"Shriram Transport Finance Company Limited Q3 FY19 Earnings Conference Call"

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Moderator: Good morning, ladies and gentlemen. Welcome to the Shriram Transport Finance Company Limited Q3 FY19 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 – CEO & Managing Director, Shriram Transport Finance Company Limited. Thank you and over to you, sir.

Umesh Revankar: Thank you. Good morning to everyone in India and in Asia and maybe good evening to people who have joined from US. I hope all of you already received the investor update and have gone through the same. Let me first, give brief overview of macroeconomic scenario in India and the development at the ground level.

After seeing strong trends in IIP in most of the year we saw some dip in November maybe a slowing momentum in the global growth and some on ground factor in India. The growth is still expected to be very resilient in India and the latest IMF report says that 7.3 GDP growth is expected for the calendar year 2018. And which is likely to increase to 7.5 2019 and 7.7 in 2020 as per the report. So, India will retain the fastest-growing economy tag for some more time and that is all good news for us. I feel 2019 should be a very good year for us in spite of being an election year and since the election is likely to be in the very beginning of the financial year, we should not have much disturbance rest of the year and outcome of the election also may not have the big impact because the on ground factors that will push India's growth are very strong.

Overall, the commercial vehicle segment registered around 25% growth for the April to December even though there was some slowdown in the November and December. The slowdown are basically because of maybe the State Elections and I feel it is very temporary and the supply to affordable housing and the real estate got stopped for some time. And once it returns, I think the growth will be much better in the next financial year and we are already able to see that in the month of January. The government also has given higher MSP price and that impact will be seen because the summer crop is already out in the market and the winter crop is coming in April. So, a strong, the better MSP we should give rural also a better growth opportunity.

Q3 has been extremely a challenging for NBFC industry as a whole. The IL&FS fiasco and the challenges thereafter created some uncertainty and also the supply of money to the NBFC got restricted. We also paused in this quarter because we also wanted to go towards the future a little more cautiously and preserve a little more cash and what we did is we increased the lending rate because the cost of funds were higher. And we also reduced the LTV that means, more margins required for each of the loan. That put some brakes into our lending activity but still our forte of used vehicle financing we are able to have a normal lending. It is only in the new vehicle lending and to some extend in the business loan we restricted our lending.

STFC is well funded and strictly ensures that asset liabilities are well matched. There was a minimum impact because of the external developments and in addition to normal practice of keeping additional liquidity for 1 or 2 months we have started now looking into 3 months additional cash into our balance sheet. So, that we are very comfortable throughout this calendar year. We have raised totally 4,300 crores through the NCD issue out of 5,000 crores targeted and the third tranche is now on and that is for 700 crores. We have already raised around 540 crores and balance amount we should be able to complete before, 31st is the last date, we should be able to complete. In the previous quarter we had also raised the ECB of $350 million and balance out of 750 balance 400 we can still raise, we are looking at the right opportunity to go to the market. Overall, I should say that we have enough cash for the growth in the Q4. So, Q4 should become good growth opportunity for us. We are not sure about the overall NBFC industry but we see a very good opportunity and the demand for commercial vehicles is definitely coming back.

Against this backdrop, I will just touch upon some headline numbers. The AUM growth was 14.13 on year-on-year basis, at the end of Q3 it was 103,817 crores against 90,964 crores in Q3 2018. And we have already adopted Ind AS, the framework for accounting in the beginning of this financial year. The net interest income was higher by 16.12% at 2026 crores against 1,745 crores corresponding quarter last year. The net interest margin stood at 7.44 compared to 7.57 in previous quarter, the previous year quarter. But Q-on-Q decrease was just 6 basis points from 7.52 to 7.44. If you look at the cost of borrowing that has gone up this is significant I should say because we are able to hold on to our net interest margin. The PAT is up by 17.34% year-on-year to 635 crores against 541 crores. The earning per share at Rs. 28 compared to 23.87 in the previous year quarter Q3. Collection efficiencies are very strong. We saw reasonably good traction with the customer and collection has been quite good in the Q3. And the gross stage 3 assets stood at 8.78 and net stage 3 asset stood at 5.86 in Q3, financial year 2019. We have been able to bring down overall credit cost from almost little above 3% to around 2.25% and we are confident that it will be brought to around 2% level by next year.

Our number of branches we keep increasing adding more number of branches. We are at now 1,348 numbers and rural centers of 885 numbers, so that gives us strong footprints across the country with more than 2,200 touch points. Number of employees stood at 26,256 and the rural growth has been extremely good and we are confident with rural doing reasonably well across the country. We should be able to grow strongly in the rural area.

