



“Shriram Transport Finance Company Limited
Q1 FY17-18 Earnings Conference Call”

July 31, 2017



**MANAGEMENT: MR. UMESH REVANKAR – MANAGING DIRECTOR &
CEO, SHRIRAM TRANSPORT FINANCE
MR. PARAG SHARMA – EXECUTIVE DIRECTOR &
CHIEF FINANCIAL OFFICER, SHRIRAM TRANSPORT
FINANCE
MR. SANJAY MUNDRA – SR. VICE PRESIDENT,
SHRIRAM TRANSPORT FINANCE**

Moderator: Ladies and gentlemen, good day and welcome to the Shriram Transport Finance Q1 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and 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 and Managing Director for his initial remarks. Thank you and over to you, sir.

Umesh Revankar: Good evening to everyone in India and good morning to the investors who have joined us from U.S. I hope all of you have been able to run through the investor update that has been sent to you earlier. Highlights of our key operational figures and financial metrics are given there. Let me briefly provide you an overview of demand scenario and development on the ground before I share highlights of our performance.

The domestic CV industry ended up the first quarter of FY18 with the contraction of around 9% in unit sales, primarily led by sharp decline in sales of M&HCV where the decline has been around 30% year-on-year. This was due to a combination of factors including pre-buying due to the BS-IV rollout in February and March and also deferment of purchases due to GST implementation. The outlook within medium and heavy commercial vehicles segment is positive for the second half of the year. We expect the pent-up demand post GST would come and also we expect the construction activities because the infrastructure and construction activity which slows down during monsoon will start picking up from October. And the Government also has initiated a lot of infrastructure activities in the budget which they have budgeted. If they start implementing that, there could be a lot of demand in the construction led activity and mining led activities. Within this development, the light commercial vehicle has been holding good mainly due to uptick in consumer consumption sector and also due to good agricultural movement. This year, the harvest season April-May, there has been good increase in the rabi crop output. And demand from the rural area has been generally good and that has resulted in good demand for the LCVs which are basically used in this segment.

The monsoon has started well and the IMD reports indicate that rainfall in June has been 6% above the long period average. This is the very positive development and it also indicates 80% to 85% of the country receiving a normal rainfall. The monsoon performance also augurs well for sowing kharif crop that has commenced in July. IMD has forecast 95% rainfall in July which is within normal range, while pegging the entire seasons' rainfall at 98%. Statistical analysis assigns high probability of normal monsoon with healthy coverage across the country. Except for maybe 1 or 2 states like Karnataka and Tamil Nadu, monsoon has reached almost all other states. And of course, in some states, there has been excess rainfall but that is something which happens quite often. The combination of healthy monsoon and increased area

under cultivation should drive traction in agri sector, which in turn will support recovery of consumption across the country. Further sustained levels of food grains production will help maintain present trend of moderate inflation. Boost in rural income also helps in consumption in Tier 2 and Tier 3 cities. It augurs well for real estate demand in these places and there could be more demand for affordable houses if the customers are able to put the initial amount. Based on the combination of these factors along with the reforms being implemented, we expect a strong demand in the second half of the year.

Further, we have witnessed the rollout of GST from July 1. This marks a new era in the country's development with the emergence of transparent tax regime and simplified taxation system. While there are some disruptions as business had to get used to new system, the impact is expected to be transitory. The positives will outweigh the challenges as GST is expected to bring in enhanced efficiencies and smoothen business operation in the long run. In the backdrop of GST launch on July 1 and factoring in rebound from demonetization impact of last year, the growth projection of Indian economy by IMF is 7.2% for the year 2018. As the pace of the growth accelerates in the second half, this will place India as the fastest-growing country in the world.

Now, I briefly touch upon the headline numbers for the quarter. The AUM grew 9.1% year-on-year to Rs. 81,612 crores against Rs. 74,808 crores in Q1FY17. Net interest income was higher by 17.7% at Rs. 1,585 crores compared with Rs. 1,347 crore in the corresponding quarter last year. Net interest margins stood at 7.51% compared with 7.35% in the Q1 FY17. The PAT is up by 19.9% year-on-year at Rs. 448.68 crores against Rs. 374.10 in the last year same quarter. EPS stands at Rs. 19.78 in Q1 compared with Rs. 16.49 in Q1 last year. The asset quality is fairly stable, I should say, with the GNP at 8.03 and net NPA at 2.49 and the provision coverage ratio is 70.81 in Q1 against GNP of 8.16 that is 13 basis points improvement. And net NPA at 2.65, that is around 16 basis points improvement. And the provision coverage is almost same against 69.33, it is 70.81.

