"Shriram Transport Finance Q3 FY17 Earnings Conference Call"

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Moderator Ladies and gentlemen, good day and welcome to the Shriram Transport Finance Q3 FY17 Earnings 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Umesh Revankar - Managing Director and CEO for his opening comments. Thank you and over to you, sir.

Umesh Revankar: Thank you. Good evening to everyone in India and good morning to the investors who joined from US. I would like to begin by wishing everyone a Happy New Year. I hope you could go through the investor update that has already been sent to you, highlighting the key operational data. I will briefly discussed developments in macroeconomic environment before I share highlights of our performance.

Q3 has been an eventful quarter. The demonetization initiative has been brave step by the government and while there has been short-term disruption, it is expected to provide significant benefit over the long run. Having said that IMF, the World Bank and Central Statistic Office have cut their estimates for India's GDP growth for the financial year 2016-2017 between 50 to 100 basis point from 7.6% earlier, . the estimates now range from 6.6 to 7.1%. The monsoon in 2016 was well-distributed monsoon at about 97% of long period average effectively ending drought condition for last 2 years. Most of the reports indicate that sowing has been better than last year and the Kharif produce also has been quite good. In addition to positive data from the monsoon we also have data on Rabi sowing for which, as on December 31st , NITI Aayog has given numbers of 91% sowing but as on January, the numbers seem to be more than 100% over the previous year's Rabi sowing.

Coming to the impact of demonetization program on our business. For the first 3-4 days, there was a high amount of uncertainty but after the situation began to stabilize, our product executives, assisted customers to bank their payment into their account and give us cheque and we also sought some of the banks support in collecting the cash. Our product executive assisted number of such customers by standing with them and braving long ques in front of banks and effectively we could help the customers in the first 15 days of uncertainty. However, we are also simultaneously developed 'my STFC' app, helping the customer to make the payment through a gateway. So, different payment gateways were linked to my STFC app and they could make the payment to us. We also supplied POS machine in the branch and to the field officers, so that those customers who had debit card account could make their payment through debit card. So, all this effort has helped us in managing the demonetization impact very smoothly and we could manage this quarter quite successfully I should say, especially when the cash component in our collection was quite high almost up to 60%.

The overall fee market currently seeing a muted condition, mainly because in used vehicle we have a buying selling transaction where the seller, when he sells the vehicle expect the money in cash and since even when after putting the cheque into the bank he was not able to draw the cash, there were some uncertainty for him, whether to sell or not. So, many of the selling activity got postponed because of the uncertainty in drawing cash and therefore, we had a lesser loan disbursal in this quarter. The loan disbursal was lower by around 22% over the same quarter in the previous year. And last year third quarter was a very big quarter for us when our disbursement had grown significantly because of that base effect also it was down by 22%. Overall our AUM grew by 14% year-on-year during this quarter.

And in addition to that in January, we have successfully raised 650 crores of masala bonds to overseas investors offered at 8.25 coupon with a tenure of 37 months. We concluded it in January, we have started in last quarter, and it is listed on Singapore stock exchange. Now I briefly touch upon the headline numbers for the quarter. The AUM grew by 14.64 year-on-year in Q3 to 76,281 crores against 66,538 crores. Net interest income was higher by 6.94% to 1,412 crores compared to 1,321 crores in the corresponding quarter last year. The net interest margins stood at 7.17 compared to 7.14 in the previous quarter and 7.59 in Q3 last year. PAT was down by 7.76% year-on-year to 346 crores against 375 crores. The EPS per share at 15.25 compared to 16.54.

To conclude, we will be monitoring the on-ground situation very closely but as of now, January seems to be quite good month because we are almost completed a month and the numbers say that the collections are quite good and the cash component in the collection has come down significantly more and more people are using banking channels and the other digital mode to make their payment. So, that is very heartening and we feel that this will help us in further scaling up the activities and business. We are also adding man power, we may be adding another 1,000-1,500 man power by the quarter end, it will help us in the growth. Another positive thing that is happening is India is moving towards BS IV standard for vehicles which will increase the vehicle prices by 50,000 to 200,000 from April 1st. That will incentivise many people to pre-buy the new vehicles in the month of February and March and meanwhile that will have an impact on people who want to buy used vehicles also. So, there will be a lot of activities that will make the disbursements to go up and demand for the vehicle to go up. We also feel as the diesel prices have gone up in the last one quarter there will be a more demand for younger fleet. So, newer vehicle and new vehicle will be in more demand in this quarter.

With this opening remark, I have with me Mr. Sunder, Sanjay and Parag Sharma to answer specific questions. Thank you, now I request moderator to open for question and answer.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Kashyap Jhaveri from Capital 72 Advisors. Please go ahead.

Kashyap Jhaveri: Question on your NPL side, if the RBI dispensation was not taken then what would have been the gross NPA number?

Management: See the gross NPA currently what we have reported is 6.63% as against that had we not got the dispensation from RBI it would have been 7.32%.