To close, I would like to say that it was a very challenging quarter. The festive season being subdued but normally around Diwali season the demands are quite good. But this time it was little subdued and probably should bounce back and post the Sankranti, Pongal and Lohri festivals in mid-Jan, I felt there was some demand pickup in the market. We also saw some challenges in the central part of India where there is a drought condition especially in Maharashtra and MP. But rest everything looks quite good. We have recovered from the damage of flood situation in Kerala. We have recovered in Kerala very well and we should have a good growth opportunity there.

Given our strong financial position, ample liquidity, well matched ALM, we remain confident about our prospects given the buoyant demand for our CV both new and used. While our AUM growth may range from 15% to 18% in the financial year 2019. We expect the outlook of CV should be very good in the next financial year supported by infrastructure spend and also most important event is the pre-buying that is likely to happen because of roll out of BS-VI that the expected price hike is 10% to 15%. Some of the manufacturers have already started increasing the price in the beginning of this calendar year. That is very indicative that prices are likely to go up. So, there would be a pre-buying pressure and I expect the growth for us to be beyond 20% in the next financial year.

With this, opening remarks, now I am with Mr. Sunder, Parag Sharma and Sanjay Mundra to answer any specific question. So, now I request the moderator to open the floor for question and answer. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah: Firstly, in terms of the overall disbursements how much would we say was largely on account of the supply side constraints or our conservativeness and how much would be say largely the demand led factor? And how maybe post November or may be post December how have we seen the run rate on the disbursements? So, as compared to that of 9,500 hardly 4,000 odd crores is there on the new commercial vehicles. So, both between the new and old how are we seeing the traction? And how and the transition or maybe the transitory phase would be how long and are we towards the end of it? Or it is, it will carry on for another 1or 2 more quarters?

Umesh Revankar: Yes, see basically the restrictions on the increasing lending rate and demand in more margins will straight away bring down our lending by 5% to 10% because our lending amount gets reduced because of that. The second is since they have to bring more margin the customer also will postpone the event of purchase. So, that creates, that what to call some hurdle, creates some hurdle for the customer to borrow. And for us also it is a time to relook into some of our systems and processors and strengthen them. So, that is one thing to look at conservatively. And second is, yes the market factors some factors, I believe have played out for lower demand in the market because overall also I saw there is a demand mainly because of the election in the 5 states and infrastructure activity being little lower. And I feel the most important factor is the real estate activity being lower. Now, if you look at the real estate activity, real estate activity are the major boost for our transport activity. Bulk materials like steel, the cement, the bricks, sand everything requires large number of space in the transport vehicles. If these activities come down, naturally the idleness of the vehicle or availability of the vehicle increases in the market and that puts a break on somebody wants to buy the new vehicles. Because when you are buying the new vehicle you are looking at the current trend and buy the new vehicle. Otherwise, you do not need new vehicle you can use the same old vehicle. So, that is how there was a some break from the market factor also. When I say market factor, one is the infrastructural slow down, election and third is because of less money supply to the real estate. Now, whether the money supplied to the real estate has gone up as if you really ask me, the ground reality is no, it is not really gone up. But what has changed is the post the festival January 15th we are seeing the increased demand. Infrastructure has picked up. So, the demand for infrastructure related vehicle especially tipper and some machinery we are seeing, witnessing a bigger demand. And the real estate related demand which is affordable housing and the rural housing or urban housing that to see big change. But there is some moderate increase, so I feel the Q4 towards the end of March we should be able to see some increase or improvement in demand. But next year is going to be big change because the moving to BS-VI will have a major impact because the customers who otherwise would not have purchased the vehicle, they also purchase the vehicle because the cost of vehicles are going to go up by 10% to 15%. They will prepone their buying. So, there is and that also increases the resale value of a used vehicle. Resale price also gets stabilized at little higher. So, overall I feel the major demand will come in 2019-2020, financial year.

Kunal: And this lower LTV, would it be a new norm or this is just in the near term as you highlighted its more to strengthen the process and relocate the model. So, will this be a new norm and we should expect this kind of an LTV to continue for?

Umesh Revankar: No. As the market improves as the retail prices of vehicle improves automatically it will be relaxed.

Kunal Shah: And between new and used, how would we see the overall disbursements traction. So, maybe most of it would hold true for the new vehicle but on the used side will we see an equally better traction? So, this quarter also there was not too much of a gap we had seen like 9 odd thousand crores of disbursements on the used side, so not a major moderation out there. So, should used vehicles hold on well? Or that will also get impacted by infrastructure and real estate and the overall low demand?

