"Shriram Transport Finance Q3 FY21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Shriram Transport Finance Q3 FY21 Earning 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. I would now like to hand the conference over to Mr. Umesh Revankar, Managing Director & CEO, Shriram Transport Finance Limited. Thank you and over to you, sir.

Umesh Revankar: Thank you. Good morning, friends and good evening to those who joined from western part of the world. A warm welcome to all of you who joined this call. I hope all of you are healthy and safe. Joining with me today, Mr. Parag Sharma, CFO; Sunder, Accounts Head & Executive Director; Sanjay, who is our IR Head.

Let me first start with economic and industry update. The government started Unlock 5.0 in October 2020 with the lockdown being only in containment zones. A high recovery rate of 96% and India's good fortune of avoiding second wave of COVID-19 meant that economic recovery continued**.** The government continued its calibrated approach towards relief and stimulus measures to help the Indian economy back on the growth phase.. Some of the measures that really helped the industry are, the income tax relief was provided to real estate developers and home buyers in the form of widening the difference between circle rate and actual sale rate. Rs 6000 crores was infused in infrastructure debt platform. On agriculture Rs 65,000 crores of fertilizer subsidy was announced to the farmers for forthcoming crop season. Rs 1,43,000 crores were sanctioned to the farmers through Kisan Credit Card. Rs 25,000 crores was disbursed for providing capital funding for farming through NABARD. Rs 3,621 crores was sanctioned to 11 states as interest free loan towards capital expenditure. In addition to that Rs 3 lakh crores existing emergency credit line guarantee scheme which was announced earlier was extended till March 31st. The government also approved a PLI scheme, the performance linked incentive scheme at the cost of Rs 1.46 lakh crores to boost economy and some of the major industries that are involved are pharma, medicine, electronics and mobile. Then PM Awas Yojana was sanctioned for help building 12 lakh houses by spending Rs 18,000 crores. So these were the measures by the government and RBI also adopted a very constructive approach in its announcement and policies. RBI released draft discussion paper on revised regulatory frame for NBFCs. However, the same is not expected to materially impact STFC as we are already well above the minimum compliance measures with the proposed quantitative norms including capital adequacy ratio, standard asset provisioning and NPA classification.

In manufacturing, the industrial output remains volatile with the index of industrial production showing 4% rise in October due to festival demand, -2% in November due to increase in virus in certain states. However, manufacturers are speeding up production as witnessed by the PMI index reading in November being 56.4 indicating future expansion. The GST collection was robust which has sustained above Rs 1 lakh crore and recorded 10%, 1.4%, 12% increase over October-November-December respectively. The acreage under Rabi crop was higher by 1.6% at 651.9 lakh hectares on a year on year basis. That is on the bumper crop we received last year. The reservoir levels stood at 68% of their full capacity against 56% of the capacity in the previous year indicating that the agri would perform much better than previous years.

Now coming to the auto industry, the commercial vehicle sales recovered to pre-COVID levels. Almost it is equivalent to previous year at 1,93,043 units against 1,95,211 units in the previous year. The intermediate commercial vehicle and tippers witnessed bigger demand. In fact, the heavy vehicles witnessed increase Q-o-Q growth by 26% and mostly the demand was for tippers. And LCV showing a growth including the ICVs.

All our branches are operational now. And now I come to our quarter performance. We clocked disbursement of Rs 12,606 crores including Rs 332 crores of new vehicle and Rs 12,198 crores of used vehicle which as I indicated it was on par with last year's quarter. The AUM was Rs 1,14,932 crores as on December compared to Rs 1,08,931 crores in December 2019. The net interest income was Rs 2,148 crores in Q3 against Rs 2,114 crores in Q3 20. The net interest margin was 6.88% which is 20 basis point higher than previous quarter as against 7.34 in the previous year Q3. The profit after tax was Rs 727.72 crores compared to Rs 879.16 crores in Q3 20. The EPS stood at 29.54 against 37.76 in the previous year. Collection was consistently good in the last quarter recording 97% in October-November and 104 percent in the month of December. The Stage-3 NPAs stood at 7.11% as compared to 8.71% in the previous year. Overall credit cost now for the quarter was 2.15% and as on 31st December it is 2.59%. Since all the macro indicators remain constant, we expect that we are well within our overall guidance of 2.7% to 2.8% range given in the beginning of the year. Our liquidity position stands at Rs 13,429 crores as compared to Rs 10,891 crores as on October 28, 2020.

I hope you have received the investor update. Now, I request Parag to give highlight on the liability side.

Parag Sharma: The overall fund raise has been good for the quarter. We raised around Rs 12,000 crores through various instruments. This is compared to the previous quarter we raised close to around Rs 10,000 crores, so Rs 2,000 crores more. And in January we have also accessed the overseas market and completed a successful dollar bond for USD 500 million. Dollar bond received good response from investors, the order book being more than USD one billion. So that will add to further liquidity. As mentioned the liquidity is around Rs 13,000 crores which is covering easily the next 6 months' liability.