Kashyap Jhaveri: So, that would have added just about 500 odd crores or so?

S. Sunder: 448 crores it would have added.

Kashyap Jhaveri: So, what I am trying to understand is that versus this 455 crores in the notes to account we are saying that provisions would have been higher by about 330 crores, so we are assuming that we would do 70% provisioning on that.

S. Sunder: Correct, we would have provided 70%.

Kashyap Jhaveri: The second part is, in notes to accounts again you have mentioned about this provision that you have done based on certain changed estimates on provisions. So, what exactly has gone into that in that exercise, if you could throw some light over there?

S. Sunder: See, no doubt there has been a benefit given by our Reserve bank of India but we are also not very sure whether the same dispensation will be extended till March and so conservatively what the company has done is that we thought, we will provide something out of that 448 crores and we had identified certain assets wherein there is a probability that the recovery might not come in, in the next couple of months also and hence pro-actively we have increased our coverage in the tough times.

Kashyap Jhaveri: And lastly on 120 DPD let say in the March quarter when we migrate to 120 DPD, what is the number of gross NPA that you might be contemplating?

S. Sunder: Yes, they have been indicating in the earlier calls also, the jump from 150 to 120 when we reduce our NPA recognition from 150 days to 120 days the jump in NPA may be around 100 to 150 basis point. That is what has been the guidance that we are been giving.

Moderator: Thank you. Next question is from the line of Sameer Bhise from Macquarie. Please go ahead.

Sameer Bhise: Just wanted to know the OpEx number looks quite low during this quarter, I mean it is down even on a Q-o-Q basis. So, …

Umesh Revankar: We had higher attrition of employees and it is a normal attrition bit we did not start recruiting aggressively. So, there was slowdown in recruitment in the month of October and November. But in the December, we have started recruiting people and we should be adding at least another

2,000 people by March end. One is we are expecting a higher growth in the last quarter and also since the demonetization impact is there in the rural area we need more people to deal with customers to build relationship. So we are going to add. So this will bring back the cost to income ratio to around 22%-23%, which has been normal trend for quite long time. So, would like to maintain between 22 to 24 over the long run on OpEx.

Sameer Bhise: And secondly on the NPL side, what is the outstanding NPL on the old CE-book?

S. Sunder: The CE-book, Shriram equipment finance the total book size is 1,157 crores and out of which the NPA amount outstanding is 893 crores as on 31st December.

Sameer Bhise: So and the additional provision that we have made by assessing the economic value, has it got to do with the CE portfolio?

S. Sunder: No, not necessary, not CE.

Sameer Bhise: So, it is the erstwhile standalone business only.

S. Sunder: Correct.

Moderator: Thank you. The next question is from the line of Shiva Kumar from Unifi Capital. Please go ahead.

Shiva Kumar: Sir, you had said that without using RBI dispensation the GNPAs would have been 7.32 versus last quarter's number of around 6.58. So, how confident are you that in case RBI does not extend the dispensation to Q4 that you will not end up with 7.32. I think, do you see a reversal in the trend in January in terms of collections.

Umesh Revankar: No, we expect the collection to improve in fact we feel January collection being good and February, March also we are expecting good collection. So, better collection will make the portfolio much better. So, there will be a lot of additional collection which has slipped in the previous quarter. So, we cannot comment on what could be the exact number but we are quite confident that many of the payment which is postponed can be collected in this quarter.

Shiva Kumar: Sir, in with respect to your borrowing profile how much of it is currently from the capital markets and are you getting the benefit of the lower cost of borrowing in the capital markets. What is your incremental cost of borrowing?

Parag Sharma: Yes, 3 year bonds where borrowed roughly around 7.90, it did come down but because there was no RBI policy change in December the bond yields actually moved up and liquidity also was in fact the mutual funds and all were not lending much. So bond yields did come down in October, November but again moved up. But 3 year guidance is roughly around 8% is the current borrowing and how much of total borrowing is from bond, roughly around 17,000 crores is what we have borrowed in the form of bonds.

Moderator: Thank you. The next question is from the line of Abigail Fernandes from CRISIL Limited. Please go ahead.

Abigail Fernandes: I actually wanted to know just a small data point about your disbursement numbers of your old and new vehicles.

S. Sunder: The disbursement numbers on new vehicle we have done 565 crores and used vehicles 7,556 crores.

Abigail Fernandes: And also a sense of which segment are you focusing on your disbursement this quarter.

Umesh Revankar: This quarter, I expect the demand to basically come from the passenger and LCVs.

Abigail Fernandes: So, passenger vehicles, the buses as well as cars and utilities.

Umesh Revankar: Yes, buses, cars all put together and the HCV and LCV, I should say other than tractor most of the segment should have a big growth.

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

Umang Shah: Sir, I just had one question, so obviously, this quarter being the demonetization quarter we saw very sharp downtick in disbursements, if you could just throw some color as to what is the kind of demand revival that we are seeing in Q4 and by March 17, would you like to peg any kind of AUM growth guidance where we were earlier looking at something between 12 to 15 odd percent. Would you still maintain that AUM growth guidance for the full year?

