"Shriram Transport Finance Q3 FY-16 Results Conference Call"

January 30, 2016

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Moderator: Ladies and gentlemen good day and welcome to the Shriram Transport Finance Q3 FY16 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode and 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would hand the conference over to Mr. Umesh Revankar – Managing Director and CEO, Shriram Transport Finance. Thank you and over to you sir.

Umesh Revankar: Good evening everyone in India and good morning to the investors who have joined from US. I have with me Sundar, Sanjay, Kelkar and Parag to answer specific questions. I hope everyone has had time to go through the investor update that has been sent to you, earlier that highlights; key operations on financial metrics.

We have seen a reasonable quarter in terms of credit growth. On the back of festive season, the disbursements have gone up, in Q-o-Q and year on year by around 20%, which is a true characteristic of Q3. The overall conditions have remained largely unchanged since Q2 with no material improvement or further deterioration in the economic landscape. We are also approaching a post agri season. The Rabi crops have been under pressure due to dry winter following two consecutive drought years raising concerns over production. The return of cold weather in January and recent rains in parts of MP, Chhattisgarh and Eastern UP have most of prospect of Rabi crops. The overall impact remains to be seen. The initial ground reports indicate that decline in sowing area is only marginal, lower than the last year. Thus situation is not as bad as feared a couple of months ago.

The Agri sector is expected to remain resilient, which may help rural demand to stabilize over the period. In terms of vehicle sales, we continue to see heavy vehicle sales improving year on year on the back of demand from coal, steel and cement industries. There is also strong replacement demand for used vehicles as people are shifting from 25 ton to 31 ton and the resale prices for 31 ton on vehicle seems to be very strong. The vehicle utilization levels have remained at 22, 23 days a month which is a reasonably breakeven for the operators, further freight rates and diesel prices have also remained within the range for over the last six months, giving stability. While there has been really significant decline in global prices of crude oil, the hike in export duty has resulted in marginal decline in retail price of diesel price for our customers. The liquidity scenario also continues to be challenging.

Over the last year, RBI has cut its policy rates by 125 basis points, whereas banks have an average reduced their lending rate by just half of that. From the numbers you can see a marginal decline in cost of funds due to incremental borrowings and we expect further benefit from the new marginal cost of funds based lending rate; maybe, starting from next financial year. We expect to see a strong pickup from Q4 onwards into FY17. There have been several initiatives undertaken by Government over last six months, we should start translating into momentum at the ground level. Many infrastructure projects have been approved, reached financial closure and progressed into execution stage and also many of the projects which have come to a standstill, have re-started and we expect that also to boost the demand for both commercial vehicle and construction equipment. The pipeline is quite encouraging and we expect credit demand to further go up.

Now let me provide acute overview of financials for the quarter; net interest income has gone up by 24%; that is from Rs. 148 crores to Rs. 1300 crores. Our net interest margin saw an improvement over 44 basis points over Q-o-Q and around 83 basis points year on year. The PAT has gone up by 20% from Rs. 312 crores to Rs. 375 crores in the quarter. The gross NPAs have increased to 4.29 from 4.18 level; that is around 10 to 11 basis points, mainly due to some disturbance in Tamil Nadu; that is Chennai flood situation and to some extent the rural being under stress to some extent. We are also moving towards 150 basis points in the next quarter and that will have some more impact on gross NPAs, we expect to it to go up by around 100, 200 basis points on standalone basis.

Coming to equipment finance business, the merger process is on expected lines, we should able to complete merger by March end; however, we would like to now share that the initiative taken by us in joint follow with STAC and Shriram Equipments Finance team, has resulted in good collection. I should say, a regular steady collection between Rs. 80 crores to Rs. 110 crores every month and also nearly Rs. 40 crores to Rs. 50 crores coming in, on 150 days above contracts has given us a confidence that things will be come much better going forward. And also, we saw the gross NPAs of Rs. 1100 crores there coming down by around Rs. 50 crores in that we had last quarter and maybe by the March end there will be a significant improvement because many of the customers are now coming forward for either pre-closure or wanting to regularize their accounts.

So, with this probably there will be sharp decline in the overall portfolio, which is around Rs. 1250 crores now, we expect it to come to somewhere between Rs. 1800 crores to Rs. 2000 crores. And with infra projects are getting momentum, we expect more demand to come in for the construction Equipments Finance and whatever expertise and experience we gained, should help us in getting into the business, if not very aggressively but steadily. So with this note, I think it is to Q&A.

Management: Sir, just to correct, the book size is Rs. 2250 crores, not Rs. 1250.

Moderator: Thank you very much, we will now begin with the question and answer session. The first question is from the line of Mahrukh Adajania from IDFC Securities. Please go ahead.

Mahrukh Adajania: Good afternoon, could you give me the disbursement figure for the quarter?

Umesh Revankar: It is Rs. 10,400 crores in total and break up of new and used is; new is Rs. 1301 crores and used is Rs. 9178 crores, meeting the total Rs. 10, 479 crores.