Coming to the liability profile as such, we have been focusing upon retail deposit, which has grown year-on-year from 13% to 14.76% now and securitization is marginally down from 24% to 23.7 odd percent. Bank term loans constitute around 16%. Capital market instruments, domestic is around 21%. Overseas bond constitutes close to around 13% of our liability as of December. And loans, overseas loan is close to around 4.2%. This is broadly the breakup of liabilities. Total liability is being Rs 96,000 crores. Interest cost has come down marginally by around 20 basis points in December quarter given that the bank borrowing rate had been much lower. On the ALM side, cumulative surplus up to one year is around Rs 8500 odd crores, Rs 8606 crores to be precise and all buckets, the shorter buckets are also positive. I think you are aware that we did a rights issue in August for Rs 1,500 crores. With that, debt equity stands at around 4.7x as it was running at around 5.2, with the rights issue it came down to 4.7 and we are confident this will maintain at around 4.7 level for this year. There have been some positive rating actions by both domestic and international rating agencies. India Ratings have made from negative outlook to stable outlook. S&P and Fitch which had a negative watch have now removed that negative watch and it has become negative outlook. We are still engaged with rating agencies to ensure that the negative watch is also reversed. But I think rating agencies did mention about same performance for 1 or 2 quarters. We will be in constant touch with rating agencies to ensure that rating is restored to the earlier levels. I will hand over to Sunder now for accounts update.

S. Sunder: Good morning. The employee count as on December was 24,670. It was down from 25,893 in September 2020. We have recently started the process of adding new employees and hence the employee count should go up in the next couple of quarters. The cost to income ratio remains stable at 22%. It was 21.83% in September 2020. Primarily the increase in the expenses was on account of CSR expenses which were not done in the previous two quarters that had contributed to the increase in the overhead expenses. And during the quarter the company had credited the accounts of eligible borrowers an amount of Rs 231 crores towards ex gratia as notified by the government of India. The same is expected to be reimbursed by the government of India through State Bank of India and hence we don't expect any impact on the P&L of the company. As regards, the collection cases that we had discussed in the previous call, there were around 1,00,000 customers having an exposure of 1,200 crores who had not paid even a single installment during the moratorium period. Subsequently most of them have started paying and as on date there are still 9,600 borrowers who have not paid even a single installment since March 1st, 2020 and the exposure to these cases is Rs 112 crores which has been classified as Stage-3 and appropriate precautions have been held.

And as far as the ECLGS is concerned, we had extended it to 77,000 borrowers amounting to Rs 694 crores and we also had given the option of one-time restructuring as per the RBI notification. We received a total proposals close to Rs 3000 crores, out of which we have invoked Rs 2,267 crores worth of proposals as on 31st December 2020 which was the last date and out of which we have already restructured Rs 310 crores which comprises of 11,570 borrowers and required provisioning as per the Reserve Bank of India guideline has been maintained on these loans. When we come to the asset quality, as mentioned by Mr. Revankar earlier, the Stage-3 was at 7.11%, gross Stage-3 and the next Stage-3 was 4.31% as against

7.26% gross in September 2020 and next Stage-3 of 4.51% in the same quarter. But however, as per the Supreme Court direction, we have not considered cases which were not an NPA as on 31st August. Had we considered those cases, this would have been the level, but following Supreme Court order our gross NPA was 5.33% and 3.22%. However, in our books of accounts in our financials we have provided for all those cases even though we are not required to provide, so we have been conservative in that count. The coverage ratio as on 31st December 2020 was 41.20% as against the coverage of 39.71% in the previous quarter. The Stage-1 as of December was 80.78% as against 81.58% in the previous quarter and Stage-2 assets were 12.11% as against 11.15% in the previous quarter. We have maintained a coverage ratio of 3.23% on the Stage-1 assets and 9.99% on the Stage-2 assets. And the probability of default for Stage-1 was 7.4% and for Stage-2 was 23.12%. And loss given default was 43.08% as on December 31st.

We have continued to make COVID related provisioning in this current quarter also which amounted to Rs 225 crores and the cumulative provision which we are holding as on 31st December was Rs 2,507 crores. The company has also followed the RBI guidelines as regards the provisioning of assets wherein it required that the company needs to maintain a minimum of IRAC i.e. income recognition asset classification and provisioning norms of RBI which was Rs 6,164 crores as on December 31st. As against that we are holding, as per the Ind AS Rs 7,746 crores, meaning we are holding an excess provision of Rs 1,582 crores over and above the RBI requirement and the capital adequacy continues to be good, tier 1 being 20.51%.