Umesh Revankar: No, we are already on 14% year-on-year as of now but last quarter was big quarter for us so whether we will have a such a big quarter is something which you were looking at but our aim is to do same amount of disbursal as last year we did. But we are not very sure on the pre-buying demand which will be emanated from BS IV. Even though manufactures do claim that they have good demand but there is some uncertainty but definitely till be much bigger than the last quarter. So, will try to be at least better than the second quarter if not the previous year last quarter.

Umang Shah: So basically, we might be able to close the year with almost like 10% to 12% kind of asset growth probably because that too on a sequential basis would translate in to 5% to 6% kind of a asset jump.

Umesh Revankar: Yes, tentatively correct.

Moderator: Thank you. The next question is from the line of Gopinath, an individual investor. Please go ahead.

Gopinath: We are taking ourselves back from the more than 10 years old vehicles and looks like there is a change in the government's policy towards those vehicles. Are we also look back into giving loans to those kind of vehicles or we are sticking to our previous plans?

Umesh Revankar: More than 10 we are already discouraging and we had not been disbursing for a while now. So, we are mostly focusing between 5 to 10 and with demand for younger vehicle being there, we will try to be further go about 2-3 years. So, 3 to 7 is something which we feel is a sweet spot and likely to have a much bigger demand. Because especially in the heavy vehicle many of the vehicles are changing for the first time, like some of the segment like 31 tonners and all they are 5-6 years old and many of these vehicles are changing the vehicle for the first time. So, we should have a lot of demand in this particular segment is what I believe.

Gopinath: And next sir, this demonetization and other bank account opening making people to be bankable will that affect our business strategy that we are going with as of now. Is it going to make us change our strategy from whatever strategies we are following as of now in terms of taking care of our customer, or getting new customer. Our banks or any other institutions going to become new competitors to us, given everybody is becoming bankable now.

Umesh Revankar: See, our focus was never on, trying to catch cash customers only. That was never our focus only. Our focus was to lend to the customer who otherwise do not get credit from the banking customer. So, then used vehicle transaction especially none of the banks are willing to be there in a used vehicle, because used vehicle transaction require lot of skills and accessing the vehicle value and also complete the documentation. The transfer of ownership and putting our endorsement and getting the document clear and also accessing the vehicle properly and the lending it. It requires lot of skill among the individuals and with the company, which we have mastered and we are able to complete the transaction within 24 hours. This is something which I do not think any of the competition will be ever able to copy or put it in practice and the kind of reach what we have, we have a 905 branches and 903 rural centers around 1,800 centers and we also have 9,000 people on the field. We also have a very close relationship with the community, trucking community, who are operator, owner. That kind of a close relationship no one has ever built. So, I do not think any of the competition will be able to replace us, even if we go 100% on digital and cheque. Even in digital what we are trying to tell the customer is that he need not have to pay full EMI every time. He can pay part amount and all our competitor they are always asking either full EMI or nothing. Because it is easy to account, easy to supervise, easy to manage and need not have lot many people. So the kind of competitive advantage what we have built in the niche is not because of cash, it is because of relationship and the way we deal with customer.

Gopinath: Last question being whom do we consider as the biggest competitor towards if at all there is any?

Umesh Revankar: Yes, we have the small competitors but we do not have any big competitor.

Moderator: Thank you. The next question is from the line of Cyrus Dadabhoy from Anand Rathi. Please go ahead.

Cyrus Dadabhoy: Just wanted to understand the credit cost trend in each asset vertical especially passenger vehicles which has gone up year-on-year. So basically if you could help me out for the 120 DPDs and each of these verticals and what kind of credit cost you are seeing and what you expect to see over the next couple of quarters?

Umesh Revankar: We do not have vertical wise credit cost but if you take into account all other aspects, credit cost will remain almost same because passenger vehicle many of them are small ticket and little high yielding. So, the profit margins will be higher but we also require little more number of people to reach out to them. So, overall it will not be having a big impact because bigger ticket size, truck probably have a low yield but at the same time the collection efforts required is less. So, we cannot do vertical by vertical and see unless we are able to allocate human cost across all vertical. That also we are finding it difficult, because what we are doing now is we are taking a geography of 5 kilometers and we are allotting it to one person. So, he is in charge of that entire geography and he manages high ticket and low ticket both, truck and tractor and passenger all he will manage. So, it will be very difficult but definitely passenger is high yielding, tractor is high yielding, truck is low yielding.

Syrus Dadabhoy: But could I have some guidance on next couple of quarters in a sense that overall what you are saying for credit cost not just from your current portfolio but also from the equipment portfolio you mentioned outstanding NPA around 893 cr, any sense on how much of the remaining from the total 1,157 cr could slip.

