"Shriram Transport Finance Limited Q1 FY '20 Earnings Conference Call"

July 25, 2019

MANAGEMENT: **MR. UMESH REVANKAR - MANAGING DIRECTOR & CEO, SHRIRAM TRANSPORT FINANCE LIMITED**
MR. PARAG SHARMA - EXECUTIVE DIRECTOR & CFO, SHRIRAM TRANSPORT FINANCE LIMITED
MR. S. SUNDER - EXECUTIVE DIRECTOR OF ACCOUNTS & ADMINISTRATION, SHRIRAM TRANSPORT FINANCE LIMITED
MR. SANJAY MUNDRA - PRESIDENT, SHRIRAM TRANSPORT FINANCE LIMITED

Moderator: Good day, ladies and gentlemen, and a very warm welcome to the Shriram Transport Finance Limited Q1 FY '20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. 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'm now glad to hand the conference over to Mr. Umesh Revankar – Managing Director and CEO of Shriram Transport Finance Limited. Thank you, and over to you, sir.

Umesh Revankar: Thank you. Good evening to everyone in India and other Asian countries, good afternoon to people who have joined from the European countries and good morning to the investors who have joined from the U.S. I hope all of you have gone through the investor update that was already sent to you. I will provide a brief overview of macroeconomic scenario and development on the ground before I share the highlights of our performance.

India's GDP was reported at 5.8% for January to March quarter, significantly lower than 6.6% in the previous quarter, indicating a slowdown in the economy. This slowdown has been attributed to weak demand conditions in both domestic and external markets. However, the latest economic survey has projected GDP growth at 7% for the current fiscal, which is higher than the previous fiscal.

On the governance front, we witnessed a decisive mandate in favor of the incumbent government in May 2019. This was followed by Indian budget, wherein the new finance minister outlined the vision for growth and evolution into a 5 trillion economy. Importantly, fiscal prudence was maintained as the deficit was estimated 10 bps lower than the interim budget at 3.3%. The biggest positive is addressing of the issues plaguing financial sector. There was an INR 700 billion capital injection for the banking sector outlined and also a liquidity window for leading NBFCs. The budget has provided a one-time 6 months partial credit guarantee to PSU bank, for the first half up to 10%, for the purchase of highly rated pool assets of financially sound NBFCs, up to INR 1 trillion. Better rated NBFCs will have an advantage and they can bargain for better rates to increase the credit enhancement facilities.

In addition to these measures, RBI continued its expansionary stance as it announced another repo cut by 25 basis points in the latest monetary policy. It is the third time in a row and totaled 75 basis points. And banks have so far given around 15 to 20 basis point reduction of rate. That means that there is scope for the banks to reduce further by 50 to 60 basis points. This may happen over the next quarter or 2 quarter. Monsoons were delayed across the country this year, but the rainfall across the country in the recent days, in the last week or so point towards a revival. While sowing has been delayed due to a late onset of monsoon, but the acreage which was less 15 days back has been increased, added in the last 1 week. And that gives a hope that the monsoon should be normal. And apart from that, the government also has come out with some support to the farmers with PM-KISAN farm labor and rural workers' pension. We believe these measures should help the rural economy and there should be a better consistent consumption demand arising out of it.

Coming to the CV industry, overall commercial vehicle segment registered a decline of 9.53% in April to June as compared to the previous year. The M&HCV was the highest growth at 16.6% and LCV at 5%. We believe that it's basically due to the election process, a very long election process which dampened the demand and the cash transactions had come down significantly during this time.

Disbursal in used CVs for us has been very steady. Demand has been quite good, I should say. However, we have been a little more careful or more in the new vehicle lending. New vehicle demand also being low, and we also been additionally more careful because of bigger ticket size and lower yield. We have reduced our exposure on the new vehicle lending. But the used vehicle lending continues with however a lower LTV. We expect the demand to pick up in the second half of the year, mainly due to the construction and infrastructure activity, which has typically come to a halt during the monsoon. We should restart by the September end and October and the festival season, which starts from September first week, should boost the demand. Additionally, the transition from BS-IV to BS-VI will give some demand for BS-IV vehicle, because BS-VI vehicles are likely to be costly by 10% to 15% and the customers would prefer a prebuying of BS-IV vehicle to reduce the cost of acquisition of fleet.