That is it from me.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-answer session. The first question is from the line of Abhiram Iyer from Deutsche Bank. Please go ahead.

Abhiram Iyer: I had a sort of a bookkeeping question on the cash flow. So if I look at the reduction in cash that is somewhere around Rs 8 billion, cash and investments and if I look at the increase in that, that is around Rs 3.5 billion, so a total of say Rs 11.5 billion. The operating profit is somewhere around Rs 16.5 billion with another Rs 2.5 billion of taxes, so give or take Rs 14 billion of cash coming in from operations which is roughly Rs 25 billion in cash incoming. Whereas the change in loans is around only, on balance sheet loans is only around Rs 18.5 billion. Now I understand you have paid dividends of around Rs 1.5 billion. So that is sort of a whole of around 5 billion INR in terms of cash charges. So could you just let us know if there are any sort of non-cash components in the income statement or non-cash inclusions that have been made?

S. Sunder: There are no non-cash charges that have been made in the financials. So what I would suggest is that we will take this question offline and provide the reconciliation to you through Sanjay Mundra.

Abhiram Iyer: Got it. Let me follow up on that. The other question that I had was on the fall in securitization and assignment loans. So is this something that the company is sort of strategizing? Can you just give out a reason for this because it because the fall seems kind of steep for this quarter?

Parag Sharma: But RBI permits even the normal loans to be classified for priority sector classification in the bank's book. That is the reason why banks are happy to give loans rather than doing securitization. Having said that some of the banks, foreign banks and some of the private sector to continue to do securitization only. Last quarter we did Rs 3,500 crores of securitization and this quarter we had done Rs 2,700. So there has been debt, not substantial debt. I agree that we used to do around Rs 5000 crores of securitization prior to March. But I think the classification only is the only reason why there is a shift from regular loans rather than doing securitization.

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

Nishant Shah: Sir, I just had a couple of questions. First around how do we think about the defaults in the current environment? So Stage-2 provisions that you hold, that is say around 41%, for the accounts that are one of the default in this time, do you envisage there will be either an upside or a downside, do we actual crystallize lots of that we see once we repossess the vehicle or however else we resolve this? How do you think about those aspects in the current environment? That is the first question.

S. Sunder: See, this ECL model takes into account all these factors. So it is primarily the historical data that we look at and also the current economic scenario and basis that we come out with that LGD of 42%-43% and hence there maybe cases wherein there will be 100% write off, there will be cases wherein there will be 10% write off required. So a combination of all these things put together will be 41% and hence we are not unduly concerned, whether it will be overshooting the coverage.

Nishant Shah: Got it. And this is a small data keeping question. You mentioned Stage-1 and Stage-2 assets in the opening remarks, I missed that, could you repeat that please**?**

S. Sunder: Stage 1 assets was 80.78% as against 81.58% in the September quarter and Stage-2 was 12.11% as against 11.15% in September quarter.

Nishant Shah: And these are the numbers which are ignoring the Supreme Court judgements?

S. Sunder: Correct, ignoring the Supreme Court judgement.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from Systematix Shares. Please go ahead.

Shubhranshu Mishra: My first question is with regards to the employee count which has been falling for over a year now. If I look at the employee expenses that have been falling commensurately. So how do I read into those number sir, if you can explain me that? That is the first question.

S. Sunder: The employee count has come down year-on-year and there has been a visible decline in the employee cost in the first couple of quarters. In fact, in April there was a substantial reduction and then as the business started picking up, we started compensating those employees who are currently working with us and now couple of months back, I would say that, we started the process of again recruiting new employees and the numbers will reflect maybe in the March quarter or June quarter. So we expect the employee count to come back to pre-COVID levels by 2022 March. Any other thing you wanted to clarify?

Shubhranshu Mishra: My only thought only here is that, we have had a substantial change in the employee count by roughly around 3,500 employees. We don't see a similar commensurate change in the employee expenses? So what is my understanding here?

Umesh Revankar: See, the fresh recruitment we are doing through apprentice scheme. So they do not come as employee immediately. So we actually have another 600 people as apprentices because there are state-to-state various minimum wages and there are changes in minimum wages act. So till it gets harmonized we felt that it is better to absorb people under apprentice. So therefore the numbers are not reflected, but actually we are adding in the last 3 months we have been adding and we will be adding more people going forward.

Shubhranshu Mishra: And my second question is with respect to the restructuring, sir. What amount have we provisioned for and we have only accounted for roughly around Rs 3 billion. So how do we look at the rest of the restructuring going forward?