Mahrukh Adajania: And just wanted to check, on equipment finance you have given a good qualitative color on the business and the presentation but what would the NPLs now be and how much do you think, I mean what is the recovery that is likely to come in by March?

Umesh Revankar: There is some improvement from the NPL, which was at 1100 crores which has come down by Rs. 50 crores to get on Rs. 1050 crores and we expect some more improvement by March. It should be definitely, less than Rs. 1000 crores but we are hoping to reduce it by another Rs. 150 crores to Rs. 200 crores.

Mahrukh Adajania: Okay, but there was a sense that there would be fast recoveries in 3 and 4 quarters because of the macro, those are not happening. Is that a correct way of looking at it?

Umesh Revankar: Yes, the macro which we were expecting in the third quarter, have got pushed into 4^{th} quarter, so many of the projects have started coming to an execution level now. Because of that, there is some delay; otherwise, we would have expected a much better recovery by this time. But however, by March, everyone is hopeful that things will be much better.

Mahrukh Adajania: And Sir, in just the margins are very good this quarter, where you mentioned about liquidity, so what would be your guidance on margins for 4Q?

Umesh Revankar: There will not be much difference in Q4, when I say liquidity, the yield is little higher because of that we felt that liquidity in the market will be little tight but for us, 4^{th} quarter is always secuterization time. And we have enough secuterization on demand on pipeline and perhaps is around Rs. 2000 crores to Rs. 3000 crores, we should be able to do it. So we will not have any liquidity challenges.

Moderator: Thank you. The next question is from the line of Adesh Mehta from Ambit Capital. Please go ahead.

Adesh Mehta: Sir just wanted to know, in terms of margins, we have seen that margins have improved by around 80 bps on a Y-o-Y basis and when I am seeing yields, the calculated yields they are broadly stable on a Y-o-Y basis and the decline in cost of funds has just been by around 30 bps, so what can really attribute such high improvement in margins?

Umesh Revankar: Yields are not really gone up, one is, the overall cost has come down to some extent on the fresh borrowing and the second one is; the cash component has come down. So there is a better treasury management which has given us better advantage.

Adesh Mehta: In terms of our 90 days our road map to recognize our NPAs on 90-day basis, so what could the number be on 120 and 90 days' basis?

Umesh Revankar: Generally, it is between 120 to 150 days for our NPAs increase would be there, from what it is now. So you can make an assessment based on that.

Adesh Mehta: Okay and in terms of 90 days Sir?

Umesh Revankar: That is what; 150 days, 120 days and 90 days; for every bucket that will be.

Adesh Mehta: Okay and 30, 30% kind of increase is what we can presume.

Umesh Revankar: Yes, you can assess that way.

Adesh Mehta: And Sir, in terms of collection efficiency, how are they behaving for us because we are seeing many rating agencies; they have been highlighting that the delinquency trends during the CV portfolio, they have been improving, for certain reasons we are not able to see that in our numbers. So is that something which the reported numbers are missing out, I just wanted to know that?

Umesh Revankar: Basically, the Urban market is good and vehicle utilization levels are higher, the only thing is, the market is still showing a stress. See Rural has not really improved even though the environment looks little better than what is was but the overall Rural really income consumption nothing has improved. So you should look at the Wage growth, it is around 3%, if it is, you look at the MSP rates, it is just a 3% percent and agri production has come down but the inflation is at around 5.6, so the net resultant saving or the purchasing capacity of Rural has come down, because of that there are some stress and it is the only delay because Rural normally when the Rural operator, it is either he has to pay the EMI or consume. So when the stress is high, then it gets divided, income is divided. So that is the reason; otherwise, I feel it is the only delay, so we should be able to see a recovery in maybe two quarters from now; otherwise if there is good monsoon this time.

Adesh Mehta: Right, but then per say we are not seeing any improvement in our collection efficiency, as of now.

Umesh Revankar: Yes, not in Rural but Urban it is quite good. Urban it is compensating quite well.

Adesh Mehta: And Sir, you highlighted about most smarter balance sheet management this quarter, so what I am seeing is, are component of cash and cash bank balances, this quarter has come down meaningfully, say what it used to be around a year back; from 13% it has come down to around 7%. So Sir to what extent can it go down further for it to support the margins?

Umesh Revankar: It may not go down further and that may not help further into margin expansion. The only other option is to increase the yield which may not be possible now because new vehicle lending is slowly going up in our overall disbursement. So as the new vehicle mix goes up, the yields are likely to be, a little difficult to move up further, it may come down to maybe another 10 basis points. So it depends, depends upon how the mix goes on.

Adesh Mehta: So basically, in terms of balance sheet management, we basically are maxed out; we will be maxing out over this quarter or the next and going forward, the only driver of margins would either be yields or cost of funds, am I correct?

Umesh Revankar: Yes, you are right.

