

Q3 2012 Earnings Call - Shriram Transport Finance Dt-13 Feb'12

Operator

Ladies and gentlemen, good day, and welcome to the Shriram Transport Finance Company Limited Q3 FY12 Results Conference Call. As a reminder for the duration of this conference all participants' lines are in the listen-only mode. And there will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Umesh Revankar, Deputy Managing Director of Shriram Transport. Thank you and over to you sir.

Umesh Revankar, Deputy Managing Director

Yeah thank you. Hello everyone. This quarter our performance has been flat Y-on-Y and Q-on-Q. The profits are 302 crores. The net interest income has come down drastically -- not drastically, slightly Q-on-Q from 830 crores to 800 crores. The NIMs have contracted by 80 basis points.

The asset quality remains stable at 2.79. Overall, the market are reasonably good and looks quite stable for the time being. The Q4 should be better as year-end comes. Otherwise overall complete performance has been stable compared to Q-on-Q and Y-on-Y.

So since the presentation is with you, I would like to go for question-and-answer.

Corporate Participant

You tell her.

Umesh Revankar, Deputy Managing Director

Hello?

Operator

Yes sir.

Umesh Revankar, Deputy Managing Director

Yeah, you can go for Q&A.

Questions And Answers

Operator

We'll go for question-and-answer. Sure. [Operator Instructions]. Our first question is from the line of Mr. John from Aquarius. Please go ahead.

Analyst

I think that's me. This is John from Equinox. Could you give us a little insight into what happened to net interest margins. I mean this was a pretty sharp move from one quarter to another in terms of the net interest margin. So whether loans that were going on non-accrual, why was there such a drop in the NIM this quarter?

C: Umesh Revankar:} The economy was little sluggish in the Q3 and the demand for loans were little less, that's one reason. And second is since we have reduced our LTV, we have not been lending to the -- aggressively lending to the new loanees. So our existing customer base only we're lending and that's one of the reason our industries were lower in the Q3 and that's a reason for lesser means.

Analyst

Is that sort of one quarter or at least somewhat you can talk today is it a one quarter decrease and then NIMs will be right back at kind of historic levels of the past few quarters next quarter or is this, this is sort of a new normal and the trend continues from here?

Umesh Revankar, Deputy Managing Director

Yeah, we were extra cautious in the last quarter not adding many new fresh loans because once we go to market and increase the LTV, then we have opportunity to increase the rates. So since we are extra cautious last quarter the NIMs contracted. But this quarter's first month looks quite good. So hopefully we should be able to increase our earnings.

Depending upon the mix of new -- if the demand for the new vehicle increases then again the NIMs will be under little pressure. Because a new vehicle there is a competition from banks and other players, so if the new vehicle portfolio increases then again the NIMs will be under pressure only.

Okay. Thank you. I'll jump back if I have further question.

Operator

Our next question is from the line of Arvind Subramanian from IDFC Mutual Fund. Please go ahead.

Arvind Subramanian

Yeah, hi. I just wanted to check what constituted the increase in investments, I am talking about your balance sheet from around 1,500 crores to 3,500 crores?

Umesh Revankar, Deputy Managing Director

Sundar... Parag will answer this.

Parag Sharma, President of Finance

We had a cash at present year roughly around 5,000 crores. Hello?

Arvind Subramanian

Yeah. Go ahead.

Parag Sharma, President of Finance

And there will be some utilization for cash credit to throw some moment in cash credit account. There'll be some withdraws there for short-term. And in December, we have also done some securitisation. Not many has come during the month end which was partly deployed for short-term purposes.

Arvind Subramanian

Okay. so is this liquid investments?

Parag Sharma, President of Finance

Yeah, liquid investment only.

Arvind Subramanian

Okay, so in essence sir, cash and liquid investments have increased almost 2,000 crore if I add cash and investment?

Parag Sharma, President of Finance Arvind Subramanian

Okay, so this is just a temporary phenomenon

Parag Sharma, President of Finance

It's only a temporary...

Arvind Subramanian

And is expected to be utilised in the next one or two quarters.

Parag Sharma, President of Finance

Correct.

Arvind Subramanian

Okay and on your mining exposure, what is the updates? Are you fully clear out of Bellary region or what is the...

Umesh Revankar, Deputy Managing Director

Bellary we are almost clear. I don't think there be a further issues.

Arvind Subramanian

Okay. And what are the write-offs that you took in this quarter?

Umesh Revankar, Deputy Managing Director

It's around 20 crores.

Arvind Subramanian

20. Because last quarter I think when you had indicate -- when you had done the 60 crore write-off, you had indicated that on the worst case, you might have to have another equal-end write-off in this quarter. So, if there is only 20 crores of write-off, does that mean that some of them are still performing or you are still in that segment, what is the --?

Umesh Revankar, Deputy Managing Director

We don't have further issues there in Bellary, as we have almost cleared, I don't think there will be further -- and rest are all performing well only. We don't have issues.

Okay. So that, there is no further write-offs expected from that region?

Umesh Revankar, Deputy Managing Director

Yeah. That region, no.

Arvind Subramanian

Okay. And just finally, any other areas assess, because if you are saying that you are tightening your norms, LTV and also being more cautious. What is it that you have seen in the market that has led you to become more cautious?

