



“Shriram Transport Finance Company Limited Q3 FY-15 Earnings Conference Call”

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Moderator

Ladies and gentlemen good day and welcome to the Q3 FY15 Conference Call of Shriram Transport Finance. As a reminder all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Umesh Revankar who is the MD and CEO of Shriram Transport. Thank you and over to you, sir.

Umesh Revankar

Hello everyone. I have with me Sanjay, Sundar, Parag, and Kelkar who will be answering all your queries subsequently.

The 3rd Quarter is normally the quarter of high expectation because especially in India we have post-agri and also Festive period everyone starts hoping to do very well. And normally in India the performance of most of the companies would be 60% towards second half that is October to March. We have also started the quarter with high expectation. The October was quite good but somehow the growth momentum started slowing down in November but again it picked up in the month of December. So credit growth I should say was quite good for us.

So as I was trying to indicate you that we had a reasonably good quarter and the demand for credit was quite good in both urban and the rural markets. We are not been focusing on the urban market now and last three years if you look at our very consistently what we were trying to do is buildup infrastructure in the rural and semi-urban and that has give us the good depth in the market. We are able to add 19 more branches we have now 719 branches and another 40 new rural centers making it 672 totally. So the reach and network is very good for us and this will continue. We are also adding lot of manpower from the rural area even though it is immediately not visible we will be adding more people in the coming quarters.

Our field officers numbers have already increased and we are using technology very efficiently so that attrition in the back office we are not really adding much so that is helping us to build a very lean organization. This year even the monsoon was not really good and people do even comment saying that it is for the first time in 10 years we had a twin failure of monsoon both West and Northeast monsoon were below the expectation. So the agri output is likely to be little less than the last year. The rural wages also did not go up and MSP also did not go up.

So overall making the rural economy looking little weaker than the last year but nevertheless the India has moved towards from total agri to more of a consumption and manufacturing activities across and number of the activity centers or the towns are increasing. So the demand is slowly getting traction and we are seeing the credit demand for us has gone up in the last quarter.

With this background the numbers I would like to give you is and the net interest income has gone up by 9.6%. On standalone basis the PAT has gone up by 3.7% and net interest income has gone up by 12.5%. These are the broad numbers. The gross NPLs are at 3.59% against 3.74% and 0.74% net NPA with 80% coverage. So we have decided to maintain the coverage of 80% because still the resale prices are not firmed up. So till the resale prices of the vehicles are firming up we feel that 80% coverage is a good conservative ratio to be maintained.

Moderator Thank you. Ladies and gentleman, we will now begin the question and answer session. Our first question is from the line of Adesh Mehta from Ambit. Please go ahead.

Adesh Mehta Sir, can I have the breakup of your liabilities in terms of fixed deposits, NCDs and from banks?

Parag Sharma The bank borrowings roughly around that is term loan from banks is roughly around Rs. 16,000 crores. Then NCDs is roughly around Rs. 11,000 crores and retail borrowing in the form of fixed deposit will be to the tune of Rs. 8,000 crores. Retail, public NCDs, and fixed deposit that is public issue of NCDs and FD will be around Rs. 8,000 crores. The securitization outstanding will be Rs. 8,000 crores.

Adesh Mehta And what about subordinated debt?

Parag Sharma That will be included in our NCDs.

Moderator Thank you. Our next question is from the line of Sunil Tirumalai from Credit Suisse. Please go ahead.

Sunil Tirumalai Just one question was on the securitization. What is the outlook I mean this year we pretty much expected the demand to stay weak because of the relaxation on using RIDF for PSL by the banks but how should we look at it going forward? I mean we were working earlier with about 30% as the off book ratio I am just wondering what is that you have in your mind for the next year and the year after? I will come back for my second question after that.

Umesh Revankar Securitization is one of the sources and last quarter the bond yields were little lower. We felt that bond yield is much more convenient to raise resources. And Parag can give you more details on the same.

Parag Sharma One is that that is one way of raising resources, yes. The rates used should be comparatively lower in securitization compared to bank borrowings and NCDs but NCD rates have pointed out has come down drastically. You are right that because of RIFD and all. There is less of demand from the bank side. We did indicate higher quantum of securitization to be done in the current quarter but I think we will not be able to achieve that number and it will be slightly lower but we have been able to raise good amount of bonds at very competitive rates. And these are good tenures we have raising resources for five, seven and ten years through NCDs so this is much better I think the opportunity which has suddenly come up for us.