Moderator: Thank you. The next question is from the line of Sunil Kumar from Birla Sun Life. Please go ahead.

Sunil Kumar: First is on AUM growth, since you talked about 17% this quarter and you mentioned that you know vehicle sales have been improving and some of infrastructure projects are also picked up and some of them are already restarted. So do you going to increase your earlier stance of around 15% AUM growth.

Umesh Revankar: Yes, 15% growth almost there. So we should be able to read that.

Sunil Kumar: So by March, should we not see a little better than 15%?

Umesh Revankar: See the credit demand is quite good, it can be better than 15%, whether it is significantly better, I am not sure but it will be definitely more than 15%.

Sunil Kumar: And so going into FY17 also, it will be in that kind of a range or what is your outlook on that?

Umesh Revankar: As of now, going into 17 and looking at 15 as the guidance and probably 12% to 15% should be the ideal one to give, but 15% is something which we will look at.

Sunil Kumar: And on NPAs also, so you have mentioned several points which were positive in terms of your collection efficiency and utilization levels, but you have also mentioned about Rabi crops and things are under pressure, so what is your outlook on NPLs going forward?

Umesh Revankar: So next three quarters, still we first two quarters of next financial year, there will not be significant improvement because unless the Rural improves significantly, there will not be a change. Change in the trend; the trend would remain at present level.

Sunil Kumar: For the next 2 quarters?

Umesh Revankar: Yes.

Sunil Kumar: So this you are saying because there is migration towards the next bucket or you are saying at this bucket only?

Umesh Revankar: No, as per this bucket only. Migrating in next bucket; as I answered the previous question, there will be around 150 basis points increase on that.

Moderator: Thank you. The next question is from the line of Sudha Batra from ICRA Limited. Please go ahead.

Sudha Batra: Two questions I have; first is, if you were to look at the gross margins; it says the difference between freight rates and diesel cost, they have kind of remain stable, if my interpretation is correct, for the last one, one and a half years, do you agree with that? And how does that translate into at least softer delinquencies, if the margins are either stable or not declining, so far it has not translated into plans but are you seeing some trends in softer delinquencies and going forward what could be your **(Inaudible) 20.24** there? And second is that with this Prime Minister's Jan Dhan Yojana would you now; a lot of bank accounts have been opened. And a lot of your collections and disbursements for cash, do you think that if your borrowers were migrate to Jan Dhan Yojana, it would lead to some savings in operating cost for you or that is just?

Umesh Revankar: There will be a significant cost saving on collections, once the digital transfers happen but I still feel that it will be 2 to 3 years away. It may not be immediate because when we talked the people who have already got MyPayment bank license and the people who are having valet or even the TelCos, right now they are not fully ready with the technology and the ability to transfer money. And I think it is another 2, 3 years away is what I feel, but still we are working on that, we are working, everything is on, addressing that as if are coming tomorrow, so that we are ready for that.

Sudha Batra: No but existing banks also have opened, I think close to 20 crores or 30 crores accounts in Pan India. So that is not a feasible mode for collections and one is waiting for payment banks of, the existing bank do you think even though they have opened the banks in terms of your borrowers opening those accounts or routing the collections through those accounts, that is not really an option?

Umesh Revankar: See, opening an account does not result in no banking habits, habit is something which gets developed over a period and educating the customer that he can put money in a wallet, then transfer money or keep in a bank account link it to the mobile and transfer, all those educations will take at least six months to one year and which we are trying to get ready. But I still feel, it will be two years away totally migrate to that kind of situation. And coming to the first question; see the diesel prices and Freight rates are both stabilized and rather in our country, it is getting stabilized by the government by increasing the excise. So we would have been happy if it comes down further, so that it would have resulted in better margin for our customers. But still our customers are happy, much happier than those days when every month the diesel prices were going up, which they could not pass on, In 2013, our customers could not passed on to the customers that easily, today that difficulty is not there. Today other margins are clear, they are much better off. The only disadvantage today is; The Rural Products which have declined people may make an assessment around 5% to 10% top the reduction in Agri production. We will create that kind of a vacuum with because what happens typically is, Rural produce will either go to the factory out of the cities, they move, warehouse, factories, they move. Overall 10% reduction in Agri production result in less utilization of capacity because the truck what they do, they move into the city and what they produce in the city goes back into the town or in the village. So it is a two-way transaction, now the revel, Rural production comes down, there is a less utilization, to some extent, especially on a smaller vehicle which are used for the Agri transportation. In return also, rural consumption has not gone up, so FMCG has not gone up, the durables have not gone up, white goods have not gone up. So there is little less utilization at this level, which only in heavy vehicle utilization it is better because coal has increased, steel has increased and to some extent maybe some infra projects in certain States have increased. This has resulted in improvement in heavy goods transportation but LCVs that kind of an increased utilization is not seen.

Sudha Batra: So when do you see this rural outlook still is fairly weak, do we see this kind of pressure on delinquency to continue then?