Umesh Revankar: No, used vehicle demand should go up towards once we get a little relaxed on the LTV norm, the used vehicle demand will go up because in the rural area the higher margin is the bigger constraint for people to buy. So, used vehicle we should be able to get a good traction. And new vehicle is totally depending on the market tractors because the fuel price in the last one week has gone up again whether it will have a negative sentiment we are not sure. So, on the new vehicle front we cannot comment but in the last one week, whatever I have seen the new vehicle demand is coming back. But not with the same what called momentum like 20% year-on-year growth what we witnessed in the first 2 quarters that kind of a growth may not come is what I feel.

Kunal Shah: And on asset quality do we see any risk with the operator's cash flow coming down because of the lower activity levels? So is there any risk it has held on well but do we see that going up in the coming quarters?

Umesh Revankar: I do not see any risk because what happens is when the overall market slows down also he may have little more idling of 1 or 2 days or 2 or 3 days. When the new vehicles do not come into the market automatically existing vehicle will get a good price. If new vehicles keep coming then your base increases then we will get distributed. So, in one way new vehicle not getting sold strengthens the existing fleet operators earning.

Moderator: Thank you. The next question is from the line of Mahrukh Adajania from IDFC. Please go ahead.

Mahrukh Adajania: Sir, I just wanted to check in terms of lending other private banks still preferring to lend through retail portfolio buyouts or had lending by these banks returned to normal, like the pre-crisis level or the pre-constrained level because there are mixed views on that.

Umesh Revankar: No, see as of, you are talk on private banks or public sector banks?

Mahrukh Adajania: No, private banks and then if you could comment separately on public sector also.

Umesh Revankar: No, public sector there is definitely little slowdown in both activities, buying the portfolio and the lending. But we are able to get in industry wise probably there will be some challenge but we are able to raise the money both from private and public. And private, since we have many options, we are doing securitization on the balance sheet also we have raised money. So, overall the liquidity for us is quite good.

Mahrukh Adajania: Overall, there has been absolutely no constraints in raising loans from private banks?

Umesh Revankar: No, we do not have any constraints.

Moderator: Thank you. The next question is from the line of Jignesh Kamani from Emkay Global Financial Services. Please go ahead.

Jignesh Kamani: Just firstly, you plan to come out with Rs. 100 billion NCD issue that is what has been passed during the yesterday's meet. So, if the sales, how we are planning to raise this money in tranches and how long will it be sufficient, this money? Will it be sufficient to continue with the growth of 18%-20% for the next year or you need to raise more money to NCDs further?

Umesh Revankar: Yes, as you rightly said, this is for next year plan, we will not go to the market again in this financial year. From beginning of April we will come with different tranches, so that is, 10,000 is more than sufficient for us because we are also a deposit taking NBFC. We are also getting good inflow in deposit. So, this deposit plus public issue of NCD judiciously mixed is more than sufficient for us to grow 20% next year.

Jignesh Kamani: So this will be retail or …

Umesh Revankar: Retail.

Jignesh Kamani: All entire Rs. 10,000 crores from retail?

Umesh Revankar: Yes, whatever you have seeing this is only retail.

Jignesh Kamani: Secondly, during yesterday's concall with Shriram City Union Finance, we have been hearing there is some asset quality issues popping up specifically in the state of Tamil Nadu and they have basically have indicated that they have stopped disbursing auto loans not two-wheeler loans but auto loans to state of Tamil Nadu. How is your experience had been till now? You indicated there are some issues in the central India, that is Maharashtra and MP. But how exactly is Tamil Nadu shaping up for you and what is your view going forward for the state?

Umesh Revankar: Tamil Nadu commercial vehicle is absolutely doing well, there is absolutely no challenges. Maybe there is some disturbances for a week or so because of the cyclone but that is not going to impact the overall commercial vehicle activity. In Tamil Nadu our asset quality is very good and our growth is also equally good. So, we are going to grow in Tamil Nadu and also rest of the part of India. See, even in the central part of India the drought conditions will have a temporary impact but they will again come back, bounce back because one advantage with vehicle owner especially commercial vehicle. They do not stick on to one particular geography permanently, they move to neighboring place where they can get the freight and keep moving. Since they are not dependent to one geography or one particular activity they are not impacted by any of the environmental issue permanently. Maybe a temporary impact would be there but there is no permanent impact.

Jignesh Kamani: And lastly you did little, whatever growth has come up on AUM this time, it had been more on the off-book that is the securitization rule. So, as I understood it is close to 25 million sort of assignment you have done for this quarter. Will this trend continue for the current quarter as well in the next year or you will be reducing the pace of securitization once the liquidity normalizes?