Umesh Revankar: See, we are currently, we are able to, last quarter we have collected around 120 crores in spite of the most difficult circumstances. We should be able to collect much more than that in the last quarter is what we believe. So, we should be able to at least collect around 150 crores in this quarter and may be another 150 in the next quarter. So, throughout next year if we are able to collect every quarter on an average of 120 crores for next 5 quarters then we should be able to recover maximum possible.

Syrus Dadabhoy: Recovery collection would be around 120 crores run rate per quarter you are saying.

Umesh Revankar: Yes.

Syrus Dadabhoy: Sir the yields, the yields on assets on a rate adjusted basis if you could just provide some color on that sir?

Umesh Revankar: Yield may not really go up, whatever the margin expansion we will get yields only from cost of borrowing coming down. So, yield can be at present level or it can come down by around the 10 basis point, if you are going aggressively on a new vehicle. It depends upon the demand, where the demand comes from.

Syrus Dadabhoy: I am just want to understand that okay may be should ask the NIM basically. Would you on a risk adjusted bases do you see that coming down further?

Sanjay Mundra: See, if you look at prior to probably last 2 years we have always worked on between around 4.5% to 5% risk adjusted net interest margin. So, right now there are 2 things, one the demonetization effect and the second is the transitions quarter, if you know what we have to migrate. We have already done from 180 to 150 days another 150 to 120 days is due. So, if you exclude that then we are virtually our credit cost sales been around 2.5%-2.6%, so I think we with around 7% and 7.5% net interest margin and 2%-2.5% credit cost, so we will be more or less will be around 4.75% to 5% risk adjusted net interest margin.

Syrus Dadabhoy: And how do you see securitization income going ahead?

Parag Sharma: Securitization quantum in fact we expected more securitization to be done but for demonetization with the banks we actually not buying priority sector pools we do plan to do roughly around 2,000 crores in this quarter and if we do only priority sector the expectation is we should be able to sell it at around 7.5%.

Moderator: Thank you. Next question is from the line of Adash Mehta from Ambit Capital. Please go ahead.

Adash Mehta: Sir, in terms of disbursements and collections what trends are we seeing in the month of January?

Umesh Revankar: January looks like we are almost like in October, so I should say it is quite positive as far as collection is concerned. The numbers I know only up to yesterday and may be today is the some more collection would be coming. So trend seems to be like October, both disbursal and lending.

Adash Mehta: So, if we are so positive, like if the trends are really holding up right, in terms of collections then why provide on those NPAs then?

S. Sunder: See, typically what happens is that since we are operating in a segment wherein customer owns only a single truck, so once he default in an installment it is difficult for him to again pay couple of installments in a particular month and hence he postpones that and he continues to be defaulting and he settles the agreement instead of 36 months, may be in 39 or 40 months. That is how it actually spans out and hence we are slightly conservative on that front.

Moderator: Thank you. The next question is from the line of Karuna Murti R from IFMR Capital. Please go ahead.

Karuna Murti R: I just wanted to understand post demonetization, is there any difference in the collections that we see across variety categories, I mean HCV is the biggest proportion in the portfolio. Do we see any difference in terms of HCV, M&HCV, passenger cars, like that?

Umesh Revankar: The smaller vehicles, the defaults were little higher. Small vehicle and the rural segment, mainly because of the less cash being available. So otherwise the heavy vehicle which are mostly urban based had less impact.

Karuna Murti R: So, my understanding was the other way, because heavy commercial vehicles which actually ply between cities, between states, they would be using more cash that is what my understanding is.

Umesh Revankar: No they require more cash as a working capital but as far as the freight rates are concerned they had a one advantage in November that tolls were free and many of the long distance operator took advantage of that and that toll was a big bonus up to I think December 1st week, December 10th and after that toll was reintroduced. So many of the heavy vehicle operators took advantage in spite of the other difficulty of arranging cash. That was a very temporarily first 3-4 days when it was suddenly announced there was some challenge in reaching out the cash for them. But subsequently things got eased out.

Karuna Murti R: So, what is the current collection efficiency level sir in different categories? Approximate numbers?

S. Sunder: In January we do not have.

Umesh Revankar: January month you are asking? January we do not have.

Karuna Murti R: By November, December how much was it sir? Approximately?

Umesh Revankar: On what?

Karuna Murti R: On the current demand. What was the current collection?

Umesh Revankar: That is between 90%-92%.

Karuna Murti R: And one more thing I wanted to ask actually. What could be the borrower profile FTUB or FTU. what will be the percentage and transporters what will be the percentage?

Umesh Revankar: No, that we will not have number immediately but most of our customers will start as a FTU and remain with us and will be repeat taking loan. Now once he taking repeat loan then he becomes no more is FTU. So FTU people who enter every month as a new customer will be very small number. People who are taking loan from us on the repeat basis will be much larger. So we cannot really put every month on this basis and look at the FTU, because every FTU will become repeat borrower over the next 5-6 years.