Umesh Revankar And one more thing Sunil please understand that bank credit growth has been very low. It will be around 10% to 11% average. When banks start growing their credit at around 17% to 18% automatically the cake become much bigger. So the demand will be always there so we do not really see the demand going down for securitization.

Sunil Tirumalai And secondly, just on the business I think during your opening remarks the line was not really proper. I just wanted to and if I missed this but I mean what is it that you are seeing as of now in three weeks, four weeks end of January in terms of the collections, collection efficiency, and growth?

Umesh Revankar See I was mentioning in my opening remark that the second half of December has been quite good and January is continuing to be quite okay. I am not saying very good not as good as the December but January is much better than what it was in November. So I feel January, February, March should become much better than the previous quarter as far as the demand for credit is concerned. And as far as the recovery is concerned I think it should be as same as previous quarter and it should improve mainly because we are able to see some of the states higher freight movement and that should translate into better collection.

Sunil Tirumalai And just the last question. What is the outlook on what are the guidance that you are giving for growth for 15 and 16?

Umesh Revankar 15, 16 the way it is going on if the infra and mining really opens up fully by March end and we should have good beginning of FY15, FY16 in April, May, June then probably second quarter will be little over but again it will pickup in the third quarter.

So I expect somewhere between 10% to 12% growth on the AUM mainly because our AUM is quite big now. So we need to really build that much of more lending and also considering the fact that our network has become really big and widespread we should be able to grow very comfortably in FY15, FY16.

Moderator Thank you. Our next question is from the line of Mayur Parkeria who is a Wealth Manager. Please go ahead.

Mayur Parkeria I had two questions. I think after a very long quarter we saw the NII growth above the interest on growth. So practically the NIM expansion must have happened. So what I was wanted to understand is which lever has moved for the NIM expansion is it means from the income side is it that the lower securitization proportion and hence the core interest income has increased is that the lever which has increased or is it that the lower borrowing cost has lead to the NIM expansion. Or the third is; is it the mix change which has lead to this? So which of them must have contributed to this?

Umesh Revankar This is a mix but it is more because of the lower borrowing cost and I think as we continue lower the borrowing cost there should be some more scope for expansion.

Mayur Parkeria Because it is just the first quarter wherein we have seeing the borrowing cost pecculating down so we will see some more room.

Umesh Revankar You are right.

Mayur Parkeria So second question is on the cost to income ration on a quarterly basis during in early FY13 and FY12 we used to see cost-to-income ratios in the region of 22% to 24% kind of ranges and in the last FY14 we saw 26% and 27% as the range. Now this quarter again we saw our cost-to-income ratio marginally improving so will we see the back to those 23% to 24% levels as we move ahead as the on the cost side we are efficient on the technology because of the technology and the growth was lower during the last hence the cost-to-income ratio may be looking elevated. So will we see the improvement even on the cost-to-income ratio as we move ahead in to the quarter?

Umesh Revankar See definitely we are working on that. One is technology and trying to right size the back office team and also we are slowly increasing the yield and on our cost of borrowing. Basically it is a combination of many things. One thing is on technology we are using it more effectively and we are right sizing the manpower and not really replacing the attrition in the back office. That is we are able to manage the cost better there and it also is helping us the NIM expansion is helping us in cost-to-income

ratio. So going forward definitely with better technology and improvement in what you call the borrowing cost we should be able to manage that.

Mayur Parkeria So even on the cost-to-income you feel there is a room to improve as we go ahead in to the quarter.

Umesh Revankar Yes, we are working towards that.

Mayur Parkeria Would you like to give anything on for FY16 what range it can be?

Umesh Revankar It should be the same rates some improvement will be there around 25 to 30 basis point improvement could be there.

Moderator Thank you. Our next question is from the line of Ameen Pirani from Deutsche Bank. Please go ahead.

Ameen Pirani Sir, my first question was that if I look at the mix between your UCV assets and your new CV assets. Your new CV assets even though they are very small proportion they continue show significant de-growth despite an improvement in the new CV market. So could you highlight what are we missing there?