Umesh Revankar: There will be next two quarters I do not see a big change but the present situation will prevail or continue. Because our prediction right now is; the weather forecast is, rain is likely to be better than normal. That is what the initial forecast; I read somewhere. So if that is true, then it should become better.

Moderator: Thank you. The next question is from the line of Umang Shah from Emkay Global. Please go ahead.

Umang Shah: Sir I just have a couple of questions; next quarter, when we move to 150 days past due NPL recognition, the numbers that we would be reporting from next quarter would be the consolidated numbers or we would still report standalone numbers?

Umesh Revankar: It would be consolidated because the merger would be complete, so we will be giving a consolidated number in next quarter.

Umang Shah: So Sir, would this be a fair assessment to understand that we are looking at 5% to 5.5% gross NPLs on the standalone book and add on to that, another whatever Rs. 800 crores to Rs. 1000 crores of NPLs that will come in from the construction equipment book and all put together will be the consolidated number which will get reported next quarter, is that the right understanding or the 5.5% includes construction equipment also?

Umesh Revankar: No, it will be in addition, so between the 5.5% to 6%, you can think of the merged NPL numbers.

Umang Shah: And Sir, the second question was a related one, for the first nine months, we have seen our credit cost at almost like 2.5% of AUMs and we have maintained a very strong provision coverage ratio of 80%, so when we move to 150 DPD NPLs recognition, what would be the treatment or our stance in terms of maintaining that PCR; so will we see a fall in the PCR because; otherwise, in the next quarter the credit cost could actually cross a 3% mark even, is that a right understanding?

Umesh Revankar: See, logically, when we recognized NPL early, coverage ratio should come down, so but how much to bring it down is something which we have not decided. We will take board's opinion before doing that. So logically, it has to come down because we are recognizing it early. So that is the argument or that is the discussion we had with the board, but we will look at the next quarter number, then take a call on how much to bring it down.

Umang Shah: And Sir, the last question is; in terms of adopting to the most stringent NPL recognition as prescribed by the RBI, we would be following the same path, so 120 pass due recognition will be by the end of March '17, or do we expect to accelerate that?

Umesh Revankar: No, we will go with present level only, in the last quarter only we will move because we want to give a fair chance to customers, we do not want to put inconvenience to the customer. It is basically customer's migration is more important than our migration towards RBI's requirement, so simultaneously we are making customer getting ready for that and continuous education and the talking to customer is going on by personally meeting and also trying to make a call to them through call center. So the process is on, so we want to make customer more comfortable and make him understand why he has to little more disciplined and funds should not be as fungible used as it is now, so it will take time and we will go in the last quarter only.

Moderator: Thank you. The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: Just continuing on this NPL question; so on fourth quarter on NPL recognition, so our NPLs will go up by 150 basis and we will just provide the first bucket provision of this, is that the right way to calculate, so what happens in the fourth quarter?

Umesh Revankar: Correct, see from what we are at 180 days, anywhere between 100 to 150 basis points on a Standalone number, add to that on the Standalone basis, before merger there will be increase in the NPA levels when we migrate from 180 to 120 days, NPL levels it will increase by anywhere between 100 to 150 basis points and added to that will be what will come from equipment books.

Saurabh Kumar: So just on the Standalone, ….

Umesh Revankar: Just a second, you are absolutely right, it is between 180 to 150 to 365 days RBI prescribed 15% only but you know, even for 180 to 365 days is 15% but we have always maintained 80%. So minimum it will be 15% but I think management have, we are already on the conservative side, so it will be on the higher end only.

Saurabh Kumar: Okay and on this Rs. 1000 crores, construction equipment books are how much will be provided now?

Umesh Revankar: We provided around Rs. 282 crores.

Saurabh Kumar: And one last question on the funding cost, so I was just trying to see if you have any more leverage, so there is **31.43** leverage on this bank to bond mix and just a follow up on that, on the base rate drops would have got transmitted even the last quarter, I mean how much of that is now getting reflected?

Umesh Revankar: Bonds we have not borrowed much, it is only bank loans which has, bank base rate coming down which has held, we have not borrowed much of bonds. And this quarter, we will be doing only secuterization.

Saurabh Kumar: But this s secuterization is happening in base rate it only, right?

Umesh Revankar: Secuterization happens at base rate. It goes to the investment book, so this would be equivalent to the priority sector rate which is much lower than the bond rate.

Saurabh Kumar: Is it happening more by assignment or is it happening once…

Umesh Revankar: No it is PTCs.

Moderator: Thank you. The next question is from the line of Devang Modi from Equirus Securities. Please go ahead.

Devang Modi: Just wanted to confirm a couple of things; in terms of our rural exposure, it is which region wherein the exposure will be major because we have started seeing some ramp up in Greenfield construction activity. So which region should we monitor in terms of further ramp up from here on?