Based on second consecutive normal monsoon and improved trajectory of demand from mining, construction, infra sector, we are very confident that improvement in asset quality towards the end of this year. However, we will be moving into 90 days NPA recognition norms by the end of current year which will balance out some of the part of improvement. However, on the back of present economic tailwind and expected benefit from reforms, we believe asset quality will improve further in the subsequent years.

To conclude, we believe that underlying trends across macroeconomic landscape are largely positive. There will be greater clarity as monsoon progresses and with passing of 1 or 2 quarters post GST implementation. The sustainable trends will become more apparent then. That said, the combination of falling inflation, expected rebound in rural demand and stable liquidity should enable a slightly more accommodative environment for reduction in the

interest rates, leading to further lowering funding cost. We expect demand for M&HCV and LCV to pick up in the second half of this year. With government input us on rural infrastructure, highways, airport and increased rural demand and also due to good monsoon and good summer crop. All these factors make us reasonably confident of achieving our target of 12% to 15% AUM growth for the financial year.

With that, I come to end of my opening remarks. I also have with me Mr. Parag and Mr. Sanjay Mundra to answer any specific question. Now I request moderator to open up for Q&A.

- Moderator:** Sure. Thank you very much. We will now begin with the question-and-answer session. We have the first question from the line of Manish Ostwal from Nirmal Bang. Please go ahead.
- Manish Ostwal:** My question, one is the NPA side. In this quarter, we have gross NPA of around 8%. If we move to 90 days from the 120 days, what would be the gross NPA on a reported basis?
- Umesh Revankar:** Generally, the difference between the 120 days to maybe any 30 days is between 120 to 150 basis points. So we don't have the number right now, but that's the general trend.
- Manish Ostwal:** Okay. And secondly, do you expect the provisioning cost will increase with the reporting of NPA?
- Umesh Revankar:** There will be some increase.
- Manish Ostwal:** And overall, sir, the disbursement growth for the full year?
- Umesh Revankar:** Disbursement growth for the full year?
- Manish Ostwal:** Yes, sir.
- Umesh Revankar:** The AUM growth is 9%.
- Manish Ostwal:** No. How much amount we are disbursing this year?
- Umesh Revankar:** No. We have already given guidance of 12% to 15% AUM growth.
- Moderator:** The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.
- Karthik Chellappa:** Sir, my first question is, has there been any initial feedback that you've got from your customers on GST. It is generally believed that with all these state check posts, etc., removed fleet utilization should start to improve which should reflect in improved collections. Any

feedback or any early indicators on that front? And related to that, when do you think this improvement in cash flow at your customer level starts to reflect in your own asset quality?

Umesh Revankar:

See, as far as GST is concerned, it is too early to comment. But initially, there has been a slowdown because many people, especially in the informal segment, the sector is not fully equipped to get aligned into GST system. So there has been slowdown and because of that, the freight movement is slowed down significantly in certain pockets. But slowly things are easing out, people are getting to know how to get into GST platform and start doing the business. So slowly things are moving. As far as ours is concerned, our customers are basically used vehicle owner and they mostly operate in the agri-produce, so grains, agri-produce, vegetable and essentials and to some extent FMCG goods which are required by common man on day-to-day basis. So there has been some lag in big logistic operator. But for our customers, there has not been much problem due to GST as of now. So probably another 10-15 days there will be more clarity on what is the total impact on GST. And as far as the cash coming into our customer and NPA improving, our quality of asset improving. As of now, we feel that market is reasonably good. There has been good cash movement and that has reflected in some improvement in our NPA, that is 13 basis points improvement. And I feel if we are able to get over this GST issue and with good monsoon and good economic recovery infrastructure development, we should be able to see further progress in NPAs.