On the liquidity front, we have successfully completed several issuance, despite prevailing environment after risk aversion. We have successfully diversified our liability base. We raised 48 billion through NCD public issue in the last financial year and assets bond up 400 million in February. USD 500 million in April, additionally, last week, we completed issuance of USD 250 million senior secured notes under $200 million Global Medium Term Note Programme.

Having said this, there has been a marginal rise in cost of borrowing. This is being absorbed as our pricing power in the used vehicle is better, and since we have very niche presence in this segment, we are able to pass it on to our customers.

Stronger growth demand in the rural should further help us in passing on of any further increase, in increasing borrowing cost. However, we don't really foresee any such event, mainly because we believe that banks would be able to pass on the lower cost through the NBFC, so that we can maintain our net interest margin. Our asset quality has been stable and the credit cost stabilizing. So, ALM profile is very comfortable, and ALM gap is positive in all buckets.

Coming to our headline numbers in this quarter, AUM grew by 5.77% year-on-year to 1,06,00,343 crores against 1,00,00,540 crores. Net interest income was higher by 7.62% to 1,961 crores against 1,822 crores. Net interest margin stood at 7.16% compared to 7.44% in the previous year same quarter. The PAT has increased by 10.71% year-on-year to 634 crores against 572 crores. The Stage 3 NPA stood at 8.52% in the first quarter against 9.06% corresponding last year. The overall credit cost, which was around 2.2% last year, has come down to 2% and we are confident of maintaining at 2% for the full year.

The number of branches stands at 1,585 numbers that is 40 numbers added in this quarter, and total employee count stands at 27,174, which is another 500 number added in this quarter. We are quite happy with the performance, despite economic slowdown, and I'm confident we'll continue to deliver consistent profitability and responsible growth even in the future.

That brings an end to my opening remarks. I have with me Mr. Sunder, Mr. Parag and Sanjay to answer specific questions. I would now request moderator to open the floor for the question and answer.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Utsav Gogirwar from Investec Capital. Please go ahead.

Utsav Gogirwar: Just a few questions from my side. So, if you look at the demand right now. The CV sales are declining, but we continue to expand our branches and continue to add employees. What is the thought process behind that? Just because we expect second half to be stronger or is it like a more longer-term strategic plan we have?

Umesh Revankar: Both are right. We believe, one thing is these branches are nothing but our existing rural centers. We are not getting into new geographies, rather focusing on where we have already gone into and where we have been able to expand our business, there we are converting our existing rural center into branches. So, there is no additional cost involved in opening of branches for us. And also once we have a business and business is growing in a particular geography, we need to put people so that the collection becomes smooth. So, we cannot allow the collection to deteriorate. That's one of the reasons we need to add people, because our business model it totally depends upon our relationship with customers. And therefore, any improvement in the business, we need to keep adding more number of people. So, this opening of branches are just conversion of rural center. It is not adding to any cost.

Utsav Gogirwar: For the year and for the total, for the company as well as under new CV and the used CV business. Because in this quarter, new CV book has declined. So, just wanted to understand how the segmental growth will be in your view?

Umesh Revankar: Yes. See, for us new CV is not a priority. Whatever lending we do to new CV is basically our existing customer upgrading himself. So, we don't have any direct relationship with our manufacturer or to dealer to do the new vehicle lending. So, if our existing customers are not opting for buying new vehicle, then automatically, our new vehicle lending comes down to that extent. And also, we don't relax on our LTV or lending rate to accommodate the other customers who our dealer may be referring. Therefore our new vehicle lending program is totally dependent on the customer's business opportunity and its growth. And as far as used vehicle is concerned, we keep exploring new markets, especially through rural centers. We keep opening rural centers and wherever we have scope to increase it to large numbers, there we convert that into branches.

Moderator: Thank you. The next question is from the line of Subrat Dwivedi from SBI Life. Please go ahead.

Subrat Dwivedi: So, I have 3 questions. One is on the provisioning coverage. So, any reason why that has fallen slightly?