Umesh Revankar: See, we are present in almost all region, but right now little weak spots are Maharashtra, especially Marathwada and the Telangana, then North Karnataka and East UP and Bihar. These are the places where we are seeing some kind of pressure but overall rural is not really great but these are the areas the weakness is little higher.

Devang Modi: And Sir, in terms of the, we heard a lot of things regarding this proposed NGT done in Delhi and from what we understand there is a court against it right now so going ahead what action do you see over there? Could you provide some flavor in terms of what kind of impact it could have on our asset quality in the longer term in terms of any bank on higher-aged vehicle per se coming through?

Umesh Revankar: Right now, NGT is focused only in Delhi, it is not focused in any other geography and the 10 year's vehicle they wanted to ban and the government is yet to go with it fully because it is also challenged in the court. Now what initial reaction was that 10 year's vehicle hold buying-selling transaction all stopped. That made some of the people who wanted to depart from older vehicle difficult but now the court has told that if anyone wish to transfer it out of Delhi, they can do so. So the vehicles are getting shifted out of Delhi, so that is a good thing where vehicles are moving towards UP, Rajasthan, Haryana, which are neighboring states of Delhi. So now the vehicle can move out, so the loss to the customer is minimum. They are able to sell the vehicle at around 10% to 15% discount than what they were commanding there. And they are migrating to younger vehicle. So people are moving for 5 years' or 4 years' old vehicle which we expect demand for the loans for us. We are the pioneer in used vehicles financing that is the one part. And in the rest of India, the people are normally talking about a 15 years' old vehicle, not 10 years' old that is government but what Transport Minister had said that he will give incentive for the people who want to scrap the vehicles which is more than 15 years. Unless the Transport Minister comes out with a government plan on how much he is going to incentivize the older vehicle, this will not happen. So Minister Gadkari has indicated Rs. 1 lakh to Rs. 1.5 lakhs for vehicles depending upon the tonnage of the vehicles. And if you have (+15) years vehicles which has a market value of Rs. 2.5 lakhs today and if you get Rs. 1.5 lakhs from the government that will be a big boost because the scrapped value of the vehicle anyhow will be Rs. 1.5 lakhs even if he decides to scrap since there is iron in the vehicle. The iron value of the vehicle will be Rs. 1.5 lakhs to Rs. 2 lakhs so he will get another Rs. 1.5 lakhs. So he will get more than the present re-sale value, so he will not be worse off. So he can scrap it and get government subsidy or incentive whatever it is. So unless government announces, I do not think 15-year-old banned will be implemented.

Devang Modi: And Sir, I just missed out that number which you mentioned, you are expecting what around Rs. 3500 crores of secuterization in the final quarter?

Management: Between Rs. 2000 to Rs. 2500 crores.

Moderator: Thank you. The next question is from the line of Ashwin Balasubramaniam from HSBC Asset Management Co. Please go ahead.

Ashwin Balasubramaniam: My question is in terms of the distribution network you also cater through 500 private financiers so just wanted to understand a little bit more about this. What will be the kind of ticket size which you operate in this segment and also in terms of the yield and if you can also provide some view on the asset quality here? Out of your total AUM how much would be to this network and second question is what was the write-off remaining this quarter?

Umesh Revankar: See, we call it as RSV franchise route, we have around 500 financiers who are with us for quite a long time. We did not expand in the last 2, 3 years because we just wanted some kind of new thinking on this and now we have realized that it is a very good way to penetrate and acquire the customer so we will be adding more in the next 2-3 years so that is one thing. And second, most of their lending is towards 3-wheelers, jeep, and private transportation vehicle in rural area. Ticket size should be anywhere between Rs. 1.25 lakhs to Rs. 1.5 lakhs on an average. And the overall portfolio behavior is almost similar to our portfolio. So it will not be significantly different, the delinquency portfolio of the private financiers.

Ashwin Balasubramaniam: I just need one clarification; what will be the total AUM through this route, not meaningful is it?

Umesh Revankar: It is around 5% of the AUM.

Ashwin Balasubramaniam: And when you say, this Rs. 1.25 lakhs to 1.5 lakh, this will be to the ultimate customer, right?

Umesh Revankar: Rs. 1.25 lakhs, Rs. 1.5 lakhs, yes ultimate customer only. It is in our book directly.

Ashwin Balasubramaniam: Your lending will be to the financier or to the customer.

Umesh Revankar: To the customer account will in our book directly.

Ashwin Balasubramaniam: And the write-off during this quarter?

Management: It is around Rs. 220 crores.

Moderator: Thank you. The next question is from the line of Adarsh P from Nomura Securities. Please go ahead.

Adarsh P: Just a question again on the liquidity part which you have reduced. Just wanted to understand what has fundamentally changed between what will be done over the years versus now because when I look at the liquidity that you maintained versus the disbursement you have monthly, it seems that it has come down from 2-3 months close to about a month now. So I am just trying to understand, is it like your funding profile is getting that much better that it allows you to have lesser liquidity or is that a risk you are carrying; if something happens on the funding side, then there could be a spike in cost.