Umesh Revankar: It is all opportunity depending upon where the cost of funds are reasonable for us. Depending upon that we will take a call. We are not sticking to one particular aspect of raising money because as I was telling in the previous question we have lots of option open. We have NCD, we have ECB and we are deposit taking NBFC, we have lot of options. So, we use the option depending upon the availability and the cost of funds.

Moderator: Thank you. The next question is from the line of Shubranshu Mishra from Motilal Oswal Financial Services. Please go ahead.

Shubranshu Mishra: First question is with regards to the inventory levels that the CV dealers would be carrying. Are they offering any additional discounts to the buyers and if yes, do we necessarily have to increase our LTVs when the buying behavior really goes up? That is the first question, sir.

Umesh Revankar: See, inventory level I am not sure. But my understanding, my feedback was since towards the end of September this IL&FS issue came up. Many of the manufacturers have reduced their manufacturing activity by 20%-30%. So, the inventory level at the dealers should be minimum is what I expect because I really do not have the numbers. But manufacturer had announced in the first week of October itself that there is a slowdown in the manufacturing. So, people do not anticipate and because of that I do not think inventory levels are high but the discounting levels were little higher in the December but this is not December phenomena. Every December, every manufacture would like to reduce his inventory or make it to zero. So that the new model when it comes to 2019 they do not have the unsold inventory. So, I do not really think there is high inventory in the either at the dealer point or at the manufacturer point.

Shubranshu Mishra: And like our disbursements have gone low for the new CVs, have they gone low for, I mean your competitors would be the private banks here. Have they gone low for the private banks as well? How is the competition shaped up, sir?

Umesh Revankar: See, sales have come down by 20% year-on-year. That is indicative that the competition has not taken the advantage of our closing down. Everywhere it is slow down.

Shubranshu Mishra: And sir, your employee expenses have slowed down and I do see that decline in your field officers by around 250 odd people. So, has there been any retrenching or any rejigging of the employees sir?

Umesh Revankar: No, such things. See, what happens is the recruitment drive we have during certain period of the year and normally towards the last quarter we do not recruit many. So, the April to September recruitment will be little higher. So, we have not recruited aggressively in last quarter as such. So, otherwise we do not have that any plan to reduce the employees' numbers and also as far as the cost is concerned it depends upon the release of incentives and also may be the previous quarter would have released or this quarter would have delayed. So, the incentives mainly play important role in the overall cost.

Shubranshu Mishra: And just as guidance for what kind of disbursement level should we look at for the next half year, say fourth quarter and the first quarter of 2020?

Umesh Revankar: See, we are looking at overall AUM growth between 15 to 18 for this financial year. The exact disbursement numbers we may not be able to tell you but we are confident that it will be on the normal quarter basis, we should be able to disburse quite well.

Moderator: Thank you. The next question is from the line of Kartik Chellappa from Buena Vista Fund Management. Please go ahead.

Kartik Chellappa: My first question is essentially on the strength of the CV cycle that we are expecting to continue going into FY20. What we notice is at least from CV makers is the axle loading norms have slowed down demand somewhat and added to that this liquidity situation as well. We also hear that the market leader who seem to have lost some bit of market share in the last 3-4 years has started to be quite aggressive when it comes to schemes, discounting, etc. So, given that back drop do you think the 10% to 15% price hike that you are expecting going up to BS-VI can actually translate into the end price hike of 10% to 15% or will it turn out to be somewhat lower? And do you think that aggressive discounting can probably happen going into FY20 as well, your thoughts on the same.

Umesh Revankar: Since there is pre-buying demand towards the end of 2019. I do not think discounting is required. So, my expectation is that manufacturer will reduce the discounting because there is a demand that comes in naturally because of the pre-buying pressure. So, my expectation is the discounting will be lower and the prices will go up towards the end of the financial year 2019-2020. And even the Supreme Court also has told that manufacturers have to sell everything prior to whatever the manufacture prior to March 31st. So, they may not get further time to sell their inventory post April and this also happened in the previous change in the BS-III to BS-IV also similar thing happened. So, I think the manufacturer will stop production or reduce the production post December. So, that they sell all the inventory. Only when you are suddenly having a big inventory then you are forced to give discounts. So, I think discounts will be a minimum towards the end of the financial year of 2020 and everybody will move on to the BS-VI by January 2020. All the manufacturers are already getting ready. So, alternatively BS-VI vehicles also will be available for purchase, if anybody wants to buy especially car manufacturers already ready. And even truck, commercial vehicle manufacturers also will get ready.