Karthik Chellappa:

Got it. Sir, my second question is on securitization. We have had a very good 30% plus growth in the income from securitization. And our off book AUM has also grown 20% plus. So how much of this is on account of we trying to manage our capital position? And how much is actually genuine demand for securitized assets?

Umesh Revankar:

I will ask Parag to answer this.

Parag Sharma:

This is genuine demand. Nothing has been pushed per se for capital adequacy purposes, per se. Now the banks are supposed to have priority sector fulfilled every quarter, the requirement of priority sector assets come every quarter, that is the reason why we are able to do on a quarterly basis more quantum. And capital adequacy overall is still very good. In fact securitization if we look at between March and now, the overall quantum is almost same and the outstanding is same. So that is not the reason for, I think, trying to save any capital there. That is only genuine demand which is coming up.

Karthik Chellappa:

And sir, last question, a housekeeping one. If I look at our OpEx, excluding employee expenses, I think that is down almost 5% year-on-year. Can you talk us through what are all the areas of expenses which you have actually cut? And how sustainable is that going forward?

Umesh Revankar:

Basically on salaries only, there are not much improvement in other cost cutting. So I think it is basically, many of the employees are fresh and when they are fresh, normally the variable

incentives and all are less. So therefore, the cost looks little lower compared to the previous year. Otherwise general whatever improvement we can bring in administrative cost, we keep bringing in. Wherever we need to use technology, we keep using in. So many of the areas we are becoming paperless, less usage of couriers. All those things are coming in, so this is all gradual and continuous.

Moderator: Thank you. Next question is from the line of Piyush Chhada from Ocean Dial. Please go ahead.

Piyush Chhada: Just wanted to ask whether there's any impact of GST on the secondhand craft market in terms of differential pricing with regards to new trucks? Is there anything like a GST tax on secondhand sale of trucks?

Umesh Revankar: No, secondhand vehicle do not have any GST because any sale of vehicles from individual to individual, there is no GST.

Piyush Chhada: So does that make secondhand vehicles a little more attractive as compared to new ones?

Umesh Revankar: Definitely. Secondhand is always attractive for a person who buys the vehicle for a short distance because the people buy new vehicles for a long distance haul where the breakdown of vehicle is something unpredictable. So in the long haul, people would like to have a new vehicle, which gives a comfort of no breakdowns in between. So first 2-3 years, we don't expect any vehicles to breakdown. So for all long haul people prefer a newer vehicle and for a short haul, people prefer used vehicle because it comes at attractive prices. The prices are as low as 40%-50% lesser than the new vehicle.

Piyush Chhada: Sure. Lastly, our credit cost is still 2.3%-2.65% range. When would we expect them to go back more closer to our 1.5%-1.7% range? Would that be next year or in the second half of this year?

Umesh Revankar: No. The credit cost, per se is around 2.9%. So we would be happy to bring it to around 2.5% level by the end of this year. Of course, we are moving to 90 days. Otherwise, we would not be able to bring it to around 2.5% what we feel. So going to 1.5% to 2% is right now not immediate. But it is definitely possible over the next 1 or 2 years.

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

Abigail Fernandes: I would just like to ask you, so what is the basic reason of your NIMs expanding quarter-on-quarter as well as year-on-year so they have expanded at least 54 basis points quarter-on-quarter. So is there any specific reason because the change of mix or something like that?

Umesh Revankar: See, one thing you will have to understand is the way we have been borrowing over the period. We always borrow for long-term. So as and when a long-term borrowing come to maturity, we replace it with the new borrowing. And we had a lot of long-term with 3 to 5 years borrowing which we are slowly replacing now. So the benefit to us, Shriram, always comes at a lag, maybe 6 months or 1 year compared to the competition because most of the market people, they have a large portion of CP with them that is commercial paper which we don't have. So some people get immediate benefit, some people get little later. But we are equally replacing it with long-term only. We are not replacing with short-term. So our CP book is very small. And another thing is when you compare with the previous quarter, there was income reversal which brought down the NIMs which is little lesser this time.

Abigail Fernandes: Okay. And also I would like to ask you whether how has GST impacted your collections in this quarter because on the ground post GST almost 25% of the trucks are seem to be idle. And also secondly, do you think that because of this, will there be any impact on your securitization pool performance?