Karuna Murti R: So, I was asking that because these kind of small roads transport operators or one vehicle owner or driver cum owners would be facing a larger difficulties right in repayment. So the profile for us also it is very high in that segment?

Umesh Revankar: I have some customers for last 20 years still owning a single vehicle and he do not want handover his vehicle to anyone he would like to drive himself and very comfortable and having a good bank balance, etc. So you cannot differentiate between that, there are people who have a single vehicle but still have reasonably good their own home and settled life, etc. So we cannot differentiate based on that. People who are in the business for the first time who got another of the situation were having little difficulties and they will be may be around 5% to 10% of our portfolio and these are the people who would have entered into Shiram in the last one year.

Karuna Murti R: Finally there is one question on GST implementation, how do you see this? How it will be panning out for used vehicles and then new vehicles. What is the general scenario, what is the expectation from the industry?

Umesh Revankar: It is very difficult to assess because GST is likely to come somewhere in the middle of the year may be June or September we are not sure about it and there are different opinion by different experts what is likely to happen, So, one of the opinions is that when vehicles are able to run longer distance at higher efficiency then less number of vehicles may be required and only highly efficient vehicle may be required for a long distance transportation and logistics operation. But you still have more than 60%-70% of the vehicle being used for day to day consumption and agro products. So, for that GST will not make any difference. All agri produce and day to day consumable produce, I do not think there is any impact from GST. GST will have impact mostly on industrial goods and FMCG. So that is going to be smaller portion of total transportation activity and the second one is that as the efficiency goes up if there is a less state borders and currently Indian vehicles run around 200 to 250 kilometers per day, whereas internationally vehicles run around 800 to 1,000 kilometers per day. So that is the kind of difference between the Indian transportation and worldwide. So, one of the biggest advantage what I see is with the increased efficiency and turnaround time, the vehicle margin and profitability will improve and second thing is many of the production or manufacturing companies would adopt the JIT, just in time concept and everyone would like to have the raw materials and the finished products or the finished products to the market on time. They do not want their products to be in any of the godown, rather they would prefer to be on wheels. So, you may require more number of wheels wherever GST is implemented fully in the Canada or Australia where large continents or large countries. GST has only increased the sale of vehicles. So, we feel that GST will have long term impact on increase of vehicle may be at the short time till people get adjusted to that there can be little dip. So, anything can happen, again that depends upon the economic condition, macroeconomic condition in India. If macroeconomic conditions are good and if the GDP growth is around 8% as many people predict in the next year that is 2018, things will totally change. Number of vehicles required will be much higher.

Moderator: Thank you. Next question is from the line of William Mejia from GAM. Please go ahead. (40)

William Mejia: Just wanted to clarify couple of figures. The first one is in terms of coverage ratio, which of course increased to the 75% this quarter despite demonetisation. So in a way you are suggesting earlier answer that you have to account for NPA recognition that is going linger given the disruption that we saw in the last quarter of the year. My question is you increased the coverage because now you fully accounted for that impact and then going forward we should see a coverage going down to say 50% as you move towards NPA recognition that has days pass due? That is the first question I am trying to understand basically what is coverage ratio will go down to and how fast? And the second is just to clarify, the underlying cost of risk for the quarter because if I in my calculation basically remove the increase in the coverage the cost of ratio for the quarter would have been below 2% which would have been indeed very low. So I don’t know if this question is correct or correct me if I am wrong and I certainly want to know why it is so low?

Sanjay Mundra: See, I think if you remove that percentage then I think the cost of risk not below 2%, it is around 2.5%. You can send me your calculation and we look at it and then I will rectify that one part. The second part you talked about the coverage ratio, which we feel this time because of the demonetization certain NPA we have not classified in taking into account and making the provisions, so what we did was we increase the coverage on that part and going forward if the economy stabilize then definitely we are going to reduce the coverage and another thing is that we have to shift to 120 days by the end of this quarter. So, the Board will take a call, what will the coverage percentage but definitely you will reduce the coverage if there will be certain increase in the NPA.

William Mejia: But again, there are two different trends, one trend which is structural which is moving to our lower NPA recognition in terms of days. The other one is one-off if you will right that was demonetization. In a way to see your number this quarter is that you disregarded this dipensation when you provided nonetheless for deterioration in the asset quality that you experienced due to demonetization right? If we just remove this right completely out of the equation and you take into account only the change in the NPA recognition right, then we will see probably our coverage coming down but in my understanding that this would have gone down to 50% perhaps the losses again are going to be much lower. What I want to know exactly has the demonetization impact delayed a conversion to lower coverage share or not really?

Sanjay Mundra: See, if in comparison earlier if you look at we always had a plan to reduce the coverage with every 30 days of NPA, number of days coming down by 10% but because of the demonetization we are not sure what coverage we are going to maintain but definitely whatever the rise in the NPA which we have witnessed because of the demonetization which is around 440 crores if that money gets recovered definitely you will reduce the coverage and anyhow we have to move to 120 days, so lot of these can offset the shift in the NPA recognitions in terms of the number of days. So it is very tough to take call right but based on our collection efficiency, based on the economic environment will take the necessary call.