Umesh Revankar: In fact, now we have relationship with almost all banks and all funds so we have reached out to all lenders. We feel comfortable even during the bad period we should be able to raise funds. Previously, we had limited number of lenders only that is one. Other is for last 4-5 years we have not seen very severe liquidity crunch in the market. So there have been enough measures by even Reserve Bank of India to ensure enough liquidity in the system. Based on this assessment, we decided consciously to reduce our liquidity.

Adarsh P: And which means not giving into quarterly volatility but if you take a 2 to 3 year' period, your balance sheet liquidity would remain close to where we are today, is that a fair way to look at it because that is quite a lot in terms of margins, so just trying to assess.

Umesh Revankar: That is certainly.

Moderator: Thank you. The next question is from the line of Sandeep Baid from Quest Investments. Please go ahead.

Sandeep Baid: Sir just wanted to get your views on how do you see small finance banks impacting your business over the next 2 to 4 years?

Umesh Revankar: Right now, I see that the next 2 years there may not be any impact because they are very busy in setting and also investing in SLR. So over 3 to 4 years probably they will try to start lending but they will be focusing more on a local area where they are operating from because out of 10 small banks, 8 are microfinance. So their lending ability is limited to very small geography. So I do not really see a big competition or threat from small banks.

Sandeep Baid: Their intent is to move into new product areas, right and that is why they are converting themselves into small finance banks. And some of them are pretty large and their presence is also in the rural areas where you are present, so you do not think that there can be significant competition for you even over next 3 to 5 years' period?

Umesh Revankar: See vehicle financing especially in used vehicles is a niche statement. You need to have a certain level of expertise in this field and we have built this expertise over 35-40 years. So I do not think small banks would be able to build that kind of expertise immediately on a used vehicle. Probably, yes new vehicle, they will get in and new vehicle is something which we do not compete, we rather service our existing customers who likes to buy new vehicle and since we do not compete in new vehicle with any of the competition, I do not really see a challenge there.

Moderator: Thank you. The next question is from the line of Gaurav Jain from JHP Securities. Please go ahead.

Gaurav Jain: Firstly, on the AUMs, as I understood in the past, 80% or more were non-infra related, correct? That was cash and carry.

Umesh Revankar: You are right.

Gaurav Jain: Right now, since the M&HCV has picked up since couple of quarters, so right now what would be the divide, would it be same?

Umesh Revankar: It will be same. We have not gone into infra lending. What has happened is, many of the vehicles which were earlier plying into normal activity, some of them have moved into the transportation of coal and mining activities. So there is some shortage in the vehicles there that has created a scope for people buying new vehicle or adding more fleet. So that is where the opportunity is coming. So it is not that we are lending into infra. We are not lending into infra or mining activity. We are focusing more on a day to day normal line what is called as a market aligned transportation, that is a goods transportation.

Gaurav Jain: Okay, so goods related to basically mining or infra.

Umesh Revankar: Not basically into infra and mining. I am talking about goods transportation.

Gaurav Jain: Secondly, you said that the rural demand is not picking up, so in terms of AUM, can I have the breakup for the rural-urban divide, please?

Umesh Revankar: See, I do not have breakup because defining rural itself is a difficult one. If you ask me what is done through rural center, I can tell you that is around 10% of a total portfolio, but many of the towns and semi-urban area, the vehicles are used as fungible. It goes into rural, pick up goods on rural, goes into cities; bring back FMCG goods or the white goods. So you do not have a divide there on utilization. Vehicle can move anywhere, pick up any load and move anything that is available.

Gaurav Jain: So you cannot properly define what is rural and urban, is what you are saying.

Umesh Revankar: No, we cannot define.

Gaurav Jain: One other thing is, I am looking at your tractor growth; now the tractor growth has improved by 16.6% on a Y-o-Y basis, can you just elaborate more since the rural demand is not picking up as you are saying. So what has led to this growth?

Umesh Revankar: See tractor there are 2 things – new tractor financing and another one is used tractor financing. And we are focused mostly in used tractor financing. When we do a used tractor financing, what happens is the existing tractor which is available, which gets transferred from one person to another person that gets financed. So that is not a new demand that is existing tractor, so we are gaining market share, so it is not a new demand.

Gaurav Jain: Sir, just one last questions sir; since the M&HCV segment has witnessed a robust growth in the last few quarters and since they are lower yielding so do we expect a margin compression because of that?

Umesh Revankar: If you finance more of a new vehicle, there will be some pressure on the yields but right now we are focusing more on used vehicles. But used vehicles also is coming. It is not that we are not doing but used heavy vehicles financing will not reduce our yields, only the new vehicle financing will have a yield pressure which probably overall impact will be around 10 basis points, not more than that.

Gaurav Jain: 10 basis points in the next couple of quarters, is what you are saying?