Umesh Revankar, Deputy Managing Director

No. In fact even the GDP growth goes slow, the fright moment and the overall goods moment comes down. And during that this period we normally go cautious, because we are large player and we have nearly 40,000 crores portfolio. So, we should be very careful in further adding. So, there is a normal caution used when economy go slow.

Arvind Subramanian

All right. Perfect that's it from my side. Thank you so much.

Operator

[Operator Instructions]. And next question is from the line of Ashish Sharma from Enam. Please go ahead.

Analyst

Yeah. Congratulation on good set of number sir. Just wanted to get this you mentioned that this new CV replacements have been lower because your LTV has been on a lower side this quarter because you have cautiously slow down the growth. Now Q4 what is the outlook? You still want lower allocation to new CV because you want to have high yield?

Umesh Revankar, Deputy Managing Director

Yeah. In fact the mix will play very important role and used and overall our ability to maintain the NIMs at minimum of seven that is our uptick to always. But naturally new vehicle sales will be higher in the Q4 every year. So, there will be higher demand from our existing customer which will not be able to say no. So definitely, the new CV financing would be higher in the Q4.

Analyst

But there had been sir, there would some impact of margins again, but it won't be the same quantum what was seen in Q3?
No. I did not get your question please.

Analyst

No, no. In that case, there will be some impact on the yields because I think the yields on new CV is lower.

Umesh Revankar, Deputy Managing Director

Yeah yeah. There will be some in that on the yield, but we'll -- as our objective is not to go below seven, we'll try to have a good mix and match.

Analyst

And what the mix in new CV to old CV in future we are looking at? I mean currently because in Q3 it went to 15% and I think historically we are maintaining 25 to 75 sort of a mix. What sort of a incremental mix, going forward what sort of mix we are looking in new to old CV sir?

Umesh Revankar, Deputy Managing Director

It should be 25 to 75 any point of time. Last Q3 it was exceptionally low on new otherwise it should be 25 to 75.

Analyst

And what's the outlook for AUM for '13 should be in the current environment. We've already seen some signs of improvement? But what's your take on it, has the environment remained sluggish, or do you think there would be some opportunities for addition growth in '13 sir?

Umesh Revankar, Deputy Managing Director

The AUM growth has been at around 15% and it should remain same, I don't think there will be a further change in that growth rate. The economy looks quite stable right now. It is, we were little what call pessimistic in Q3, but Q4 looks little better, but still it can change at

any short period of time.

Analyst

Okay. And, what was the amount of securitisation in Q3 sir?

Umesh Revankar, Deputy Managing Director

3,000 crores.

Analyst

3,000 crores.

Umesh Revankar, Deputy Managing Director

Yeah.

Analyst

And, I mean we will continue with securitisation route in Q4, I mean whatsoever is take on the whole securitisation route, because regulators I mean the full guidance haven't come out, but regular has clearly said that, beyond the point use of securitisation route is -- I mean what's our take on it?

Umesh Revankar, Deputy Managing Director

Mr. Parag would answer your question.

Parag Sharma, President of Finance

The securitisation, RBI is talking about some seasoning norms to be fulfilled.

Analyst

Okay.

Parag Sharma, President of Finance

And minimum holding, if we are able to still comply with that, we can still do securitisation and there is the gold appetite because this will qualify our priority.

Analyst

Okay.

Parag Sharma, President of Finance

Continue with that securitisation.

Analyst

And in this 3,000 crores what will be the script between old and new sir?

Umesh Revankar, Deputy Managing Director

That -- currently we don't have the figures, but we can share with you subsequently. Okay. Fine sir. Thank you and all the best for the next quarter. Thank you.

Operator

Our next question is from the line of Gaurav from Wealth Management. Please go ahead.

Analyst

Yes sir, I wanted to clarify one thing...

Operator

Gaurav, we cannot hear you.

Analyst

Hello?

Umesh Revankar, Deputy Managing Director

Yeah.

Analyst

Yeah, I wanted to clarify one thing related to the previous question, one of the reason for the fall in NIM like you said the because lending to existing customers has increased. But then shouldn't had led to higher yields, so that may have contributed to rather expansion of NIMs?

Umesh Revankar, Deputy Managing Director

No, normally what happens is existing customer who comes repeat to us, we give at lower yield and new customer even we add, we add at a little higher yield. So a repeat customer who is a good customer to us, so the yields become little less.

Analyst

Okay. And I just wanted an outlook on the new business that you're adding, in the sense the freight discounting, so can you give some outlook on those business sir?

Umesh Revankar, Deputy Managing Director

The freight discounting has not really expanded, because we find that it is totally managed by local money lenders at very quick time. They're sitting in the normally the transporter's office and give it across cash, which we are not able to do it and we do it to only our existing customers, we don't do it to market customers.

Analyst

Okay. And about the commercial vehicle financing that we are looking at, so how is that panning out -- the passenger vehicle financing?

Umesh Revankar, Deputy Managing Director

The passenger vehicle financing looks quite good. When the rural economy was growing fast and rural people had a lot of purchasing power, the passenger vehicle movement were quite good, especially for transportation in the rural area. There is some kind of sluggish in the past two, three months. But I hope by next Q4 and the things will improve.

Analyst

Okay. Yeah Thank you That's it from my side.

Operator

Our next question is from the line of Ramakrishna from HSBC. Please go ahead.