S. Sunder: See, we have restructured Rs 310 crores worth of assets as on 31st December and on that we are holding the provision of 10%. So Rs 30 crores provision is being held and we have also invoked apart from this Rs 300 crores, Rs 1900 crores worth of assets which is likely to be restructured in the March quarter or maximum June quarter. So having said that we also believe that the quantum of restructuring will be much lower than what have been invoked because normalcy is coming back in certain sectors and hence the borrowers may not actually hope for restructuring in the next couple of months also, it is possible.

Shubhranshu Mishra: And sir, why are we not dallying down the liquidity given the fact that there is so much of liquidity around, we are still sitting on roughly around 10%-12% of the balance sheet. So why are we being so conservative, is it for the bond holders, is it for the rating agencies, what are we doing this for?

Parag Sharma: No, I think it is a conscious decision. We thought we will continue with higher liquidity with till maybe 3 quarters and then take a call. So this has been consciously done.

Shubhranshu Mishra: And my last question is with respect to your collection team, sir. If you can give me the strength of the team and what is the cost that has been budgeted for the collection team in FY21 as well as any ballpark number for FY22 for the collection?

S. Sunder: That I would suggest that you contact Mr. Sanjay Mundra who will be able to assist you and coming back to your first question that there is no significant dip in the employee cost. See, if you see the 9-month employee cost it is Rs 739 crores in the previous year. In the current year it is 658 crores. So there has been a dip of around 10%.

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

Umang Shah: Sir, I have three questions. The first one, how should we look at the credit cost getting into FY22 we are maintaining substantially good coverage on Stage-III assets and even at about 4% on Stage-1 and 2 which is higher than what we typically maintain. So how should we look at credit cost getting into FY22?

Umesh Revankar: Credit cost should slowly go back to our long term average of 2%. This year we had given a guidance of around 2.7% to 2.8% in the beginning of the year. So we are well within that as of now and we are confident of managing it within much lower than that at the year end. But going forward next year since the economy is likely to do very well and the opportunity for the growth will be there and also the revenue earning capability of our customers would be much better. So we expect it to go back to long term average of 2%.

Umang Shah: Sir, my second question is on disbursements and clearly this quarter, disbursements have picked up pretty well and we are kind of tracking a little ahead of what we had guided in the previous quarter. So how should we look at growth? Would you like to upgrade your full year growth guidance for FY21 and a related question that as you already mentioned in the previous point that growth outlook is only getting better, would we like to look at raising equity capital for the residual portion of the approval which we had taken?

Umesh Revankar: As far as the growth is concerned, in the beginning of the year, due to COVID we said there is a flat growth. Now we expect growth of between around 6% AUM over the previous year. Next year it should be a double digit growth because opportunities are much better and if we feel that this increased growth requires the growth capital, then definitely we will come to the market. But they all depends, whether it requires growth capital or current capital position is more than sufficient. So we will take the call maybe in a couple of months depending upon what kind of growth we can expect. If it is whether just a double-digit growth or it is more than 15%-20% growth that is something which we will be clear by maybe in a couple of months.

Umang Shah: And sir, last question is on, just wanted to get your views, do you really believe that there could be any impact of the proposed green tax that the government is looking to impose given the fact that the most marginal player in the ecosystem gets impacted the most because of this. Do you really think that will have any meaningful impact on our business?

Umesh Revankar: See, there is no official announcement as of now. But only one official announcement that is there, is government is going to scrap its own vehicle, central government, more than 15 years old vehicle. They are going to scrap in March 22, not this year, next year. So other proposals or other unofficial statements are more than 15 years old vehicle when they go for fitness certificate they may ask for additional levy of tax. But there is also one more line which has appeared in some newspaper saying that more than 8 years old vehicle they may ask for green tax of approximately 10% to 20% of the existing tax. That means it works out to around Rs. 2000 to Rs. 4000 per annum. So it is not going to make any big difference because per annum around Rs. 2000 per vehicle depending upon the size and capacity of the vehicle I think it will vary. So I think it is not going to make a big difference for the owner. Because having an asset, buying an younger asset if it is costing much more capital to him, he better pay additional Rs. 2000 or Rs. 3000 and retain the existing vehicle. So we do not know the economics of it, unless we have a specific, a very clear government guidelines then only we can calculate the economics. But I don't really think it will deter customer to hold on to older vehicle unless there is some incentive for him to change into newer vehicle.

Moderator: Thank you. The next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: My question is on the customer behavior. What is the freight capacity utilization or the freightage going up because fuel charges have been going up? Have they been able to pass it on? And the number of customers who have actually started plying the vehicles, it was low previous quarter, we have a sense of how much it is? That is the first question. The second question is during the downturn, people put a lot of effort on collection efficiency. How are you looking at balancing growth versus concentrating on collection efficiency at this point of time? I think you don't have a separate team for both. Those are my two questions, sir.