Umesh Revankar: Yes.

Moderator: Thank you. The next question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.

Rahul Jain: I got three questions; first data point. Can I get the mix within our institutional borrowings, say by banks and NCDs and debentures?

Management: Banks and institutions will be 80%, retail will be around 20%.

Rahul Jain: That I have but I am saying that within institution of 80%, how much would be from banks?

Management: It is 50-50 divided between banks and institutions.

Rahul Jain: Second is, this employ expenses, again were quite high in this quarter what is the reason for that? We have been hiring I can see that but clearly I think the average salary is also kind of going up?

Management: This quarter we had that one-time hit of bonus provision which we had to make base on the change in the Bonus Act which has managed that we increase the bonus amount from Rs. 3500 to Rs. 7000 amount per se and hence this has taken a onetime hit of around Rs. 15 crores in the current quarter. There is a change in bonus regulation and consequent to that we are required to make payment for all the employees effective from 1st of April 2014 that is from previous year and hence that has contributed to Rs. 15 crores, onetime hit in the P&L current quarter. If you remove that it will be more or less flat.

Rahul Jain: So next quarter also we should see minus this Rs. 15 crores, the run rate should come down to Rs. 130 odd crores.

Umesh Revankar: Rs. 130 crores and whatever is the incremental hiring. The employees whomsoever we need to pay, that will be additional.

Rahul Jain: The third one is related to the second, moving to 150-day pass due recognitions, so you guys have indicated that GNPL increase will be about 10 to 150 basis points. Now what would be the interest income write-back because of that? And when Mr. Revankar you talked about that your margins would remain more or less flattish in this 4th quarter, were you are also baking in the potential interest income reversal?

Management: Interest income I do not understand, what exactly you said?

Rahul Jain: So when you are classifying those accounts as NPLs, there will be some interest income reversal also that will happen over there. So what would that number be and when you talked about a flattish NIM outlook for the next quarter, which is 4th quarter, were you baking in the interest income reversal on account of this transition?

Management: The interest income number will not be clear at this point of time depending up on the loans that will be classified as an NPA, based on the change in regulation in the next quarter, the amount will fluctuate. So currently, we do not have that number on hand and when Mr. Revankar was finding out that the NIMs will be more or less flat and it is based on the current regulation and there may be a marginal hit to the NIM in the next quarter.

Rahul Jain: A very fundamental question; so clearly this is more of an accounting thing, on a normalized level, clearly even our NPAs are right now elevated because of the macro factor and you guys are looking for a favorable macro outlook getting into the next year. So when you will actually fully transition to say 90 days past due over the next 2 to 3 years, what would be the normalized GNPL kind of a numbers that we should stabilize at because clearly this 4.3% including the equipment finances you will get about close to 7%, but I am just trying to understand once you will move to 90-days past due, what would that number be like on a normalized basis?

Management: As Mr. Revankar was pointing out in the beginning of the call itself, maybe around 100, 150 basis points, bucket wise it may increase when we ultimately move to 90 days and once we achieve that, maybe by 31st March 2018, subsequent year onwards, it should be in the same levels or if the economy improves then it should be lesser than those levels and we can think of getting a write-back, the ultimate, the NPA is more of a provision we are required to make and what matters is the ultimate loss that we have been having in the disbursals. So that has been stable at around 2.5% or something, so we should be getting a write-back from the financial year ending 18-19 onwards.

Rahul Jain: Okay but when you have already started educating your customers and all, so I would imagine that over the next one, one and a half years, most of the book or 30% or 40% of the book would be according to the new contracts that you will be signing. So would not the reversal or the benefits of write backs and all should be earlier than 2019?

Umesh Revankar: Technically, yes you are right., what is it we are trying to do. I hope there will be some write-backs and that should help but we do not want to give very aggressive possibility now but we are definitely working on that line and as one of the questions was towards the digital money transfer, that also should help us in improving our collection efficiency. So overall there will be some impact of the education plus the digital transfer of money that is collection of money. So we are not able to make an assessment right now, how much beneficial it will be. But definitely, as you rightly said, there will be a good possibility of lower NPL than what we are assessing now.

Rahul Jain: Just one last thing; I guess in this quarter and of course in the last quarter, a decent amount of pick-up we have seen in the new vehicles and of course the credit cost still remains fairly elevated at close to 3%. So as the mix gradually changes towards the new vehicle financing, so what would be your outlook in terms of credit cost, say for '17 or maybe '18 based on the current regulation?

Umesh Revankar: It should not be a much difference because we had a mix of new and used of a 20:80 in the past then we have now 10:90. So again it may move towards around 15:85 or so maybe in the next 3 to 4 years, as new vehicle lending goes up. But still I do not want to make a big speculation on a mix changing helping us in better NPL management because what happens in a new vehicle, some product can fail, risk is always there even though new vehicle portfolio has behaved much better. There could be product failures here and there which we would not like to speculate.