Analyst

Yeah hi good evening sir. This is Ramakrishna from HSBC. Just wanted to understand the freight rate momentum in your old -- I mean used CV segment. I just wanted to understand from a rural perspective or given the fact that much of the used CVs in the Tier II, Tier III cities. Will this have any impact, I mean freight rates will have any impact on the consumption or how does actually this happen?

Umesh Revankar, Deputy Managing Director

No. Agricultural produce moment. As and when the season comes the freight rate increases. In fact October, the freight rates were very low. By November-December, it picked up by again at the end of December it went a little on lower side. So it keep fluctuating depend upon the new crop coming. So it doesn't remain stable for long. But, since the business is totally cash business, it is a good business to be in and the truckers they enjoy the quick what call turnaround time in this kind of business. So, it is -- keep fluctuating from crop-to-crop and geography-to-geography. It will not have any uniform rate known in this region.

Analyst

Okay. And what is your LTV now?

Umesh Revankar, Deputy Managing Director

LTV is around 65%.
Thank you.

Umesh Revankar, Deputy Managing Director

For used vehicle.

Operator

Mr. Ramakrishna you have any more questions?

Analyst

Thank you.

Operator

Thank you. Our next question is from the line of Abhishek Kothari from Alchemy Shares. Please go ahead.

Abhishek Kothari

Sir, what's the outstanding income on securitised portfolio you are carrying in your books?

Parag Sharma, President of Finance

It's around 2,800 crores.

Abhishek Kothari

Okay. And how has been the spread movement on securitised portfolio?

Parag Sharma, President of Finance

Currently it is around 13% is spread that we are working on.

Abhishek Kothari

13% spread.

Parag Sharma, President of Finance

Yeah, end situation.

But the incremental spread between NIM and securitised portfolio, how much is that?

Parag Sharma, President of Finance

See NIMs if you see when we are talking about the 7.59% NIM, it is on the AUM only not on the books.

Abhishek Kothari

Yeah. So...

Parag Sharma, President of Finance

So the spread of around 13% is including in that 7.59.

Abhishek Kothari

Yeah. So I mean I just want to understand how much is the securitised portfolio contributing to the NIM. So what I mean is it 50 bps or is it 100 bps kind of a spread that you're earning?

Parag Sharma, President of Finance

See, it will be close to 100 bps I would say. But since securitising is used more like a financing tool for us.

Abhishek Kothari

Yeah.

Parag Sharma, President of Finance

So it will be appropriate to look at the NIMs on a -- basis and not on a standalone securitisation or on books portfolio.

Abhishek Kothari

Okay and sir disbursement over the last three quarters in new CV has been falling, so any particular view you have I mean

Umesh Revankar, Deputy Managing Director

Yeah, we the basically the competition in new vehicle increased in last one year and as one of the reason the drop in new vehicle lending. And second is the new vehicle lending is normally done at dealer point where dealer gets some commission for introducing the customer

and that's the model adopted by many of the competition which we are not doing -- we normally don't use intermediary or pass on any payouts to the dealer points. That's the one of the reason our participation in the competition was less in new vehicle. We are quite happy to service our existing customer and therefore the volumes came down a little but it should be improve in the coming quarter.

Abhishek Kothari

Okay. That's it from my side. Thank you.

Umesh Revankar, Deputy Managing Director

Welcome.

Operator

Our next question is from the line of Prashant Shah from Vantage Securities. Please go ahead.

Prashant Shah

Thank you very much, sir. Hello?

Umesh Revankar, Deputy Managing Director

Yeah.

Prashant Shah

Sir, I joined little late so I just wanted to understand regarding the disbursement how come your new CV was impacted more than the used CV?

Umesh Revankar, Deputy Managing Director

I think I explained just now, same question.

Prashant Shah

Okay, fine. Got it sir. And sir, your borrowings were during this quarter considering about 80% from banks and institutions. Hello?

Umesh Revankar, Deputy Managing Director

Yeah.

Prashant Shah

And in the last year in Q3 of FY11, it was at a similar level. But yet your borrowing cost, when you compare it relative to your average total assets, they have come down. So how is this managed, sir?
It has gone up. Overall costs for us has gone up, it has not come down.

Prashant Shah

That's what I am trying to understand, sir. Because if you see in your presentation, when you mentioned a borrowing cost relative to average total assets, for your whole Q3 it is giving at 7.54%.

Parag Sharma, President of Finance

This is year-on-year, not Q-on-Q.

Prashant Shah

Okay. That's what sir, I'm trying, I'm looking at your year-on-year only, sir. Last year it was 7.83%.

Parag Sharma, President of Finance

It has come down.

Prashant Shah

Yes, sir. So, in the meantime -- effect hike sir.

Corporate Participant

No, it will be appropriate to compare on a sequential basis. Because previous years is totally, is a bit too longer picture.

Prashant Shah

Okay.

Corporate Participant

So, it will be better if we compare with the immediate preceding quarter.

Prashant Shah

Okay. So, on a Q-on-Q basis.

Corporate Participant

Still you can get in touch with Mr. Mundra.
Okay.

Corporate Participant

So we will clarify it through him.

Prashant Shah

Okay. Fine sir. Okay thank you very much sir.

Operator

Our next question is from the line of Amin Virani from Deutsche Bank. Please go ahead.