S. Sunder: Last year, we had made an add-on provision on account of the Tamil Nadu floods and the Kerala floods. Now, after 1 year, we feel that it is no longer required. And the same has been reversed.

Subrat Dwivedi: Okay. So, we can expect these kinds of levels, this year levels to continue for the year?

Umesh Revankar: Yes, correct.

Subrat Dwivedi: Okay. And my second question is on the liability mix. So, in Q1FY '20, the term loan shares seems to have gone down significantly as compared to last year, whereas the proportion of bond, more or less remains the same. This is a bit surprising because your bond market raising would have been almost good, I mean quite muted, whereas banks would have given loans. So, what is the reason?

Parag Sharma: As mentioned in our opening comments, we did the dollar bond placement, which was for $500 million, a significant quantum raised. So, that is the reason why the bond has remained constant. We also did large securitization and securitization of priority sectors assets do come at a lower cost to us. And that is the reason why bank borrowing has not been done and that has come down. But this bond placement, which was overseas fundraising and securitization, this took care of our requirements for the quarter.

Subrat Dwivedi: So, the dollar bond is classified under bonds only, not in borrowings in foreign currency?

Parag Sharma: Okay. So, that foreign currency bonds are appearing separately in the classification.

Subrat Dwivedi: Right, sir. So, my question is, that is already getting captured in that 9.99%. Despite that the proportion of bonds has not changed materially. So, that is…?

Parag Sharma: No, because normally what we borrow will be 3 years bond. It will not come down.

Subrat Dwivedi: Okay. So, then last one year, how much bonds, INR bonds would have been issued, fresParag Sharma**:** I do not have the numbers offhand, but it will be, whatever was there as of March I think that has been maintained.

Subrat Dwivedi: Okay. And what is the hedged cost of the foreign currency, $500 million that you raised average?

Parag Sharma: Depends up on the swap cost and all, we do this swap transactions with various banks. So, it will not be a fixed number when it comes to doing partial transactions with several banks. But overall, it comes to around 10%. This will be the landed cost to us.

Moderator: Thank you. The next question is from the line of Pranav Kulkarni from Edelweiss. Please go ahead.

Pranav Kulkarni: Two questions I had. One is that on Slide #4, off books that is direct assignment portfolio has reduced by 10% in this quarter and the securitized assets have increased by 15%. I wanted to know the reason for that? And secondly, what percentage of your workforce would be in collections? Thank you.

S. Sunder: The decrease in the off-books portfolio is mainly on account of repayments and there has been no fresh addition in the current quarter. And the increase in securitized assets is primarily on account of fresh additions during the quarter.

Umesh Revankar: You see, new additions will be mostly into field force only. We don't add much into the back office.

Pranav Kulkarni: Sir, just want to know what percentage of that is in collections, of your total employees of 27,000?

Umesh Revankar: No, see the entire 16,700 people who are in the field, they do both lending and collections. We don't have separate team for collection.

Pranav Kulkarni: Okay. And sir, with respect to my first question. So, you're saying you have not done any new direct assignment from banks, is it? And you have not done any new direct assignments in this quarter?

S. Sunder: Yes, we have not done. We have not done in the current quarter.

Pranav Kulkarni: Okay. Sir, any particular reason? Because I thought the direct assignments would have been higher. Just a basic question, sorry.

Parag Sharma: The only addition we have done, direct assignment demand normally comes from public sector banks which we have not done, not any new transaction with public sector bank in this quarter.

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

Saurabh Kumar: Sir, three questions from my side. First, on the LTV, how much would it have reduced in the new and the used CV? And what are those levels currently?

Umesh Revankar: See, LTV we reduced in October, and that has remained till now. The 5% each LTV we reduced in new and used both. And in some products, it was reduced by 10%. So, that is continuing. We have not changed our LTV norms. We felt that till we get a good news on good monsoon, we should not change it.

Saurabh Kumar: Okay. And sir, what will be these levels in the new CV and used CV?

Umesh Revankar: New it will be 80%; and used it will be 65%.

Saurabh Kumar: Okay. So, 70% would have come to 65%. And then in new 85% would have come down to 80%?

Umesh Revankar: Yes. In new actually what happens is, in many of the vehicles, there will be additional expenses on building body and all. So, on average, it is 80%. If we include the body building expenses and all, it will be at 70%.