Kartik Chellappa: The increased level of securitization that we saw this quarter if you were to compare that cost relative to the increase in funding cost that you saw in 3Q. What would the benefit roughly have been?

Parag Sharma: Securitization, normally in Q3 and Q4 tends to be high. So, in this quarter we have done some non-priority pool securitization also which will be similar to whatever we do in the bond market. The rates will be comparable there. There will no cost benefit for non-priority pools and normally Q4 also the same trend of doing securitization will continue but this will be more priority sector assets, there the rates will definitely tend to be lower.

Kartik Chellappa: So, in substance the majority of the securitization that we did this quarter on cost basis is going to be neutral to us but it probably helped us improve our capital position by improving our tier 1 that was probably the benefit. Is that how we should see it?

Parag Sharma: Securitization is considered on books now in Ind AS only when we do assignment which we have done for roughly around 1,000 crores which does not gets on books. There will be capital benefit there.

Kartik Chellappa: And sir, lastly on the lending rates where you have said you have taken up the lending rates as well. In which all product categories have you taken up your lending rates?

Umesh Revankar: No, lending rates normally we increase across all the segments.

Kartik Chellappa: So, whether it is your used CV or your working capital loans or so, even there even those product categories has also seen some lending rate hike?

Umesh Revankar: Across all, lending rates have increased across all segments and little higher on the new.

Moderator: Thank you. The next question is from the line of Abhijit Tibrewal from ICICI Securities. Please go ahead.

Abhijit Tibrewal: Have we disclosed our disbursements number for the third quarter?

Sanjay Mundra: See, the disbursement for new vehicle is around 400 crores. The disbursement for used vehicle is 9,002 crores and others and the business loan will be around 148 crores making it total 9,550 crores.

Abhijit Tibrewal: And sir, what was the quantum of securitization that we did in the last quarter? I mean, if I understand correctly assignment was 1,000 crores, right?

Sanjay Mundra: No, roughly around 5,386 crores.

Abhijit Tibrewal: The securitization income that we booked in the quarter?

Sanjay Mundra: Its amortized.

Abhijit Tibrewal: And sir, we maintained a higher cash surplus in last quarter. So, do we expect it to normalize going ahead or we will be maintaining the same elevated levels of cash surplus going forward as well?

Parag Sharma: Yes, given that the situation is still uncertain, we might continue to have this excess cash for some more time.

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

Ankit Chaudhary: My first question is in the presentation, the number of customers is declined from 2.04 million to 2.01 million quarter-on-quarter basis. So, what expenses**,** were more of a balance transfer in this quarter?

Umesh Revankar: See, what happens is every year or every quarter every month so many accounts get closed and we are lending a new account. So, when disbursements close down automatically there will be some reduction in the numbers.

Ankit Chaudhary: So, nothing apart from this on that time?

Umesh Revankar: No, nothing.

Ankit Chaudhary: My second question was regarding the branch addition. So, during the quarter more of the branches are added in the urban region compared to the rural. So, rather we focusing more on the rural side. So, what is the thought process out there?

Umesh Revankar: See, opening of the branch it depends upon the local coverage area and also if the branch becomes very large we may split into 2 branches. So, may be some of the urban centers we have become very large. So, we have put in a 2 different geographical location to have a better coverage, better reach. So, branch expansion is continuous one, whether the urban or rural so we have not stopped growing in urban and but we are growing in the rural little more aggressively. The rural centers to get converted into branches normally takes time but in the urban center when the branch becomes very large, creating 2 branches in the 2 neighborhoods becomes easy. So, that is only transitionary, I do not think there is any reason behind it.

Ankit Chaudhary: And lastly, in the earlier question one of the participants asked about the rising asset quality due to the transporters facing some cash flows because of not getting too much of a load. So, rather than that are we seeing any stress on the cash flows which are making them skip 1 or 2 EMIs and that will lead into shifting of the buckets from 30 to 60 DPD. Because what I am seeing is currently the ECL provisions, stage 1 and stage 2. So that has increased quarter-on-quarter. So, are we seeing some of the accounts going from 30 DPD to either from 30 to 90 DPD?

Umesh Revankar: Where we have some environmental challenges. There is some shift from 30 to 60 like that. So, the bucket jump happens normally wherever in certain location, you have certain challenges. But we should not read too much into it because the customers will be definitely able to go to different location or geography and able to earn his income. And the cash flow to the, our vehicle owners are normally whenever there is some challenges, there will be some delay but it is temporary then they move to new geography or new segment and they keep earning. So, the cash flow is not a permanent situation for the transport owners.

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

Umang Shah: I just wanted to know what is the share of the direct assignment income booked or up-fronted during the quarter?