Umesh Revankar On the new CV our lending was very low in the last two years and we have started building the book there in the last two quarters. So the run down is much faster than what we are building. So that is the way the book size is shrinking. But it will again grow back.

Ameen Pirani And sir, here you are mostly doing small and light CVs or you are doing large CVs as well?

Umesh Revankar We are doing mix of all because wherever our customer wants to buy asset there only we are funding. It depends upon the customer which segment you would like to buy into new vehicle.

Ameen Pirani Sir, and on your used CV side could you give us some sense as to whether the market and you are doing more deals on the 0 to 5 years or 5 to 10 years and because 5 to 10 years I think is more profitable than 0 to 5 years for you?

Umesh Revankar Yes, definitely yes. The more you go into deeper smaller town the older vehicle would have a much bigger demand but the 0 to 5 also we are not losing out on lending. The yields are little lower there definitely because the number of players into

0 to 5 especially organized players are little more and more than 5 the number of organized players are virtually non-existing. So that is the reason where we are into all market and all segments.

And wherever our customer would like to upgrade and get into new vehicle or newer old vehicle we will address that and we will normally give right pricing because we should not be lending him at a very high price when market is offering a bit lower price. So we will be as per the market and also as more than 5 years old even though we can charge much higher there is no competition. We also look into what customer can service. We do not want to burden customer with what we cannot service.

Ameen Pirani

Could you also tell us that sometime back I think the 0 to 5 year market was growing fast and 5 and above was not growing as fast. Is that changing or are you seeing any other trend?

Umesh Revankar

It is too early but it should change because the fuel price coming down should help customer to get into any vehicle of his choice. Earlier he was forced to move or get into upgrade because of the younger the vehicle was more a fuel efficient. So the fuel price movement is very important and if the fuel price is falling further it should not make a big difference for a person to buy either 0 to 5 or more than 5.

Moderator

Thank you. We have our next question which is a follow up question from the line of Mayur Parkeria. Please go ahead.

Mayur Parkeria

Sir, few days back we had this news on the papers that we have tied up with Honda Motorcycle for with respect to Auto Malls. So just wanted to understand is it just for the Auto Malls platform or is it also going to provide an opportunity for financing for us as a parent?

Umesh Revankar

No, it is only Auto Mall. They have created a separate platform for a two-wheeler buying/selling activity. It is nothing to do with our financing the two-wheeler and it will definitely help our sister company Shriram City Union Finance who are engaged in two-wheeler financing. But we are roping in as many players as possible for all activities for buying, selling and for financing.

Mayur Parkeria

So for us it is just a service revenue which we will earn from the Auto Mall?

Umesh Revankar

Yes, Auto Mall will only on a service revenue.

- Mayur Parkeria** And sir, we were very optimistic with respect to the commercial equipment segment on the second hand commercial equipment segment. So the way we have been able to transform this second hand commercial vehicle market similar kind of profile exists there. When can we see actual sizeable growth on that side and that portfolio building up gradually because with economy now looking up when can we see some real traction on that side of the portfolio?
- Umesh Revankar** It may take some more time because the second hand construction equipment typically has the high demand in the private sector. When I say private sector is in the real estate side or private construction activities at the Municipality level or smaller level. It is not at the big projects. Big projects normally of the new equipments are deployed. So as the economy is improving and as the people will consumption and the home buying increases I think it will improve. So I do expect that to improve may be in the third quarter or second half of next financial year.
- Mayur Parkeria** Yes, but as a percentage when will it become sizeable for us in terms of or is it already meaningful enough for it to make a division?
- Umesh Revankar** It is quite meaningful in the sense it is around 60/40 now. It is around 40% of the portfolio and I think it will remain at that level.
- Mayur Parkeria** The used construction equipment is 40%?
- Umesh Revankar** Yes.
- Mayur Parkeria** And sir, can you give some color on our market share in the various segments especially in the 2 to 5 and 5 to 12?
- Umesh Revankar** Our market share?
- Mayur Parkeria** Yes, in 2 to 5 and 5 to 12 years segment?
- Umesh Revankar** Market share probably we are captured those numbers but I should say because there are lot of players in the 2 to 5 years market most of the NBFCs almost all the organizations NBFCs and one or two banks are there. So it may not be very significant but being the used vehicle financier we should have anywhere more than 10% is what I feel but I am not very sure I do not have that number.
- Mayur Parkeria** And 5 to 12 will remain above 20 if 23 to 24?