Analyst

Yeah Hi sir Thanks for taking my question. Sir, you mentioned that your LTV was around 65% in the last quarter and you also had mentioned that it has come down. Could you like help us like what level it would have been say two quarters back?

Parag Sharma, President of Finance

Two quarters back it would have been 5% to 8% more.

Analyst

Okay. And sir what could be your yields right now on say new CV and used CV?

Parag Sharma, President of Finance

Weighted average of around 18.5.

Analyst

Okay. And how much of your new CV would be like the small CV or are you not present there at all in small commercial vehicles?

Umesh Revankar, Deputy Managing Director

Most of them would be small CV only. We are mostly present in small. We are not really present in big CV in new vehicle I am telling.

Analyst Umesh Revankar, Deputy Managing Director

Yes. Yeah. That's the new.

Analyst

Okay sir. Thank you.

Operator

[Operator Instructions]. Our next question is from the line of.. Nidhesh Jain from Espirito Santo. Please go ahead.

Analyst

Good afternoon sir. My question is regarding yields. So what is the differential between the yield that you offer to existing customer versus a new customer on a old CV?

Umesh Revankar, Deputy Managing Director

It depends on the kind of vehicle you would be financing. The older the vehicle, the higher is the yield. And the smaller that it is higher will be the yield. And it also depends upon recommendation or guarantees given. If the existing customer is given guarantees then the yield will be little lesser. So it keeps varying, but it can be 2% higher for a new customer.

Analyst

I just want to understand the 45 basis point decline in yield on quarter-on-quarter basis. So the decline we experienced is on the existing portfolio also or just that's on the new disbursement?

Corporate Participant

No. What happens is that on the existing portfolio also every quarter there is a run down of around 3,000 odd crores. So, the higher yielding assets if you see that runs down and what we had, see if you see the entire asset side it's on fixed rate. So whatever the higher rate will run down, whatever is the existing rate will add to the portfolio. And hence there will be marginal reduction in the yield supposing if we don't contract new cases at the higher rate.

And the other factors which has led to shrinkage in the NIMs has been that there has been a marginal increase in the cost of borrowings also. Both the sectors have attributed to the reduction in the NIMs.

Analyst

Okay, sir. Thank you, sir. That answers my questions.

Operator Saurabh Kumar

Good evening, sir. Sir, actually I had two questions, one is just broadly on securitisation, given that this is largely fix rate funding and incrementally even the interest rate benefit is not there, plus I guess the 15% growth can be sustained by internal approvals.

Do you think on a corporate level, it makes sense aggressive here given that the expectation rates will come down hereon. And the second is on regulations so basically if this 90 day NPA norms comes what should be our gross NPA like sir? Thank you.

Corporate Participant

Okay, securitisation what we're seeing is right. If we know securitisation which will be fixed rate and subsequently rates come down will be...

Saurabh Kumar

Plus you don't really need money to grow your book by 15%, so...

Corporate Participant

Correct.

Saurabh Kumar

I was wondering if...

Corporate Participant

You will be...

Saurabh Kumar

Just taking coordinate loans at this point will make more sense, I mean just want your views on that.

Corporate Participant

We borrow only to the extent we require for our growth, we will not borrow additionally and coming to your question on the NPA.

Saurabh Kumar

Okay.

90 days if we have to shift and how much it will go up, it will go up by -- it may double.

Corporate Participant

It might go double, yeah.

Saurabh Kumar

Okay, all right. Thank you, sir.

Operator

[Operator Instructions]. Our next question is from the line of Ganeshram from Spark Capital. Please go ahead.

Analyst

Hello, sir. Jyoti Kumar from Spark Capital. Just had a tandem question to the one asked earlier. What could be, I mean there is a lot of chatter about some another -- one more committee which is being formed by Ministry of Finance to look in to Usha Thorat's Committee. I mean any update that you can give us on this?

Umesh Revankar, Deputy Managing Director

No, we don't have any update on that at present.

Analyst

So, there is no committee that has been formed by Ministry of Finance?

Umesh Revankar, Deputy Managing Director

We don't have any information.

Analyst

Okay sir. The other question that I had was I see your employee count, it has come down quarter-on-quarter. Is that the natural attrition or I mean or you are just looking at existing customers, so you don't need more employees? How should we read into this?

Umesh Revankar, Deputy Managing Director

Some of them have more into our new activity that is Automall.

Analyst Umesh Revankar, Deputy Managing Director

And some of them have moved into our Shriram Equipment Finance Company also. So there is some reduction. And we always have not added big this year, because the market outlook was little uncertain. We've not added. So as and when the market becomes better, we may add more aggressively.

Analyst

So, as of now it will remain as it is.

Umesh Revankar, Deputy Managing Director

Okay.

Analyst

Okay. The other data point was what would be the proportion of retail NCDs that you'll be having?

Corporate Participant

It should be around 5,000 crores.

Analyst

This is retail NCD?

Corporate Participant

Yeah, retail NCD.

Analyst

Okay, sir. That's it from my side.

Operator

Our next question is from the line of Rohit Gajare from UTI Portfolio Management. Please go ahead.

Analyst

Hello.

Yeah.

Analyst

Yes, sir. Sir, my question is regarding competition, I think you mentioned that there was some higher amount of competition in the new CV vehicle space right, is that correct?

Corporate Participant

Yes.