S. Sunder: We had 2,000 crores of direct assignment in the current quarter and the transaction has been structured in such a way that we are not booked any up-front income for this transaction. It will be booked over a period of time.

Umang Shah: And you mentioned it is 2,000 crores or 1,000 crores?

S. Sunder: No, it is 2,000, it was wrongly mentioned as 1,000.

Umang Shah: So, either it is securitization or direct assignment no income has been up-fronted.

S. Sunder: Correct.

Umang Shah: And sir, second question was regarding our tier 1, so all the growth has moderated this quarter but we expect growth to kind of pick up over next 12 months. So, will there be any need for us to raise any sort of equity capital over next 12 months?

Umesh Revankar: See raising the equity capital is something which we have been debating for quite a long time. We are only looking at the right opportunity. See, as far our growth is concerned next year our plan is to grow more than 20% in AUM and for that kind of a growth if you sustain for next 2 or 3 year then definitely we need to raise. So, whether we need to raise during the next financial year or this financial year that we talk, that call we will take at the opportune time. But definitely we are going to grow and we need to raise, only thing is timing is not decided.

Umang Shah: And I believe there we still have some head room left on the tier 2 capital front to raise. I mean we have done a little bit of tier 2 raising in this quarter, but we still have some head room on the tier 2 front right?

Umesh Revankar: Yes, we have head room. So, tier 2 when we raise it is postponing your equity raise to some extent that is all. So, the tier 1 is something which we need to plan and raise for our long term growth.

Umang Shah: And sir, just last one data point. What would be the quantum of our liabilities coming up for repricing in next 2 quarters?

Umesh Revankar: We do not have number, I think Sanjay will give you the details offline.

Moderator: Thank you. The next question is from the line of Pranay Rajani from B&K Securities. Please go ahead.

Pranay Rajani: In the start you mentioned about the change in the LTV percentage. So, can you please highlight the number percentage before and after which you have changed now?

Umesh Revankar: It is around 5% to 10% depends upon the segment and geography.

Pranay Rajani: So, in the used segment which is our main segment, how much LTV change is done, sir? Like can you provide me the number? Current LTV?

Umesh Revankar: See, it is from various segments and various geography, it ranges between 5 to 10.

Moderator: Thank you. The next question is from the line of Rajeev Agrawal from DoorDarshi Value Advisors. Please go ahead.

Rajeev Agrawal: So, my first question is, you mentioned that the credit cost will come down next year. Should we therefore expect that we are comfortable with the current NPA levels that we have both at the stage 3 numbers as well as the stage 1 and 2 numbers?

Umesh Revankar: See, we are quite comfortable because the segment in which we are lending most of them are individual operators and their cash flow there will be a mismatch in their actual earning and the projections. So, there will be some delay but intention to pay and their ability to pay even if it is little late, it is continuous. So, we are not really worried about the NPA levels because customer ultimately will come and pay. So, whatever the credit cost is mainly happens due to some failure in business to marginally small number of customers when we repossess and sell there could be some losses, that is the only thing. Otherwise, the intention to pay and the ability to pay remains with customer even if there is a delay.

Rajeev Agrawal: And in the past of this year with stage 3 numbers went up a lot and it has been coming down some. So, has there been any change in our either LGD or probability of default LGD model in the Ind AS?

S. Sunder: See, we assess the probability of default and LGD rates on a yearly basis. So, we will be again revisiting in March. So, appropriately we taking this one.

Rajeev Agrawal: And then lastly, in the last quarter of 2018, financial year 2018, you took a big provision because you moved to the 90 DPD. Now, going into the Q4 of financial year 2019 do you expect any similar pressure on you or you would expect the credit cost there to be similar to what we …

S. Sunder: No, already migrated to 90 days and we are now currently in Ind AS, we do not have any hit to P&L because of this.

Rajeev Agrawal: So, we do not expect any big hit in Q4?

S. Sunder: We do not expect.

Moderator: Thank you. The next question is from the line of Abhishek Saraf from Deutsche Bank. Please go ahead.

Abhishek Saraf: Just one specific thing sir on BS-VI and your growth guidance for FY20. So sir, first of all I wanted to understand from BS-VI transition, so where do you see the growth coming from? Is it because there will be pre-buying and you will be focusing, I mean it will be newer vehicle which should be driving your growth or is it more because of the pricing bump-up impact on the used vehicles as well. That is the first question on BS-VI. Secondly sir, in your AUM growth guidance for 20% in FY20, how much of it will be accounted for by, let us say BS-VI and how much would be in the normal, well course of business?