Saurabh Kumar: Okay. And sir, on this working capital loans in your AUM, that's like growing at 62%. It obviously has a low base. But this looks like a slightly unsecured loan towards so to speak, I know it's to your existing customers, but what kind of checks and balances you are keeping there to make sure that the underwriting here is decent?

Umesh Revankar: See, Q-on-Q there is not much of growth. It is year-on-year only there is growth. What happened is in the second half of last year, we started with fuel credit. We have tied up with HPCL and now with BPCL both, and this fuel credit has been the new product. So, we have been adding new product in the working capital. And basically, it is a small increase in the exposure with the existing customers. So, actually, it is nothing but secured only. Because instead of giving a separate line, instead of giving credit on the same account, we are giving additional credit as working capital. So, maybe an additional 5%, he can use it as fuel credit. Similarly, we do fund the insurance requirement. If he's buying insurance, either for life or general both we do the funding to him, working capital constitutes only these tyre, fuel and insurance and all are a little added on to the existing loan. So, we are not calling it as a top-up loan on the same asset we are classifying it as a working capital. So, it is unsecured, but definitely it is covered by the existing asset.

Saurabh Kumar: And the cap is 5% of the...?

Umesh Revankar: Yes, tentatively 5% to 10%. It depends upon the number of products the customer is using.

Saurabh Kumar: Okay. And sir, lastly, on your Stage 3 provision, your Stage 1 and Stage-2. So, your Stage 3 provisions have come off from, let's say, 34% to 32%, and your Stage 1 and 2 has gone up from 2.75% to 2.9%. So, ideally one would have assumed with lower resale values your Stage 3 covers should have gone up, but they seem to be coming off. Why should that happen? And the Stage 1 and 2 are they just higher Stage-2 assets which are basically impacting it or...?

S. Sunder: Oh, that is primarily because of the coverage which we had released on account of the provisions, on account of the Tamil Nadu and Kerala floods, which we had made last year.

Saurabh Kumar: Okay. So, from here on, you expect this 32% odd just to sustain then?

S. Sunder: Yes, correct.

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

Abhijit Tibrewal: Just two very quick questions. How do we plan to maintain our NIMs given that our cost of borrowings has gone up? And also, we have said that we plan to maintain about 6,500 odd crores, about 2 months of the investments on our balance sheet for the rest of the financial year. So, I mean, how do we plan to maintain our NIMs?

Umesh Revankar: NIMs has come back to last year. But if you see quarter-on-quarter, it is almost nearby, only 6 basis points less. And keeping cash on the balance sheet is something which the Board wanted us to be because of the liquidity situation, wanted to maintain a higher cash on the balance sheet. So, we would be maintaining 2 months disbursal as the additional cash on the balance sheet. And increase in borrowing costs, we feel that it will come off, because the banks had to act on the repo rate reduction. So, we believe there is a scope for banks to reduce around 50-60 basis points over the next 2 quarters. That should help us and we believe that there is some scope for us if there is a bank reduces the lending cost to improve our net interest margin. But that depends upon the banks acting on the repo rate cut.

Abhijit Tibrewal: Okay, sir. And sir the other question that I had is, if you can give some qualitative comments on I mean if I look at this split of our AUM between rural and urban, the urban AUM has kind of broadly remained the same about 3% kind of a year-over-year growth, while rural continues to see very good growth. Some qualitative color in terms of rural and urban?

Umesh Revankar: But basically, we have been expanding our focus on rural. Therefore, there is more increase you see in the rural. And also, there were some...

S. Sunder: See, certain rural branches which are attached to urban centers, because of the conversion of those rural centers as independent full-fledged branches, those portfolio has been reclassified under rural instead of the urban. That was one of the reasons for the shift in that.

Moderator: Thank you. The next question is from the line of Gaurav Singhal from DK Partners. Please go ahead.

Gaurav Singhal: I have a question on the CV cycle. It seems that the new CV cycle is in a downturn for a while. Can you just help us understand how the dynamics of the used CV cycle, out of which you are exposed, generally differs versus the new CV cycle? And maybe if you can tie that in terms of like the slippages that you are seeing historically? When did that peak and what has been the trend recently in terms of new slippages? Thank you.