Analyst

In the old vehicle it is normal, I mean, normal competition there is no increase in competitive activity on that side?

Umesh Revankar, Deputy Managing Director

There is some increase, it's not that there is no increase because at moment there -- if people see Shriram as the company used so there are some people who have entered, but we don't see a very big challenge here as per that.

Analyst

Okay. Sir, my question is sir, sir is this our normal cyclical phenomena or do you feel that across various cycles people have come into the industry and then they figure out this is not what we really want to be or do you find that there is structural increase in competition?

Umesh Revankar, Deputy Managing Director

In the past, if you look at last 20 years, 25 years it has been cyclical only. So if you look at long horizon, it may look like cyclical, but temporary it may look like new people have come in with serious view on being there for long.

Analyst

Okay sir. Sir next question I have is somewhat related to securitisation. Sir around 3,000 crores you have securitised this quarter, right and this is done as I understand towards the end of the quarter.

Umesh Revankar, Deputy Managing Director

Yes.

Analyst

Right? So, sir the securitisation income with respect to this had already been fully reflected in the income statement? No, it will start flowing from the next quarter onwards?

Analyst

Okay. So is it right to say that perhaps some TD securitisation income is slightly less than it should be?

Parag Sharma, President of Finance

Yeah, correct.

Analyst

Right?

Parag Sharma, President of Finance

Yeah.

Analyst

But however, on a corresponding side the on book trade interest income is not higher. I mean so basically there is slightly less component of interest income being shown on net debt basis. Sir what I meant was that the securitise happen towards, maybe the last 15 days of the quarter to only for those particular days there will be slightly lower statement of income.

Parag Sharma, President of Finance

Correct. So compare to the current quarter, the next quarter income will be marginally higher on account of this.

Analyst

Okay sir. Sir and regarding the NPA outlook. Sir, we have had two quarters in which we have to do some write-off on the mining related exposure. Do you find that, are there any such more incidents which you think are likely or do you think that we have stabilised it around 200 crores provisioning number per quarter for the time being at least? Or do you see that there could be more risk to the portfolio?

Umesh Revankar, Deputy Managing Director

For time being it should remain stable.

Analyst

For the time being it should....
Yeah.

Analyst

Not better not worst but around 200 crore run rate is what you expect in the next quarter as well?

Umesh Revankar, Deputy Managing Director

Yeah.

Analyst

Okay, sir. And, sir for next year AUM growth you are seeing around 15% to 20% growth or 15% is where we will look at?

Umesh Revankar, Deputy Managing Director

No. As of now we have grown at 15, hopefully we should maintain that.

Analyst

Okay, sir. And regarding the other, the construction and equipment business, what is the -- how are things looking over there, are there any -- can you just tell me the industry dynamics over there? What is the growth outlook and also competition over there?

Umesh Revankar, Deputy Managing Director

No, that business we are doing quite well in fact, we are lending 125 crores per month on an average. And we have a AUM of 1,500 crores and this quarter we have -- profit is 14.7 crores in profit.

Analyst

14.7 crores, yes.

Umesh Revankar, Deputy Managing Director

Yeah. And outlook there is quite good and competition is not much it was in segment which we are in and it looks quite high prospect there because government is planning for a lot of infrastructure investment in the coming year. So post-election we should see a lot of government action there.

Analyst

Sir, on the -- I was just doing the nine month annualised ROE, so my numbers were around 15% in ROE already achieved on the construction and equipment business. I mean I could be little wrong here and there, but do you feel that

Parag Sharma, President of Finance

See the current quarter ROE is 20% or slightly more than 20% in the equipment business.

Analyst

This is about the quarter only?

Parag Sharma, President of Finance

For the quarter, yeah.

Analyst

Okay.

Parag Sharma, President of Finance

And for the YTD period if you will see it's around 18%, 17.75.

Analyst

Okay.

Parag Sharma, President of Finance

We feel that it's exceeded 20%.

Analyst

Okay, it's exceed 20%, And one final question, employee headcount reduction, so this is around, we have around 15,679 employees, this is just the construction CV business, commercial vehicle due some include DCV employees does not include the Automall employee.

Parag Sharma, President of Finance

This is not include in Automall and Shriram Equipment Finance employees.

Analyst

All right sir. Thank you very much.

Yes.

Operator

Our next question is from the line of Nilanjan Karfa from Brick Securities. Please go ahead.

Analyst

Hi, and thanks for taking the question. You've touched upon that competition kind of to delve more into it. Can you share who is your the key competitors have been in the new CV business? And the second would be you talked about the commission structure that some of the competitors are using. So, what are your thoughts going forward in terms of changing your own way of conducting the new CV business and or are you wanting or are you willing to keep the platform as it is?

Umesh Revankar, Deputy Managing Director

See the competition is quite I should say intense in this small CV segment, it's from IndusInd Bank, Kotak Mahindra Bank and Cholamandalam.

Analyst

Okay.

Umesh Revankar, Deputy Managing Director

Then of course Tata is there in their own business.

Analyst

Correct.

Umesh Revankar, Deputy Managing Director

So, they are the competitors. As far as -- when I say commission, it is not commission. What happens is they have a DMA structure, and the DMA or DSA, and through them they source business.

Analyst

Okay.

Umesh Revankar, Deputy Managing Director

Through dealer.
Okay.