Umesh Revankar: So basically, there is no idling of the vehicle now. I don't see any kind of idling, neither from the individual operator or large operator. Earlier, what we observed was the single operators were able to run their vehicle because they are the owner operator. They are not dependent on the drivers. But even in the large fleet operators today, all the drivers are back. So we are not seeing any idling of the vehicle. Vehicles are engaged. As far as the fuel price is concerned, the freight rates also have gone up. That means they are able to pass it on to the end consumer and therefore the fuel price increase, did not had a negative impact on the operator as of now. So I think they are able to manage. They are able to pass it on to the end customers and only thing is there will be inflation because of that. So we are seeing food inflation only because of the fuel price increase. So how that part of it is going to be addressed over the period by the government and RBI that we need to see.

Vivek Ramakrishnan: One more related question was, we were talking about second hand trucks and when we repossess is there demand for second hand trucks given the optimism that you are seeing on the ground?

Umesh Revankar: See, the demand for second hand trucks are very good. In fact, the LCVs are selling at around 20% premium than what it was in the previous year. Only heavy vehicle, the resale prices have not gone up but it has not come down also. In few pockets there will be some differences, but generally, overall when I look at there is not much of a difference in the resale prices. What happens is used vehicle gets used for multipurpose application unless only the new vehicle when the people buy, they buy it for specific application. But moment it becomes a second hand, then it gets used for everything. Whether it is sand, cement, grains, for everything it gets used. So in India most of the vehicles are not specific vehicles, they are all open vehicles. So the application, the usage of the used vehicles are general application. So it gets used everywhere, but we don’t really see a big challenge. So collections are quite good and our people are able to meet customers as frequently as it was in the pre-COVID level. So there is absolutely no, what to call, laxity from our side or from the customer side. So we are back to the business as usual.

Moderator: Thank you. The next question is from the line of Rikin Shah from Credit Suisse. Please go ahead.

Rikin Shah: I had two questions. The first one was on the Stage-3 ratios, where even in the absolute terms it is down almost 15% year-on-year and even in terms of Stage-3 ratios, it is down almost 160 bps versus a year ago. The collection efficiency is also higher than our normalized run rate. A part of that can of course be attributed to lack of collections during moratorium but now it is above that. So just trying to understand, it does seem like the COVID never happened for us and how should we think why our customers and why were we able to deliver superior asset quality performance here? Thank you.

Umesh Revankar: See, what I am trying to convey is that most of our customers are owner operators. So, being owner operator, the advantage is the ability to earn and operate the vehicle is own wishes**,** he is not dependent on any driver or other external factors. And demand for transportation actually went up. When the supply of new vehicle comes down, automatically then existing vehicle gets used almost fully. In last couple of years, the new vehicle addition throughout the Indian fleet has come down substantially. So utility and usage of the used vehicles have gone up. And small operators are having an advantage because of having no overhead cost on them. There are not employing anyone. They themselves are operating. That was an additional advantage. Plus, if you look at the rural and semi urban, what you said is right. You can go to any of the semi urban or rural area, you feel as if there is no COVID. Only in the urban city people are operating from home, what to call, the executives who have an option of working from home they have been working from home. But in the smaller towns and in the villages, there is no such option. They have to go out and they have been working. So you will never see a COVID related impact in any part of semi urban rural area. So 90% of our business being in that particular area, we are quite comfortable and customer also is comfortable.

Rikin Shah: That is helpful, sir. And just to follow up on that, earlier you did allude that the capacity utilization overall has gone up. But would you be able to share a number for the industry as a whole where the capacity utilization rate is now and maybe how it compared versus pre-COVID?

Umesh Revankar: See, pre-COVID to now I may not have, because this is a highly unorganized sector. I will not be able to give you the exact numbers on how the utilization levels are there, but I can only tell you, number of days' vehicle run because we track along with the customer how many days his vehicles are running. So pre-COVID level, because the economy was slowing down, it was around 21 days on an average vehicle running. Today, the vehicle running is between 22 days to 24 days. So to that extent we can say that there is an increased utilization of the vehicles. But beyond that we will not be able to substantiate with industry numbers.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Investment. Please go ahead.

Kashyap Jhaveri: I have just one question which is on your external commercial bonds and borrowings which is about 17% of the total. If you could throw some light on how they have been hedged and do we carry any risk if there are any significant adverse movements in the currency? What I understand is that we do full hedge at the beginning itself. But if you could explain that bit in detail?

Parag Sharma: Yes, as you have rightly mentioned, as a policy we hedge all overseas borrowing both principal and interest for the full duration. So there would be no unhedged position and there will be no risk. For the overall cost for overseas borrowings is known upfront and there will be no additional cost. Now what we had done is around 4.4% level dollar bond on completely hedged basis whatever be the cost, around 9-9.2% whatever it comes out to be will be known upfront and there will be no other cost in spite of whichever way the rupee dollar moves.