William Mejia: You are saying that months of January, so a big improvement and you expect February and March too actually continuing that direction, right which makes me believe right that again this demonetization impact is really a one-off, right? So, if the collection has improved already and there if you have of course front-loaded and the provisions were we going to come anyway because of this provisions basically in the quarter, as this is the last quarter of the year, right. Then moving forward, you should just basically start providing less as you were doing in the past as you move to different NPA recognition policy right?

Sanjay Mundra: Yes absolutely right, if you recover the entire money definitely will reduce the coverage.

Moderator: Thank you. The next question is from the line of Piyush Chadha, private investor. Please go ahead.

Piyush Chadha: Just wanted your comments on the credit environment you are seeing. Going through your past transcripts and past financials, two trends seem to be emerging. The gross NPA level since the beginning of this financial year has inched up every quarter, by 20-25 basis points, it crept up every quarter. But on a slightly longer term the non-standard assets between the 90 to 120-day bucket which is sometime talk about in conference call seems to be falling rapidly over the last 2 years or so. Which of these is the better indicator of the credit environment, the slight increase in gross NPAs or the reduction in the amount of assets you have which are overdue in the 90 to 120-day bucket.

Umesh Revankar: I am trying to just understand the question fully, now the increase in standard asset happens rapidly when there is a growth. When the disbursement growth is continuous then you always have a younger portfolio and have more standard assets.

Piyush Chadha: So the 90 to 120 day bucket the number of NPAs or the number of potential gross NPA and 90 to 120-day bucket decreasing is more a function of balance sheet growth then a fall in the absolute number of NPAs.

Umesh Revankar: Yes, right.

Piyush Chadha: So the better indications is credit environment still quite stressed because the gross NPA seems to be creeping up slowly every quarter.

Umesh Revankar: Yes, see the economic conditions in India if you look at there has not been much improvement over the last 2 years, even though we expected the new government to push other than the government spending the private investment, private capital coming in has not happen. So, overall economic development is not balanced one. Most of the growth has come from government initiated projects. So, I still the private investment comes in you cannot expect the growth and increase in job or consumption level.

Piyush Chadha: Just is the last question this resumption of mining which seems to be taking place, now will that be a big boost to our credit profile in terms of the NPAs that we have?

Umesh Revankar: It will be a boost but may not be a very big boost because many of these mines for the captive the court has allowed them to use it. So, again I am going back to the private investment or private capital that comes in for new manufacturing facilities or new steel or because as you are aware steel still in a not a good shape, steel industry across the globe. So, today power generation also in India is quite good unlike past 2 years back where the power generation was week, so there are so many things that play around including global demand. Even the global demand is weak, consumption is not really robust, so in this environment it is very difficult to say when exactly your NPLs will start de-growing or credit cost will come down.

Piyush Chadha: In summary, I mean we have 7% to 7.5% NIM, 2.5% kind of credit cost and a further 1.5% expense. So, we have now moved to a pretax ROA of rabout 3% to 3.5% and 2 to may be 2 and quarter percent on a post-tax basis. Is this a way we see ourselves in the near feature, we believe that these numbers could come back to what they were 3-4 years ago?

Sanjay Mundra: See, if you look at history, then we used to make around 3%-3.2% ROA, there were 2 big components first of all whatever the number we are reported out of that the securitization portion used to be 30%-32% of the book which has come down to 15%-16%. That is the one part. The second part if you look at that time, the credit cost used to be in the range of around 1.8% to 2%. Right now it is around 2.5%-2.6%. So, straight away if you reduce the credit cost probably were 50-60 basis your ROA straight away goes to around 2.6% or 2.8%. So, I think this will be the most significant trigger whether the ROA can be increased.

Moderator: Thank you. Next question is from the line of Kashyap Jhaveri from Capital 72 Advisors. Please go ahead.

Kashyap Jhaveri: I just wanted to check when we give let say a top-up loan or a tyre loan or any ancillary loan, where is this included in the classification which is even on Slide # 6, so let say tyre loan for an HCV would be included in the HCV or would it be part of others?

S. Sunder: Yes, it will be part of HCV only.

Kashyap Jhaveri: And what is growth in those let say top-up or tire loans in Q3?

S. Sunder: We do not have these figures of hand, so you can send a mail to Mr. Mundra, he will reply to that.

Kashyap Jhaveri: And have we rescheduled any contracts during the quarter?

S. Sunder: We have restructured around 28 crores worth of contract which have been provided as an NPA.

Kashyap Jhaveri: So the principle reschedulement is only in 28 crores worth of contract, in this quarter.

S. Sunder: Yes, correct.

Kashyap Jhaveri: So ideally that should not have positively impacted the NPL number which we have reported.

S. Sunder: Correct, will not materially impact.

Kashyap Jhaveri: And can you give me employee count number on Q3 last year, Q2 this year and Q3 this year?