Umesh Revankar, Deputy Managing Director

And there will be some payouts. So, we do not know how much is the payout. And we have never been giving payouts.

Analyst

Okay.

Umesh Revankar, Deputy Managing Director

And last 30 years, we are in this business.

Analyst

Right.

Umesh Revankar, Deputy Managing Director

We have seen this kind of cyclical push towards getting new business from the dealer by giving payouts. And it comes and goes, so, we never participated in that. And we don't intend to participate in that kind of competition.

Analyst

Okay. And quick question related to that whatever interesting. At what stages do you see some competition, is there some cyclical changes that happen every year which can guide us in understanding when the competition heats up?

Umesh Revankar, Deputy Managing Director

Whenever one particular company is doing very well then it gets, how many people get attracted to it.

Analyst

Right sir.

Umesh Revankar, Deputy Managing Director

Many people come and try to take a share of it. So as far as new vehicle business is concerned, two, three years back banks were very,

very aggressive and some of the banks left the scene. So it gave a scope for other small banks to get in.

Analyst Umesh Revankar, Deputy Managing Director

So new vehicle lending is what -- very competitive business where the yields are low. So normally what we'll do is our existing customer when he wants to take new vehicle only, we get into the picture.

Analyst

I see.

Umesh Revankar, Deputy Managing Director

And we don't source from the dealer directly.

Analyst

Okay. Yeah. Okay, thank you very much, sir. That's all.

Operator

Our next question is from the line of Mitul Patel from Laburnum Capital. Please go ahead.

Mitul Patel

Yeah, hi. Thank you for taking my question. I just wanted to know that just like Karnataka, do we have what kind of exposure do we have to the two other states which might be affected by mining such as Andhra Pradesh and Goa.

Umesh Revankar, Deputy Managing Director

Andhra Pradesh, right now there are no issues on mining and mining is not big in Andhra Pradesh. And Goa, our exposure is very, very limited. We have only one branch. So I don't really expect big issues in both the states.

Mitul Patel

Okay. And my second question is regarding in Q2 when we took the loss for due to the Bellary issue, I was -- I just wanted to understand that we made -- we kind of made a loss on the repossessed trucks right, because after you guys sold this few number of trucks, I was just wondering is that why we have consciously decided to raise the LTV looking at what happened in Q2, probably our LTVs are bit on the higher side and that's why we chose to lower it?

Umesh Revankar, Deputy Managing Director

Yeah.

Mitul Patel Umesh Revankar, Deputy Managing Director

In the Q3 it was around 20 crores we wrote off.

Mitul Patel

And in Q2 what was that number?

Umesh Revankar, Deputy Managing Director

Around 60 crores.

Mitul Patel

Okay. All right. Thank you. Thanks a lot. That's it from me.

Operator

Our next question is from the line of Ashish Sharma from Enam. Please go ahead.

Analyst

Just a follow-up question on the outlook for next -- for the nine months, here it's around 5.7 what should be the semi straight spreads going forward sir?

Umesh Revankar, Deputy Managing Director

No. That is on balance sheet spread. So, you have to take total NIMs to understand the spread. And, going forward it should remain, the NIM should remain stable at present level.

Analyst

Yeah. And just wanted to -- some clarification on the NIMs. For the nine months 7.72 NIMs on AUM, does it include income on securitisation or is it excluding the income on securitisation sir?

Parag Sharma, President of Finance

Including income on securitisation.

Analyst

And if we exclude what would be the number?
See, as I was explaining to the other caller earlier.

Analyst

Yes, sir.

Parag Sharma, President of Finance

It will be appropriate to see on an AUM basis. Because, if you take standalone on balance sheet or off balance sheet it gives a skewed picture.

Analyst

Okay. But...

Parag Sharma, President of Finance

It will be appropriate to see, you look at NIMs on the AUM business.

Analyst

But as you mentioned to the previous caller that, the impact would be around 100 bps only, 100.

Parag Sharma, President of Finance

Yeah.

Analyst

Okay. And on the securitisation income what will be the outlook because you mentioned that unrecognised income is around 2,800 crores.

Parag Sharma, President of Finance

Correct.

Analyst

And will be doing around 2,100 crores, 2,200 crores this year. I mean can we sustain that number for '13 also?

Corporate Participant Analyst

It's three, four years.

Corporate Participant

And assuming we continue with the same amount of quantum of securitisation.

Analyst

Yes sir.

Corporate Participant

The flow in will remain constant, I would say.

Analyst

Okay. So, once that 500 crores run rate number can be maintained going forward I mean in FY13 you can maintain it.

Parag Sharma, President of Finance

Yeah, it can be maintained.

Analyst

Okay sir. Thank you.

Operator

Our next question is from the line of Divesh Chowkal from Reliance. Please go ahead. Divesh you may go ahead with your question.

Analyst

Hello.

Operator

Yeah.

Yeah, sir just wanted to understand the growth for the CE financing business. What is the number you're looking for FY13 and -- FY12 and FY13?

Umesh Revankar, Deputy Managing Director

No, this year, we are lending 125 crores per month.

Analyst

Okay.

Umesh Revankar, Deputy Managing Director

And AUM is at around 1,500.

Analyst

Right.

Umesh Revankar, Deputy Managing Director

We should end up at 1,800 by this year-end.

Analyst

Okay.

Umesh Revankar, Deputy Managing Director

Next year we should be able to lend 200 crores per month.