Kashyap Jhaveri: Intermittent quarter any charge for the P&L because of the movement in INR will be all notional and through the life of the bond it will be zero.

S. Sunder: Yeah, we see follow the hedge accounting. So whatever is the intermittent fluctuations in the currency is taken below the line and it does not impact the quarterly profit.

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

Shweta Daptardar: Sir, looking at the borrowing profile, so while the interest rates have turned benign, even the securitization has dipped quarter-on-quarter, year-on-year, why aren't we taking the benefit of lower rates and tapping the term loan side of the borrowing profile? Is there some inertia from the banks, are they expecting more, because since the year the mix has remained steady state at 16%?

Parag Sharma: In fact there has been the focus. Though term loans have gone up, even if you look at this quarter, the quantum raised through term loan was the highest compared to any other instrument. So that would be the focus. There have been maturities of the earlier loans. We were not able to access much during the moratorium period till August-September maybe the borrowing was slightly lower. It has more to do with the schemes which were announced. The banks were more comfortable to provide liquidity through those instruments, be it direct assignment, be it TLTRO so that loans per se was slightly lower in the earlier quarter. And for the maturities the percentage didn't move but now it is picking up, in fact the loan should be the focus area and that continues. I think it is around 16% now and we do expect this to go up to 20% in next 2-3 quarters.

Shweta Daptardar: My second question is, sir, you alluded in the past that operator profitability has not impacted much that there has been COVID impact pretty negligible on the rural side and now the collections which are showing 104% of the demand, so the underlying understanding is that. So people as in the borrowers opted for moratorium but now, they have suddenly fine and they are okay, so our collections have gone up and even on the billing date the collection efficiency is as healthy as what we are reporting as a percentage of demand. Can you just throw more light on this?

Umesh Revankar: Basically what happens is our customers every month they do not pay the full EMI and sometimes they pay 90%, sometimes they pay 104% or 105%. And December is the month, ever year, it is not only this year, every year it is a harvesting time and there is more cash in the rural economy in the month of December. Because they get the cash against their crop. So generally December collections are good. So every year there is same repetition. I don't see it is exceptional and the only thing what we can say is, as far as the rural and semi urban is concerned, it is pre-COVID situation or the no-impact situation. So that is what we can say. But as far as urban is concerned there are some challenges where things are not as smooth as it was in the past. So maybe urban transportation is still not normal. The school transportation is still not 100% normal. There is some normalcy, but not 100% normal. So what I can tell you is, the COVID had a very little impact in the semi urban rural area. And only during the lock down there is some restriction. But now since there is no lockdown business is back to the normal.

Shweta Daptardar: Sir, last question from my side. Sir, do you have anything to elaborate and throw light up on, the RBI discussion paper, so I heard you on the media mentioning that, you might even opt for banking license and that the merger talks are on the backburner. So would like to elaborate on this and as against the contours of the RBI discussion paper, thank you.

Umesh Revankar: No, we are still discussing on the same. We have not really come to any kind of a conclusion on the same. But as far as banking is concerned, we are very clear on few things. Being NBFC you have certain advantage. You can run a company with lean management and minimum expenditure. But if it is a bank then you have multiple functions and your cost goes up. And also you have an additional disadvantage of having a CRR and SLR. And for a large balance sheet converting into bank there are some challenges. So these are all the few things which we have been debating and discussing internally and we have also expressed this very clearly to the regulator. So as of now there is not much of change in our stand.

Moderator: Thank you. The next question is from the line of Amit Ganatra from HDFC Mutual Fund. Please go ahead.

Amit Ganatra: Just one question from me. Sir, your disbursement growth is around 11% year-on-year, right? Can I know that what is the new customer acquisition that you must have done this quarter versus what you did pre-COVID just to see the growth there?

Umesh Revankar: See, new customer acquisition is a continuous process. Now if you look at number of branches, we have added 85 branches, adding additional branches compared to that of previous year. So the new branches gives us new destination, new reach. So ultimately it is the reach that is very important in this kind of business because most of our lending is by meeting the customer, knowing the customer. We don’t really onboard the customer on digital platform. So it is more of a physical work. So the reach only is creating opportunity for us to service more number of customers and more number of geographies. So we feel that that is a continuous process.

Amit Ganatra: My question was more from the perspective that out of these disbursements, how much of it would be to existing customer base and how much would be to new launch altogether?

Umesh Revankar: See, existing customer keep coming to us is one part of it. New customer acquiring is additional. So that is why I am telling you, new branches are giving us new customers.

S. Sunder: We don’t have the numbers off hand, so you can contact Mr. Mundra, he will be able to help you out.

Moderator: Thank you. The next question is from the line of Piran Engineer from Motilal Oswal. Please go ahead.

Piran Engineer: Actually I have the same question as Amit as to what percentage of our used vehicle disbursement are for purchase of vehicle and what percentage are top up?