- Umesh Revankar** Yes, 5 to 12 we should be nearly 25.
- Mayur Parkeria** And how does this mix represent in our AUM, sir?
- Umesh Revankar** I do not have immediate numbers probably you can ask Sanjay to give you details.
- Moderator** Thank you. Our next question is from the line of Lalithabh Srivastav from Dalal & Broacha. Please go ahead.
- Lalithabh Srivastav** Sir, briefly just wanted to understand what is your experience on the resale and secondhand vehicle prices especially in the commercial vehicle side segment? And secondly, how much of yours as a proportion there would be some sort of reschedulement or restructuring on that?
- Umesh Revankar** See as far as the resale price there is no improvement on resale price no significant. But I am able to see certain improvement in certain products. There are a few products where resale prices have not gone up but in certain products the resale prices have gone up. So it is a mix of both. So overall if you add I think there is a marginal improvement resale price not to the expected level. And I think the fuel price coming down should help the used vehicle resale price to go up further because people would definitely prefer used vehicle not really have to upgrade into new vehicle is what I believe but we are not very clear at the picture right now.
- And as far as restructuring is concerned normally we do not encourage any restructuring and we allow the customer to if he remains outstanding by 4 or 5 installments we allow him to remain at that level and on expiry of the contract we will look at as a fresh proposal if there is a need otherwise we do not.
- Moderator** Thank you. Our next question is from the line of Arjun Tandon from Matsya Capital. Please go ahead.
- Arjun Tandon** I just wanted to ask your view on the mining sector in the country so the Goa Government has announced the lifting of the ban on mining. So how much time do you think it will take for the sector to actually revive to its true potential and hence contribute to the CV sales up that way?
- Umesh Revankar** See in mining there are two activities one is the coal related another one is iron ore and manganese related. As far as coal is concerned we are only re-auctioning the existing coal sites so I do not really think there will be additional coal extraction. So the activities which have temporarily stopped will start but the coal movement is not

really going to increase. So it is going to remain at a particular level what it was may be two years back. That is what I feel. But at least there will be some activities and power generation will go up. So that is one.

And second one is as far as the iron ore manganese is concerned I feel that government is yet to come with proper policy on the same because right now a 30% levy for export is there so that is making the export activity not very attractive and especially the commodity price being low worldwide so the export activity may not be a great boost unless the domestic demand increases. So domestic demand depends upon the steel consumption. So right now we are not seeing any positive on steel consumption locally. So I do not think the activities in the iron ore manganese will lead to substantial increase in vehicle demand. But coal will definitely create good demand especially in the Jharkhand, Chhattisgarh, Madhya Pradesh, and Andhra Pradesh belt.

Arjun Tandon

So then the iron ore demand when do you see that kind of picking up? Will it take like 9 months to 12 months or do you think it is further down than that?

Umesh Revankar

The government is yet to make a proper policy on the export because the export there is a levy which was imposed by the earlier government because they do not want iron ore export to be freely made available. So this new government has to take a call on whether they should encourage the exports or not. So the second option is the domestic consumption has to go up substantially due to the construction activities and other consumption within the country. So I feel unless the government takes step on the export encouragement the mining activity may not be substantial for some more time.

Moderator

Thank you. As there are no further questions I would now like to hand the floor over to Mr. Revankar for closing comments. Over to you, sir.

Umesh Revankar

Thank you everyone for joining the call. As I was telling you in the beginning the 3rd quarter is always with high expectation and we did try to manage the expectation by increasing our disbursement. But the 4th quarter will be the final lag and I believe the demand for the credit would be quite robust in the last quarter and we would be able to manage the NPL and the credit cost at a particular level and try to improve further on that and we expect 2015-16 to be a much bigger year. Thank you very much.



*Shriram Transport Finance Company Limited
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Moderator

Thank you. Ladies and gentlemen, on behalf of Shriram Transport Finance that concludes the conference call. Thank you for joining us and you may now disconnect your lines.