we think it's prudent to grow while maintaining the asset quality which I think is going to be your next question, and at the same time, if we are below four times, maybe technically we could go up to five – five and a half times of leveraging, but that would be a function of growth rather than just a number to put out. It would obviously be based on the pace at which we grow.

GN: Without having to get fresh capital, right?

JSP: Yes

GN: I guess you could over-extend yourself on the growth but then you come back to the market in case you need more....

JSP: Absolutely

GN: And generate a return on that, it's a balancing act. You kind of read my mind on my next question on how that feeds into asset quality and the pace of growth.

JSP: Look, in November last year RBI asked NBFCs to fall in line with what rules were in place for banks in terms of NPA recognition, as in the daily stamping versus the monthly or quarterly reporting of NPAs. So basically we are now required to start counting the days past due and accounting for them from day one, rather than wait till day thirty or day forty five, whatever it might be.

GN: Was that operationally difficult to do or it meant just changing some ...

JSP: No Mr. Newman, it's an accounting, operationally it was no challenge because the systems exist to give the necessary information and ...

GN: Already monitoring people on a daily basis?

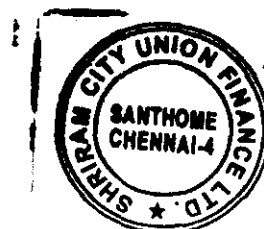
JSP: Yes, that we were anyway doing. We were anyway monitoring our borrowers.

GN: OK, it's just the accounting.

JSP: Yes, it's just the accounting. And if you're talking about accounting, if you were to compare the Stage 3 levels or the GNPA levels on a similar basis, we actually improved our asset quality in the December quarter. But because of this new rule, optically the asset quality looks a little worse, but be that as it may, it's how the new rule is going to be and we are fine with it, we can live with it. We'll actually now hopefully start improving on these numbers as well. So I think given the kind of segment that we cater to, people with lumpy cash flows, and all of that and businesses getting affected by various factors and so on and so forth, I think we've done a pretty decent job of being able to improve our asset quality over the, and this is on a sequential basis, over the last probably three – three and a half years, we've managed to do that quarter-on-quarter. So we're quite proud of that, actually.

GN: And what is driving that? Is that an investment on your side in the collection effort? Is that better lending at the outset or is it a function of the environment and just improving consumer, generally?

JSP: I think it's more to do with the first couple of things that you mentioned. First of all, it all, we owe it to our collection teams because they have made it happen, and they will continue to make it happen. And yes, the quality of lending has also improved. Look, just to give some perspective to this, all of this started changing from roughly FY2018 or thereabouts when RBI brought us on the same page as banks as far as the actual DPD recognition of NPAs is concerned. So prior to that, NBFCs were allowed to recognize NPAs at 180 days past due. RBI said, no, this needs to be brought down to 90, and they of course gave us three years to do the recalibration, and we did that. That three year period ended in 2018, during which period obviously there were some spikes in NPAs and so on, but since then our teams have been able to control the reported numbers and the actual delinquencies, obviously, because that is



what gets reported. All the way from 2018 to now, till December. I cannot comment on the current quarter because we are in our Silent Period.

GN: I guess in terms of that change, obviously it's a reporting change, but did that change any of the collection culture within the business?

JSP: Very interesting question. In fact, it did not. So if you go historically to maybe fifteen years or more into our business, you will find that the LGDs have been between roughly about two and a half to two point seven five. They've probably now started coming off a bit, they've started reducing a bit, but by and large, or let's put it in a range of two quarter to two point seven five. Historically we've remained in that range.

GN: I guess one thing we didn't touch, given that a lot of it is asset based lending to an extent or collateralized, what LTVs across the board, and do they tend to move over time or remain?

JSP: It depends on the product, so if you look at SME, our LTVs are generally in the range of between fifty five and sixty percent. In the case of two wheelers, they can go up. It again depends on the borrower, the make of the vehicle and so on. But I would put it at a ballpark of around seventy five percent. Gold is restricted to seventy five percent. We are slightly below that. That's essentially it, because the other products are not LTV-oriented anyway.

GN: On the gold side, what happens, is it registered gold or while they are pledging it they maintain the, whether it's a bar or jewellery they keep it in their possession. How do you follow up if it's been sold, I guess is my real question.

JSP: So are you talking about the provenance, how do we prove..?

GN: Yeah, just trying to understand how that business works, how you maintain security on the asset.

JSP: Which sort of takes me back to what I had mentioned earlier about us being part of the community that we lend to. Gold is typically a very, very location-oriented, location-centred product, in the sense that you would try and borrow from pretty much either a bank or an NBFC fairly proximate to where you live rather than go to the next town or whatever. So when we take custody of the gold, a) the ticket sizes are small, they are around forty five – fifty thousand Rupees or thereabouts, b) it is household jewellery which is easy to recognize. We don't finance coins and bars and all those kind of things. And the third is, we do take the customer's KYC, so where he lives, and his identity to be backed up by the appropriate documents and stuff like that. We are reasonably sure about who we are lending to. We've not had those kind of issues yet.

GN: And how does it work in terms of say a borrower failing to repay the full thing etc., is that, because it is community based, is that then like a mark on their record within the community or how does it impact them?

JSP: No. What you are talking about probably applies more to things like Microfinance. In our case, these are individual loans. But yes, the technical solution to that is to auction the gold. I presume you are asking about gold, right?

GN: No, just in general, I mean I'm trying to understand the borrowers' willingness to repay in terms of, if I can, sometimes if I am going through a troubled period, I can default on your loan but I know that another NBFC or another moneylender will lend to me the next time, then I'm OK, right?

JSP: Yes.

GN: If it becomes a mark on my name or my family, then maybe I'm more willing to repay.



JSP: Yes, you're right, but then it's more like this – it has also become more formalized now with the advent and popularity of credit bureau scores. The lenders are required to report to the bureaus the information that they possess about borrowers, about every loan that they give out, and that includes defaults as well. So eventually it would reach the bureaus, it would affect the bureau scores and the borrower would have a problem borrowing later, subsequently. So yes, the idea is, what we at Shriram City try and do is not throw the book at them at the first opportunity, try and work with them towards getting the issue resolved. Obviously, we have chosen to be in this segment which has irregular cash flows, sometimes the customer is in the money for a couple of months, maybe he is a little thin in the third month and so on. So we try and go along with him to the maximum extent possible. That's essentially how we operate. I can't say that that's what everybody else does, but that's how we do it.

GN: That was similar across Transport Finance. The thing that was clear to us is that if the borrower is termed to take thirty six months to repay and repays in forty, then that's absolutely fine. Others might see it as a big credit quality issue whereas actually it's not.

JSP: Correct. It's exactly the same thing that we do at Shriram City.