Analyst

Okay. And how are the yields in this business?

Umesh Revankar, Deputy Managing Director

Yields are quite good for us. I wish we are about -- having a yield of around 16.5 to 17.

Analyst

And what would be the NIM for this business?

It should be around 6%.

Analyst

6%. Okay, sir. Thanks a lot.

Umesh Revankar, Deputy Managing Director

Welcome.

Operator

Our next question is from the line of Deven Modi from Equirus. Please go ahead.

Analyst

Yes, good afternoon sir. Sir, we basically had -- the first query was, what kind of yield guidance would we be working with given that last quarter we had already mentioned that we will be focusing on managing the yields and managing the profitability and still we sort of saw a drop in the yield probably because of excessive competition of having right there. So going ahead what kind of yield guidance would we be looking at?

Umesh Revankar, Deputy Managing Director

No. We have been maintaining that we will manage the yield between 7% to 8%. So, we are still able to manage it in that -- within that bank. And in future also, we'll be within that bank.

Analyst

Okay. Sure sir. And sir what is the kind of impact like after now almost couple of quarter after the legal hangover on securitisation, there must be some impact on the demand and the structure that can we worked out and what kind of change in profitability has led to?

Umesh Revankar, Deputy Managing Director

Parag?

Parag Sharma, President of Finance

Still the guidelines have not come for securitisation. They still running with this revised drop guidelines only.

Analyst

Absolutely.

As of now, the demand is in tact lot of banks to fulfill their private sector are coming to us. But we have to see wait and watch if the guidelines was if the guidelines come then where the demand lies. As of now we don't see any shrinkage in demand, lot of banks have approached us. We should be able to do the similar quantum of what we did in Q3 and Q4 also.

Analyst

Yes, but the kind of structure that are being done earlier, there would be a change over and also the pricing would probably be slightly compromise because of the hangover, right?

Parag Sharma, President of Finance

No, no all the banks are following the previous guidelines only. So whatever we have done in the past, same structures we are doing this year.

Analyst

Okay. Sure, sir. That's it.

Operator

Our next question is from the line of Mithun Soni from GC Investments. Please go ahead.

Mithun Soni

Hello sir. I have question on securitisation, you just said that more or less the guidelines and more or less the same as what the banks were following so would you just tell me what is the benefit of spread you'll be getting on the interest cost but doing the securitisation because that is where -- which would be getting a benefit, right?

Umesh Revankar, Deputy Managing Director

See, securitisation what we have done in Q3 is roughly around 10 to 10.25.

Analyst

Okay.

Umesh Revankar, Deputy Managing Director

And previous year, we have to do between 9 to 9.5, so it's slightly costlier. But it's still cheaper compared to any other borrowing from bank, with the base rate to the bank running at around 10.60 to 10.75.

Analyst Umesh Revankar, Deputy Managing Director

Roughly around 10 to 10.25 is what the cost...

Analyst

And what would be our cost of fund, sir?

Umesh Revankar, Deputy Managing Director

You're talking about overall cost of fund to us?

Analyst

Yeah, for example the...

Umesh Revankar, Deputy Managing Director

Around 11, close to 11.

Analyst

Close to 11, so basically we are getting the benefit of about 75 basis points benefit on because of securitisation.

Umesh Revankar, Deputy Managing Director

Correct.

Analyst

Okay and sir, what would be the credit enhancement in the capital block in terms of capital adequacy ratio for the same?.

Umesh Revankar, Deputy Managing Director

Roughly around 10%.

Analyst

Roughly about 10%. But sir, we are maintaining this 24% capital adequacy ratio, why -- if we -- with keeping the securitisation in our book, can we bring down -- would we be still comfortable bringing capital adequacy ratio below 20 or we'll like to keep it 24% of it in that range keeping securitisation at the 35%, 40% of the total AUM.

No, no I think we are quite comfortable even with capital adequacy at around 18% to 19%.

Analyst

Okay.

Umesh Revankar, Deputy Managing Director

Basic minimum requirement for us is 15%, we should be comfortable even at 18% to 19%.

Analyst

But it would really affect in terms of our credit rating...

Umesh Revankar, Deputy Managing Director

No, no it will not.

Analyst

They will usually be taking the total gross AUM in calculating in seeing the credit ratio

Umesh Revankar, Deputy Managing Director

No I am talking about 18% to 19% on the gross basis only.

Analyst

Okay 18% to 19% on the gross basis.

Umesh Revankar, Deputy Managing Director

Yes.

Analyst

Okay, okay. All right Thank you, sir.

Operator

Our next question is from the line of Ganeshram from Spark Capital. Please go ahead.

Hello sir Jyothi Kumar just had a couple of follow-up questions. You said the spread on the off balance sheet book is about 13%, is that correct?

Parag Sharma, President of Finance

Yeah. Correct.

Jyothi Kumar

So what would be the on balance sheet number?

Parag Sharma, President of Finance

Pardon me.

Jyothi Kumar

What would be the spread for on balance sheet assets?

Parag Sharma, President of Finance

On balance sheet is around 5%.

Jyothi Kumar

Okay. So predominantly the 13% or of the off balance sheet assets would be the used CV segment, is that...

Parag Sharma, President of Finance

Yeah. Predominantly yeah.