S. Sunder: See, as on 31st December, 2016 the employee count is 15,993 and in September 2016 it was 17,162 and in the year end March 2016 was 19,170 and you wanted Q3 FY16 was 17,398.

Kashyap Jhaveri: Sir, 19,000 you said is which quarter then?

S. Sunder: Was March 2016.

Kashyap Jhaveri: And usually on seasonal basis, does this change like this only or if there any anything?

S. Sunder: No as Mr. Revankar was explaining couple of questions before, so there has been an attrition which has happened over the past 9 months, wherein typically we replace those employees which was not done in the first couple of quarters and we are again restarted recruitment in the month of December onwards and we are confident that the headcount from close to 16,000 level, now will go to 17,500 to 18,000 by March and the attrition was mainly on account of equipment employees leaving the job post-merger. So, out of the 1,100 odd employees of Equipment Finance around 600 people had put in the papers.

Kashyap Jhaveri: This is in last 12 months?

S. Sunder: Last 9 months, Yes.

Kashyap Jhaveri: So, basically out of about 3100 people who would have left the company about 600 was on account of Shriram equipment and balance about 2000 odd people would be because of the Shriram Transport Finance itself, of which some part could be seasonal and some part would be attrition.

S. Sunder: Yes.

Kashyap Jhaveri: One of the earlier question you mentioned AUM growth of about 12% for FY17, did you mention anything about FY18?.

S. Sunder: No, only FY17 was mentioned …

Kashyap Jhaveri: This is this 28 crores is quarter 3 number, restructured or this is for 9M.

S. Sunder: Yes, it is Q3 number and for the entire 9 months it is 140 crores.

Moderator: Thank you. Our next question is from the line of Saurabh Dhole from Vantage Capital. Please go ahead.

Saurabh Dhole: Sir, my question is with respect to the 440 odd crores of delinquent assets that you have taken the dispensation for. I just want to understand, what is the collection performance of these accounts that you were seeing during the month of January?

S. Sunder: January, since the month has still not closed we have still not track that of a thing, so we do not have the figures often, so maybe you can touch base with Mr. Mundra, he may be able to help you, may be next week.

Saurabh Dhole: And sir, do you have the (+90) DPD figures with you?

S. Sunder: We do not typically share these number, so you can just touch base again with Mundra and then try to take it.

Saurabh Dhole: And sir, just one last question, like currently the book is almost 90% is used and 10% is new. So, going forward also what kind of breakup do you see maintaining, say 1-2 years down the line. What kind of breakups are you planning to maintain? Will it be somewhere along this particular proportion or will it change?

S. Sunder: It is almost on same proportion, because we have a new vehicle and we also have newer vehicle. The newer vehicle we still called used vehicle. So, it will be on the same proportion, it may be 1% or 2% increase towards new vehicle could be there because we expect the demand for new vehicle higher in this February and March. But it may not still alter the ratio significantly but there is a consistently good demand for new vehicle over the next one year, then probably it will alter a little but it will definitely will not cross 15% at any point of time.

Saurabh Dhole: And sir, just one more question. Do you have the breakup of the gross NPA, across these 2 buckets in the used CV and the new CV?

S. Sunder: We do not have it right now. So, you can just again take it from Mr. Mundra.

Moderator: Thank you. Our next question is from the line of Manisha Porwal from Taurus Mutual Fund. Please go ahead.

Manisha Porwal: Sir, few questions, one is about the LTV sir. Do you think that the LTV, when your customers are now more organised will you alter the LTV given the fact that you will also be competing on the new segment where there will be other players also. Because in the Q4 you said more of new vehicles demand would come or even going forward with the BS IV, I mean you discouraging the old vehicle use, you may tend to go for a newer used vehicle. So, would you try and alter your LTV?

Umesh Revankar: See, we will not change any LTV, because already we have a fixed LTV for new and newer, so that will be little flexible more flexible than the older vehicle. So when we lend 7 to 10 year old vehicle then the LTV will be lower at around 60%-65% but when we finance a newer it will be around 70%. A new vehicle it will be between 80% to 85%. So that is the range that consistently we have maintained. But for the sake of competitive advantage or competitive spirit will not change the LTV and compete in the market.

Manisha Porwal: And sir, another thing is you mentioned that the Q4 is going to see some preponement of demand or the sale of CV vehicle. So, what kind of customers would be they, because I believe your customers are the ones who used the vehicle for the first time or they would replace their old with the new. So, I just wanted to understand in that sale period will it be more of fleet owners who will take the advantage of this or will it be your customers also who would be equally participating in this and you will get an equal share of this or you would also go for fleet owners or new people who would want like even fleet owners would be your customers in Q4 because I feel that it looks as if Q4 the demand would be very good and Q1 it may suddenly dry down because of preponement of purchases.