Umesh Revankar: So, there is nothing called top up here. Only when customer completes his previous loan he gets fresh loan. So that also after reinspection of vehicle and depending up on the LTV we give loan. So we don't give top up on existing loan. That is one thing. And as far as buying selling is concerned, we are probably the largest company. Whenever there is a buying and selling happens, Shriram is the first on anybody's mind because we are the largest lending company for anyone who buys. So typically, you can say around 60% of our loan is to our existing customer, but that need not be on same asset. Our existing customer will keep buying new assets. They will keep selling some existing asset, they keep buying new asset, they also keep adding more asset. So around 30% to 35% of the customers will be totally new to Shriram, but they would be introduced by existing customer. So we insist that any new customer walks in they need to be introduced by existing customer. So we network and get the new customer in our fold.

Piran Engineer: And sir second question, did you mention you raised Rs 12,000 crores of debt in the quarter?

Umesh Revankar: Yes.

Piran Engineer: Sir, what is the incremental cost of this debt? So the USD 550 million will be at 9.2-9.3% but the domestic debt that you raised is at what cost?

S. Sunder: It varies between 8.5% to 9%.

Moderator: Thank you. The next question is from the line of Aakash Dattani from HDFC Securities. Please go ahead.

Akash Dattani: I have just one question and I am not sure if I missed this earlier. What percentage of your customers have not paid a single EMI fees since June end?

S. Sunder: So as on date the number of customers is 9,600 who have not paid a single installment from March 2020 to current date and the exposure amount is Rs 112 crores.

Moderator: Thank you. The next question is from the line of Abhishek Murarka from IIFL Capital. Please go ahead.

Abhishek Murarka: Sir, just a few quick questions. One is, this restructuring of Rs 2,200 odd crores, specifically any particular segment that this has been given to and last quarter you had sort of indicated that overall restructuring could be around 2.5% to 3.5% of AUM. So is it likely that another 1%-1.5% gets restructured going forward?

Umesh Revankar: Totally we indicated it can be up to 3%. But when we started working on that, we came down to the amount of Rs 2,200 crores which is around 2% of this portfolio**.** But again, there we have completed only Rs 300 crores till now and rest of the customers, they have an option of restructuring before March 31st. So it was specifically directed towards passenger segment, especially school transportation and the office transportation and to aggregator vehicles, Ola-Uber vehicles where the incomes had dropped. But as of now the aggregator model, the Ola-Uber, they have bounced back to some extent. Maybe 60%-70% of them have started repaying and they say we don't need restructuring. So we did direct it towards this segment but the response as of now has been little slow because some industries have revived. The tourism industry has fully revived almost. Most of the tourist place in India there is no rooms available and to the extent that is fully occupied, I mean the activities are in full swing. And even city mobility has improved. We will just wait and see whether others will come forward for restructuring or whether number of restructuring would be much lesser than what we anticipate.

S. Sunder: The maximum amount that can be done is 2,267, not beyond it because the deadline was 31st December which is already over.

Abhishek Murarka: And follow up on that is, basically you had also indicated that about 1% of your AUM were customers who had not paid a single EMI. Now suffice to say that most of them have been recognized in your pro forma GNPA and therefore nothing else remains. Would that be a correct assumption?

S. Sunder: As we mentioned earlier, out of the 1 lakh customer who had not paid during the moratorium period still there are 9,600 customers who have still not paid. The rest of the customers have started paying and they have been classified in the appropriate stages and these 9,600 cases have been classified under Stage-3 and 40% provision has been taken.

Abhishek Murarka: Sorry, if I missed that. The next question is repossessed vehicles, could you share the value number this quarter and last quarter? Just what is the value and volume of repossessed vehicle?

S. Sunder: You can take this number from Sanjay offline. H will provide you.

Abhishek Murarka: Perfect. And just lastly on this additional provisions, so now you are carrying quite a bit of provisions, your commentary is positive and you are talking about largely having done the restructuring etc. So on an incremental basis, would provisions normalize from the next quarter, from 4Q?

S. Sunder: As things stand as on 31st December, we are adequately provided, but we need to take quarter-on-quarter. So more or less we are coming to the end of the COVID provisioning I would say.

Abhishek Murarka: And any understanding on when you will start utilizing this or will you carry this as a contingent buffer?

S. Sunder: Discussion is still on, so we will come back to you on that. We have not decided as such.

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

Aditya Jain: One question on this Stage-2 loans. The number today is much below the pre-COVID. I think it used to be around 20%. So how will this, do we expect the normalization in that and how will that shape out? So in terms of maintaining the overall provisions would that lead to a lower probability of default in Stage-1 loans or we will have a temporary increase in provisions to account for increasing Stage-2 loans?