Umesh Revankar: So both side we have to think. Because of GST, there is also increased automobile efficiency, improved efficiency for a truck. They are able to run more number of kilometers with less hurdles or less traffic. And that improves their operational efficiency. And their margins become better and that also results in idleness because the market is not fully ready for that kind of speed. So the inventory movement is also slowed down because many of the small informal sector factories are not fully equipped to be ready with GST login or GST registration. So there are some challenges between informal to formal, formal to the large industries. This bottleneck will go over the period, I feel it is already easing out. First 20 days, that issue was there but now it is slowly slowing down. And once people understand how to get over this, the inventory movement and the stock movement will happen much faster. Then, automatically things will become normal. And GST also would over the period benefit a lot of the companies who have been all these days procuring raw materials from the local market only because of interstate taxation and also would sell locally. Now people would get the raw material across the country and also would be able to sell across the country. That means each of the vehicle will be logging in much more higher number of kilometers than the past. So this benefit will accrue to them over the period. So temporarily, yes, because of the higher efficiency, there is some idleness but that will go. I feel maybe next 10-15 days things will start improving. And by the quarter end, everything should be normal.

Abigail Fernandes: Okay. And so you don't think that there will be any major impact on the performance of your pools, right?

Umesh Revankar: No, I don't think.

Moderator: Thank you. The next question is from the line of Megha Shah from Future Generali. Please go ahead.

Megha Shah: My first question would be pertaining to the disbursements. Can you tell us what were the disbursements for the quarter with the breakup of how much was for old and how much is for new vehicles?

Umesh Revankar: 961 for new and 9,857 for used.

Megha Shah: 9,857 for used. Thanks for that, sir. And my second question would be pertaining to your provision coverage issue. So as you move to 90 DPD. Are you going to bring it down to 60% from what it is currently 70%?

Umesh Revankar: Yes. We have given indication last time that it could be somewhere between 60% to 65%. So that's what the plan is. And then finally, the Board will take the call.

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

Harshit Toshniwal: Just one thing in the new CVs, you said 9.7 billion the disbursement figure?

Umesh Revankar: Yes, 961 crores. Correct.

Moderator: Thank you. The next question is from the line of Praful Tripuri from NR Capital. Please go ahead.

Praful Tripuri: Sir, we are a boutique investment bank and we are looking for funding for one of our clients who is interested in starting a passenger line for 500 buses. So it will be really helpful if you can provide me like e-mail ID or something for a respective person to contact for this purpose.

Umesh Revankar: I think we should not be discussing business in this call.

Moderator: Thank you. Next, we have a follow-up question from the line of Megha Shah from Future Generali. Please go ahead.

Megha Shah: One quick question here. Earlier, we were seeing a trend that your new vehicle disbursements were a lot higher and your AUM growth on the younger fleet side was more towards the younger vehicles, right? But now in this quarter, I am seeing there is a dip in your new vehicle disbursement and your old vehicle is again leading by 5% Y-o-Y and Q-o-Q. Whereas that was not the case, I think, in the last couple of quarters. So can you tell us what exactly is the reason?

Umesh Revankar: See, overall as I have told in the opening remarks that heavy vehicle sales have come down by 30% year-on-year.

Megha Shah: Okay, yes. You mentioned that, correct.

Umesh Revankar: So overall units sold have come down by nearly 10%. So that explains that new vehicle demand has been at lower in the last quarter. And I feel it will improve only in the second half of the year.

Moderator: Thank you very much. That was the last question. As there are no further questions, I now hand the conference over to Mr. Umesh Revankar for any closing comments

Umesh Revankar: Thank you for joining us in this call. As I was telling in the opening remarks, we are very confident that second half of the year should be very good for us especially with good monsoon and governments' spending on the infrastructure. And I believe that we should be able to do very well on disbursement and improvement in our asset quality. Second quarter, we will be cautious mainly because of the GST, the exact impact of the GST and impact on the collection is something little unknown. As of now, it looks little dull because of the less freight movement. But the last one week trend shows some improvement. And we have seen some improvement on our collection. So by quarter-end, things should become normal. If it becomes normal, then we should be able to repeat almost same numbers is what I feel. So with this, I wish you all the best and we will again catch up next time, next call. Thank you.

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