Jyothi Kumar

Predominantly. The other question was, in earlier question you said NPAs could double if 180 to 90 day NPA recognition norm happens. Then what could be the impact on spreads or for that matter yields?

Parag Sharma, President of Finance

See, if you see there'll be no impact on the yields per se, say anywhere what we are now discussing is more of a hypothetical thing. Since we are not clear whether the guidelines will really come and the guidelines will really come, and if it also comes, whether RBI will ask us to provide the entire thing at one shot? So, it will be appropriate for us to wait and let the guidelines actually come in and then we can go into the numbers.

Okay, sir. The other question that I had was, you said you did not look at new customers in the previous quarter. When going forward what is the sense that you get, is it better to get into the new customer segment, because overall environment seems to be improving or you would still be very, very cautious and not move into -- and go back to your old customers?

Umesh Revankar, Deputy Managing Director

No, we would be cautious only. And we will definitely try to increase our business volume. It is not that we'll forever be very, very cautious. But this quarter seems to be little better than the last quarter. And with the low LTVs we can still go for new customers.

Jyothi Kumar

But low LTV would mean lower pricing, correct?

Umesh Revankar, Deputy Managing Director

Yeah.

Jyothi Kumar

Okay. And sir one final question. What would be the exposure to Orissa I mean is there any pain in Orissa belt?

Umesh Revankar, Deputy Managing Director

There are some concerns but not really big. It does not quite apparent right now, but we do not -- we cannot say right now the things looks quite stabled here.

Jyothi Kumar

So all the pain that we have taken in the current quarter was only from Karnataka?

Umesh Revankar, Deputy Managing Director

Yeah.

Jyothi Kumar

Okay. And what would be the exposure to Orissa, if you can give me a ballpark?

Umesh Revankar, Deputy Managing Director

I may not be able to tell you on the portfolio basis.

Okay.

Umesh Revankar, Deputy Managing Director

Yeah, right now. You can collect from Sanjay.

Jyothi Kumar

Okay sir. Thank you.

Operator

[Operator Instructions]. Our next question is from the line of John Cox from Equinox. Please go ahead.

Analyst

Hi. I just wanted to follow-up on the competition as you gave earlier discussing how some dealers or some banks rather or paying dealers sort of ease for referring customers and I know that this is not something you've done historically but if all the other participants in the market keep doing it, do you think that would ever make is hard for you to grow. I know you guys are happy to service your existing customers but at some point, that may not be enough, do you see that as a risk or no?

Umesh Revankar, Deputy Managing Director

See, we have more than 1 million customer base. Our customers get updated to new vehicle because they get upgraded and keep buying new vehicles. So, traditionally we have been happy upgrading our customers into new vehicle other than going to the market and trying to get reference given by the dealer to do the business. So we would remain that like say we will remain in the similar fashion other than going to the dealer point and getting the business.

Analyst

What about in the used -- in the used business? Is it the competition some or you're competitors paying dealer or paying truck brokers in order to gain customers and do you see an issue there because that's how you'll end up sourcing new customers?

Umesh Revankar, Deputy Managing Director

In used vehicle there are no dealers here and it is an organized market and mostly the customers, they walk into the office or our field officers who are in the market will be in that basis our existing customer and the new customer. So on used vehicle this intermediary is dealer payout that issue. It doesn't matter.

Analyst

Okay. Thank you.
[Operator Instructions].

Umesh Revankar, Deputy Managing Director

We can take one more question, okay?

Operator

Sure sir. We'll take our last question from the line of Suman Dettoria from Jedith Securities. Please go ahead.

Analyst

Sir, I had a question related to some of your competition in the new CV market for example like Sundaram Finance which is another South Indian based NBFC. So, in their results I mean there seems to be a fairly good growth. So, I mean is it because their operations are in complete, are entirely mostly in the new CV and not so much in the used. So, if you could just comment a little bit about this?

Umesh Revankar, Deputy Managing Director

Yeah. Sundaram has a traditionally very strong relationship with their customer. And, it is -- their existing customer base they have been growing all the time... all this year. I don't really think that they will go to the market and get customers from the market. They have a fairly strong retail support and the customer base. And they have been doing well for traditionally quite long.

Analyst

I see. So, your business does not overlap to them. I mean, it is completely different

Umesh Revankar, Deputy Managing Director

Yes. Sundaram Finance has their own strong customer base, we don't have any overlapping or competition from Sundaram Finance.

Analyst

Okay. All right. Thank you, sir.

Operator

That was the last question, I would now like to hand the conference over to Mr. Revankar for closing comments.

Umesh Revankar, Deputy Managing Director

Yeah. Thank you. I just briefly on our Shriram Equipment Finance, I would like to briefly on Shriram Automall also. Automall has been -- we are expanding one more center we have opened. We also have temporary facilities in 35 locations, where we are having auctions. So right now, this particular business is more to organize the second hand vehicle buying and selling activity and to support our financing activity. It is doing quite well and this quarter, there is -- it has made a slight small loss of 2 crores.

But going forward, we are very confident that Automall activity will spread and their transactions will increase, which will help our used vehicle business. And Shriram Equipment Finance also should to grow into next year very well and it should add in to our bottom-line. So, all this put together we should be able to give a much better and strong results for the year, for this financial year and also in the coming year. Thank you very much.

Operator

On behalf of Shriram Transport Finance Company Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.