S. Sunder: Stage 2, couple of years back if you go back it used to be around 12% to 14% level. It had shot up to 20 odd levels one-year back and December 2019 onwards itself it has started coming down because more focus was given on this Stage-2 assets and this 10%-12% is the normal I would say going forward and the requirement of PD and LGD, it is a continuous process. Every year we revisit the numbers and then add one further year and then remove the earlier 5th year**.** So that will be continuous process. So even if there is a decrease over a period of time that will happen gradually. It will not abruptly happen.

Aditya Jain: And on this Shriram Group, this merger talk, if you could just tell what is the thinking on that right now?

Umesh Revankar: There is no further talk on the same. It is in the backburner now.

Aditya Jain: So backburner, as in, is it paused for now or is the thinking that it will not be done?

Umesh Revankar: That we cannot tell now because we feel that right now the focus should be on strengthening the company. So we are not really looking into it immediately.

Aditya Jain: And there is a last thing, if you could quantify how much was the CSR part? Sorry, if I missed this and Rs 231 crores amount which is transferred in the government will reimburse? How does it play in the P&L if at all?

S. Sunder: This Rs 231 crores has been credited to customers whose accounts are still live and some customers have already settled with us and closed the contract. We have transferred to their respective bank account and this Rs 231 crores is supposed to be paid back by the government of India through State Bank of India and we already lodged a claim before the deadline and they have started asking certain further additional details and we expect that it should be credited to our account maybe by March 31st, before that.

Aditya Jain: And the CSR amount?

Parag Sharma: CSR amount was Rs 37 crores in the current quarter.

Moderator: Thank you. The next question is from the line of Radhika Lohia from Mirae Asset. Please go ahead.

Radhika Lohia: Just one data question from my end. So you had given me number of probability of default for Stage-2. Could you please repeat that?

S. Sunder: The probability of default of Stage-2 was 23.12% in the current quarter and the previous quarter was 23.19%.

Radhika Lohia: And for Stage-1 is 7.4%, right?

S. Sunder: It was 7.4% in the current quarter as against 7.48% in the previous quarter.

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

Ashwin Kumar Balasubramanian: I just wanted to know what is the trend you are seeing in terms of resale values of the vehicles and secondly, we have seen a fairly significant improvement if you look in terms of proportion on the M&HCV side. So just wanted to understand what is kind of driving that because, is it used vehicles or what is driving that because new vehicles still seem little bit muted on the M&HCV side versus the LCV side. So if you can give some color on that? Thank you.

Umesh Revankar: See, as far as LCVs are concerned resale prices are up by 20%. It is you can straight away link it to the increase in price because of BS-6. BS-6 vehicles are priced 20% more in LCVs. So therefore the used vehicle resale price has gone up by around 15% to 20% in some categories even up to 25%. As far as the heavy vehicle is concerned, the resale prices have not really gone up significantly. Mainly because, the new activity, new economic activities are not really robust and there was an excess capacity in the system because 15% additional axle weight was allowed to be carried in the heavy vehicles. So there was excess capacity being built. And therefore the resale prices on the heavy have remained same as what it was in the previous year. But we expect the situation to improve mainly because some of the main application of the heavy vehicles are your movement of cement, steel and some of the commodities like mining products. So these activities have not resumed to the fullest level. So once these resume, especially we expect the government spend on infrastructure will go off substantially post budget because government has outlaid Rs 111 lakh crores to be spent in 5 years and one year is already over because the outlay was announced in the month of April last year but because of COVID most of these are postponed. So we expect post budget the government will push on infrastructure and that will create a demand for all bulk transport materials and therefore the heavy vehicle demand will come back and definitely the used vehicle price also will bounce back. So as far as the used heavy vehicle is concerned, typically used heavy vehicles are used for multipurpose because in India most of the vehicles are open vehicles and it can be used for anything including whether it is a poultry, whether it is vegetable, whether it is a grain, whether it is sand, or there is cement, anything, so used vehicle gets application which is universal. But when we buy a new heavy vehicle it normally gets used for specific application in the first 3 to 5 years. So the used vehicle demand and movement and the earning have been reasonably good. So that much I can say.

Moderator: Thank you very much. Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Umesh Revankar for closing comments. Over to you, sir.

Umesh Revankar: Thank you for attending today's call. It was reasonably good quarter for us and we are quite confident this fourth quarter also will turn out to be a good quarter. The collection trend seems to be reasonably good on par with previous quarter and we feel that growth will come back in the coming year, next year, especially as I was just telling you that government is likely to spend reasonably large sum on the infrastructure and that should lead us for better growth and better utilization level and we should continue to perform as good. Thank you very much.

Moderator: Thank you. On behalf of Shriram Transport Finance that concludes this conference. Thank you all for joining. You may now disconnect your lines.