Umesh Revankar: See, what happens is when the price of new vehicle get reset, automatically the impact will be on used vehicle also because it is the opportunity cost. If vehicle which is costing 20 lakh tomorrow if it becomes 22 lakhs then the used vehicle of same segment or same category if it is 10 lakh will become 11 lakh. Because your ability to, the buying of replacement vehicle will become so much costly. So, the increase in vehicle price will be across the segment. Only thing is if particular product or model is not doing well then the price will not increase. But if the particular product or model is doing well then automatically the price increase is across. So, the used vehicle also the pricing gets reset along with the new vehicle. So, it is not that only new vehicle price will go up, even the used vehicle price also will go up. So, the lending opportunity or the increase in loan amount will happen across all segments.

Abhishek Saraf: And sir, this transmission is like means very, it happens with a lag or, so I just wanted to understand …

Umesh Revankar: No, it does not happen with a lag, it happens immediately.

Abhishek Saraf: And sir, what is the date when this is happening? Sir, so we have to …

Umesh Revankar: March 31st 2020. After April 1st all the vehicle should be BS-VI compliant.

Moderator: Thank you. The next question is from the line of Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain: Sir, on the working capital and business loans what is the reason for slowdown in this quarter? Why have we consciously slowed this business down? Are there any asset quality issues that we are seeing and can you give us some more detail about these products in terms of what is the collateral, how the interest rate, how you source these products?

Umesh Revankar: See, basically the working capital is the additional loan on the vehicles for buying of tyre, repairs, etc. and buying of insurance. So, that has not really undergone a change. Business loan, yes because we have given priority to used vehicle which is our primary segment. The new vehicle and business loan we had slow down both equally. So, the priority was first used vehicle because that is our main segment and that is the reason it has reduced. And as far as the business loan whatever we have focused on are the ecosystem around transport business like warehouse, petrol pump, garages these kind of activity where our existing customer is already in the business where he will add additional business. That business, if he needs additional capital that we are providing. It could be he managing or his relative or brother, somebody in the family managing. As long as our existing customer is involved or standing guarantee, we keep lending. And this is against a LAP, we do take additional security of LAP because even though the assessing of a business happens on the cash flow basis. Since, we are going into the business for the first time we are taking the LAP as a security. Then once we understand the business well, then probably we can lend only on the basis of cash flow.

Nidhesh Jain: And is the team for business loans and used CV is the same or we have different teams for these 2 products?

Umesh Revankar: What is that?

Nidhesh Jain: On the ground do you have same team which is giving business loans as well as vehicle loans or?

Umesh Revankar: Yes, same team because the same customer, no? Our focus is on the customer.

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

Sivakumar: Sir, just to reiterate your AUM guidance for FY19 you said you would still be looking at 15% to 18% kind of an AUM growth. So, that would mean that Q4 should see a sequential growth of at least 6%. Is that a correct inference, sir?

Umesh Revankar: We intend because we see that there is a good opportunity and we would definitely like to grow.

Sivakumar: Sir and in terms of NIM growth which has seen a decline in Q3 but in fact it was much better than what the market was expecting. But do you think you will be able to maintain this and from here on you will able to improve it as …

Umesh Revankar: Definitely, we should be able to definitely maintain it and improvement also we will try to do it, achieve it.

Sivakumar: Sir and has the incremental cost of borrowing come down post October when you reported that there has been a 100 bps increase in the cost of borrowing. Has that eased a bit or is it still on?

Parag Sharma: Compared to November it has slightly eased up, the bond yields and even the bank borrowings have slightly eased up.

Sivakumar: Can you quantify that sir, as to how much it has eased a bit?

Parag Sharma: The bond yields would be around 20 basis point I will say and bank borrowing, okay, money availability is more challenging than the rate per se. The bonds yields have come off by around 20 basis point.

Moderator: Thank you. The next question is from the line of Harshit Toshniwal from Jefferies Group. Please go ahead.

Harshit Toshniwal: Couple of questions. One follow-up from the last one, so when I look at the incremental funding cost maybe more recent months, how would that be compared to our previous quarters?

Umesh Revankar: You are talking about whether the cost will further come out?

Harshit Toshniwal: Incremental funding cost?

Umesh Revankar: Yes, compared to October-November the yields as we mentioned the bond yields are slightly down. We do not expect that to further come down. So, it will continue to be at 9.25 to 9.5 range is what we expect in March that is what our expectation is. Also focus on securitization for this quarter. It should be priority sector assets. The rates definitely tend to be slightly better.