Umesh Revankar: Yes, Q1 next year definitely will dry down because there will be uncertainty on GST, till GST is announced people may not buy. So definitely the April to June or whenever GST comes the new vehicles sales will be much lower and that will be pre-buying. But we will not lend to fleet operators who are not known to us, if there are some customers who already have taken loans from us and become a fleet operator and they have a credit history with us, then only we will lend. Otherwise our existing customer he wants to buy a new vehicle because he is having a price advantage of buying a BS-III vehicle at 100,000 less price than waiting for a BS IV vehicle after June, July, then he may decide to buy. So, it all depends on the economic environment also. If economic environment is positive and if the manufacturing consumption and rural demand everything is positive, people will go in for new vehicle. Otherwise individual operator unless he sees something very positive and conducive he will not get into high ticket borrowing. Because any high-ticket borrowing has a long term consequence of repayment over the next 5 years. So people are extremely careful and business like and individuals will be much more business like than fleet operator.

Manisha Porwal: Going a little further trying and understanding, I just wanted to know whether your set of customers would be the ones who would prepone their buying in Q4?

Umesh Revankar: Yes, there could be some people definitely who will do it, especially in smaller vehicle segment but in heavy vehicle segment we may not have that kind of customer who will pre-buy to save one or two lakhs.

Moderator: Thank you. We will be able to take one last question. The last question is from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.

Sangam Iyer: Just wanted to understand when we were talking about the incremental growth in Q4 coming in predominantly from newer vehicles, etc. Would not that also mean that there would be some pressure on NIMs going forward because of the change in the product mix coming through?

Umesh Revankar: There could be if simultaneously demand in used vehicle to that extent then it may not have the impact, otherwise there could be around 5 basis point reduction in NIM. But again if our cost of fund comes down significantly it will compensate. So, the cost of funds also matters and being a last quarter, I hope the cost of funds will be much lower because of securitization and our CFO will ensure that cost of funds will more than make good for lower end yield.

Sangam Iyer: Sir, also during the, just small of a clarification, I mean during the call Sanjay also said that in January the collections are now similar to what that has been in October, correct me sir, I am wrong in hearing that.

Umesh Revankar: I have the taken the trend and trend seems to be like that but I have not taken yesterday and todays collection, so and the January has 31 days, so I was just trying to compare that first 29 days as on Friday and trend looked similar. So, I have to wait till tomorrow to get the final numbers. Because normally last 3-4 days' collection will be much higher. But what is encouraging is there is a less cash collection and it is replaced by banking and digital collection. So, customers are getting used to paying by digital mode or through banking channel. That is the most encouraging. So, that means the customers are getting over the initial inertia of paying only by cash and getting through a bank. So that is where I found it more positive and that also will help us in the long run to reduce the cost.

Sangam Iyer: What percentage would have changed into the banking channel in terms of collection?

Umesh Revankar: See our cash collection has dropped by around 40% compared to the previous month.

Sangam Iyer: Sir, how is if you were to look at this same in January to October in terms of the demand. How would demand profile look like during this month, is it similar to October because pre-demonetization things were looking up a lot, in terms of growth coming back, etc. So I am just trying to understand if things or the impact of demonetization is behind as early as January to a larger extent, then would it be fair to extrapolate a decent demand going into FY18.

Umesh Revankar: No, FY18 would be, you say 2017-2018 or 2018, calendar year?

Sangam Iyer: Financial year FY18.

Umesh Revankar: Financial year there is some uncertainty continuing, one is the GST and the impact of GST and the way Indian companies are able to adopt themselves to GST. So, this would be a challenging situation and many of them may take some time to get adjusted to that. But what I can confidently say is 2018 calendar year or 2018-2019 financial year would be definitely a much better because you would have gone through the demonetization effect and GST impact both.

Sangam Iyer: So the ROA metrics that Sanjay Ji, went through in terms of credit cost coming down and hence our ROA is moving back to the earlier levels, could actually be revisited during FY19.

Umesh Revankar: Yes, because we also would be going through this moving to 90 days. After we moving to 90 days and next full financially you will be the best year for us to start growing on ROE and ROA.

Sangam Iyer: So, sir up to 90 days we are seeing that every 30 days we will bring down our PCR by 10%?

Umesh Revankar: Yes.

Sangam Iyer: So, around 60% is where we might be looking at 90 days?

Umesh Revankar: Yes.

Moderator: Thank you very much. That was the last question ladies and gentlemen. I would now like to hand the conference back to Mr. Umesh Revankar for closing comments.

Umesh Revankar: Thank you for participating in large numbers and we definitely are quite optimistic in this last quarter because we expect good demand and growth both coming back into commercial vehicle segment and we also expect the Rabi crops to be very good kind of report we are having. So, we should have a good quarter and we also expect the change in collection mode for us will be advantageous because our field officers who were collecting cash will be free to do other activities and productivity will go up. So, with this positive note I wish all the best and hope to meet all of you in the next call. Thank you.

Moderator: Thank you very much. On behalf of Shriram Transport Finance that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.