Moderator: Thank you. The next question is from the line of Parag Jariwala from Religare Capital. Please go ahead.

Parag Jariwala: You said that, your GNPA current is 4.3%, if I assume that it goes by 1.5% because of the transition to NPA, and add up around Rs. 1000 crores because of the book coming in, so then we are talking about Rs. 2500 crores is of GNPA going up to around Rs. 5000 crores, so in that case I think, JNPA ratio will move closer to 8% rather than 6% you had stated towards previous question. Is it a right calculation or….

Umesh Revankar: No, see when I said that 100 to 150 basis points, I was also including the part of our equipment, in the sense now we are at 4.3, we are expecting around 100 basis point increase, the equipment portfolio, we expected 50 basis points to 100 basis points. So because there is a lot of resolution happening in the equipment portfolio, it may not be Rs. 1000 crores, we are wanting to be it much lesser but there is a lot of resolution is what I feel, so we may be having around 6% overall is what I feel.

Parag Jariwala: So this is 6% is including the expected improvement you see on the fee side.

Umesh Revankar: Yes.

Moderator: Thank you. The next question is from the line of Gopi Nath, he is an Individual Investor. Please go ahead.

Gopi Nath: Last time when we talked, you were talking about the problem with the construction equipment financing in Andhra, Andhra area of Andhra Pradesh; how is the situation? Are the projects that were stuck because of the non-payment from the government to the contractors; is it resolved or is it still as it is? How is the situation?

Umesh Revankar: Some are resolved, some are not yet resolved, but progress is quite good. For the State government projects are now getting clear, whatever the outstanding. So only the bigger projects sponsored by the Central government, there are some challenges which also we expect it to be resolved in maybe a year's time.

Gopi Nath: When it comes to construction equipment related financing, which are the states the trouble point for us as of now at this current situation?

Umesh Revankar: Current situation probably; both Telangana, Andhra is little on higher sides, which are getting resolved, so that is a good sign and some states have improved very fast, that is Gujarat, MP, Rajasthan have improved quite fast. The Southern States and Maharashtra are little slow, so I think, but there also we should see. Other than Maharashtra, where we still do not expect a quick resolution, rest of the states, it should be quite fast.

Gopi Nath: Okay, the problem point that is going to last longer than other States is going to be Maharashtra area.

Umesh Revankar: Yes.

Gopi Nath: Sir this Chennai effect; how far was it? How much of an affect was the flood hit?

Umesh Revankar: Chennai see because the geography impacted was reasonably small; between Chennai to Pondi only, so impact was not very big for us but it could be at 5-10 basis points increase overall, due to Tamil Nadu overall, not exactly Chennai but it has coming to a normalcy. So State Government also has quickly resolved many of the issues or addressed the problems of the people and new projects have come in there, so overall the impact will be much lesser in the next quarter.

Gopi Nath: Sir, this 10-year life term thing, you have answered it, but I have a partial question into it; when it comes to the residual value of the vehicle which we have financed at 5 years or 8 years old is after 10 years, if the government says it is not usable, the residual value of the vehicle comes down, right? Is it affecting or is it going to affect us in any way when it comes to recoveries?

Umesh Revankar: No, I already explained you, 10 years and above, not usable only in NCR area, not anywhere in the country.

Gopi Nath: Okay, so remaining are up to 15 years, our areas we can use it.

Umesh Revankar: Use it and also above 15 years, government is supposed to announce incentive, that has not yet announced. Without announcing the incentive, government cannot ban the vehicle from plying on the road. So government should come out with the incentive plan then only it will happen. And the incentive and this scrap value put together, customer will not be at a loss.

Gopi Nath: Last question Sir, this construction equipment, Maharashtra, how much was the percentage of the overall construction equipment to exposure, Sir?

Umesh Revankar: I do not have numbers now. I will ask Sanjay to give you. It should be between 5% and 7%.

Gopi Nath: 5% to 7% of the overall construction equipment.

Umesh Revankar: Yes.

Moderator: Thank you. Ladies and Gentlemen, that was the last question; I would now like to hand the floor over to Mr. Umesh Revankar for closing comments.

Umesh Revankar: I thank you everyone. We are quite comfortable at this juncture because the market has picked up to some extent and the infra projects are picking up much faster. The government expenditure is going up and a lot of execution on infra projects are happening. So I feel the next 2-3 quarters will be extremely busy for the infra activities and the government expenditure would boost the consumption. And we only hope that if with the next monsoon being good, we should be in a very good position by second half of next year. So next 2 or 3 quarters, will be crucial for us to maintain the NPLs at a controllable or manageable level; otherwise, we expect the overall benefit to accrue to the company and to the customers as well. So thank you for the support and hope to see you again in the next call. Thank you very much.

Moderator: Thank you. On behalf of Shriram Transport Finance, that concludes this conference call, thank you for joining us and you may now disconnect your lines.