Harshit Toshniwal: And one more question on tractors front while we saw passenger vehicles for industry slowing down. Tractor finance was still okay when I look at the Q3 numbers despite that we have our disbursements in and growth in that segment has been weaker. Any specific color on that part?

Umesh Revankar: See, tractor sales had been consistently good for the total calendar year. And we also see good demand because normally the tractor demand used to be from few geographies earlier. But now the mechanization of farming is happening across the country. So, demand is coming from almost all over India. So, that could be the reason the penetration level of our tractor has gone up across various geographies. Therefore, the demand is higher. So, I think because of that reason more mechanization the demand is higher.

Harshit Toshniwal: Right but for us the growth has not been that good in particular this quarter for tractor sales?

Umesh Revankar: That is because of drought in the central and see, whenever there is a drought the enthusiasm comes down. But if you look at the base, tractor base has gone up.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Global Financial Services Ltd. Please go ahead.

Kashyap Jhaveri: I have a question on working capital loans. If you look at Q-on-Q as well as Y-on-Y there is a very strong growth. Now, here have we also tied up with some more fuel companies? Or is it that in the same type we are actually getting more through put from the same?

Umesh Revankar: No, we have tied up with only HPCL as of now. We are talking to one or two more fuel marketing companies. We should be able to have more into our system but the working capital loan, the fuel is very small. So, this is slowly growing. The major is the insurance and the tyre replacement. So, working capital per say the growth is not slowdown significantly. But the slowdown was mostly in the business loan because we did not give same priority as the used vehicles. So, first priority was used vehicle.

Kashyap Jhaveri: Sir, my question is then sir these are also short-term loans, right? 6 to 9 months and still there is fairly strong growth out there. So, what has driven this growth? Is it the same and these are all our existing clients, right? Ones who have repaid only those clients get these loans.

Umesh Revankar: See, all existing customers are eligible for it. But whether to give, whom to give and when to give the branch manager is taking your call because he understands the need of the customer on the ground and he takes the call on the requirement of the customer. So, we do not have a broad policy on whom to give. It is the branch manager, who takes the call because he understands the customer need locally.

Kashyap Jhaveri: No, how has the number of loans or let us say or the ticket size both in this segment how have they grown? Is it more driven by the same client or the same clients getting more ticket size or is it because we have added more customers in this particular working capital loan segment?

Umesh Revankar: All our existing customer only are eligible. Outside customers are not eligible for our working capital loan. So, the people who already have vehicle with us they are eligible and the penetration level keeps increasing. Because …

Kashyap Jhaveri: This is, this growth of 75% Y-o-Y or 9% Q-on-Q is driven more by higher ticket size in this working capital segment?

Umesh Revankar: No, we have added the new product, the fuel is the new product we added and because of the new product there will be some growth.

Kashyap Jhaveri: But you said that is very small portion as yet of the …

Umesh Revankar: Yes, I am told incremental growth. It is a small portion but there will be, it helps in incremental growth.

Moderator: Thank you. The next question is from the line of Shweta Daptardar from Prabhudas Lilladher. Please go ahead.

Shweta Daptardar: Sir, you just mentioned a while ago that bond yields have already eased but there would not be any further coming down in next quarter. Also, you mentioned that we would be maintaining prudent excess liquidity on the balance sheet. So, how do you see margins panning out for the fourth quarter?

Umesh Revankar: The NIMs should be almost same. We should be able to maintain the NIMs at present level.

Shweta Daptardar: Sir, 7.4-7.45 is what we can safely see?

Umesh Revankar: Yes.

Moderator: Thank you. The next question is from the line of Kamal Verma from CLSA. Please go ahead.

Kamal Verma: I just wanted to check on this, you mentioned that you have not booked any up front income on assignment of loans. Why is that exactly because we understood that under Ind AS you will have to up-front recognize any gains on assignment of loans?

Umesh Revankar: So, the structure has been designed to enable us to defer it. So, that okay you can connect with Mundra, he will be able to explain it in details.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Umesh Revankar for his closing comments.

Umesh Revankar: Thank you everyone. As everyone has expressed, yes the last quarter was a challenging but we have done reasonably well and put our effort best to manage the challenging quarter. And Q4 is norrmally a growth quarter where we get very good opportunity to grow. So, we should be able to grow our books comfortably in the Q4 but more exciting will be the next financial year and whatever we are planning now in the Q4 will also have a bearing on the next financial year because we do expect a huge demand in the next financial year. So, there will be more number of branches added and also increase in employees and definitely the growth will be much better than the Q3. So, may be when we meet next, during next call I will be able to express and explain better on the plan for the next financial year. But we definitely have a very big plan for next financial year. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Shriram Transport Finance, that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.