Umesh Revankar: Generally, the used vehicle transactions, buying-selling continues to happen in spite of the new vehicle sales coming down. It does not have a big bearing, but what happens is if there is a good demand for new vehicles then typically people sell their existing vehicle a little earlier than the normal time. That is if you are waiting for 4 years to sell your existing vehicle, if there is a good time, if the economy is good and if there is a good demand for new vehicle, people try to sell their existing vehicle at the end of 3 years rather than 4 years. And if the economy is slowing down and they don't want to buy a new vehicle, they may keep the vehicle for 5 years. So, like that it may change, depending upon the economic activities. But the used vehicle transaction, by and large, keeps happening in the overall economy, rural or urban. And the demand for used vehicle is a little more in the rural market than in the urban because typically, vehicle moves from urban and semi urban market to rural over the period. As the vehicle becomes older, which runs lesser kilometer, it goes into semi-urban and rural market. So, typically the vehicle do shorter distance travelling, the used vehicle, and the new vehicle normally cover the longer distance. That's how the overall market plays. And the way we look at is, since we are able to create more reach in used vehicles, we are still able to grow in used vehicles, even though transactions would have come down or slowed down a little, still we are able to get the market share. And even otherwise, overall market, if you look at our market share, is between 25% to 30% only in the used vehicles. Still, there is enough scope to increase your volume by going into deeper pockets, which we still are getting into. So, we believe there is still a good opportunity to grow in used. But as far as new, it is totally depending on the economic activity, plus the infrastructure building activity. If the infrastructure and mining, which normally requires new vehicle and large-ton vehicle, if these activities go on very aggressively, then the new vehicle demand goes up.

Gaurav Singhal: All right. Sir, just a couple of more questions. When I look at Slide 6 of your presentation, on a year-on-year basis, your branches have increased almost 29%, but your AUM has increased about 6%. Sir, I just have 2 questions from this. One is, like, typically, what's your strategy in terms of how much growth do you want in terms of opening new branches? And how should we think about your growth? Like is it more in terms of geography where you are underpenetrated in certain regions and you want to open more branches there or is there some other way of looking at it? That's one. And second is, how should I think about this 29% growth in your branches, but only 6% growth in your AUM?

Umesh Revankar: Yes. The increase in branches are for 2 reasons. One, in the rural market, where we have opened rural centers 3 years back, if they have reached a particular level of size, then we have to convert that into branch for a closer supervision and it helps in the collection. So, these conversions from the rural center into branches become necessary once they reach particular scale. And second, what we have done is in some urban centers, we have converted these urban centers where we have large branch into satellite branch. Of course, the satellite branch has nothing, but full-fledged branch only. So, unwieldy large branches, we have further split into number of small branches. So, number of branches have gone up, but number of managers who are looking into it, they're already in existing, already in the system. So, we have not really added people at manager level. So, it is only splitting of existing branches into nearby location so that it can be managed much better. So, the number of branches added need not be directly proportional to the AUM growth. It is the ability to supervise and manage that becomes more important for us.

Gaurav Singhal: All right. Sir, just one last question for me. Just a basic question, so apologies for this one. If I look at the breakdown of your Schedule 21 on your annual report, which breaks down your provision and write-off in your P&L, so you have one listed for FY '18, your one component of the P&L provision and write-off, which is a bad debt written off. Also for example, in FY '18, your provision and write-off in P&L was 31.22 crores, of which 14 crores...?

S. Sunder: Can we take this question offline?

Gaurav Singhal: Sure. That's okay.

Moderator: Thank you. The next question is from the line of Darshan Shah from White Equity. Please go ahead.

Darshan Shah: I have three questions. First, can you please share the structure of partnership that we have with private financiers?

Umesh Revankar: This is a very old program, we have been running for last 10 years. We identified a few of the local financiers who have been doing well and where we do not have a reach. And also there are asset classes which we are not funding directly, especially 3-wheelers and taxis. So, these are the customers or financiers who are having a good track record, whom we are lending. And as per our credit program they had lend onwards and they take the responsibility of the collection. So, there is a revenue-sharing arrangement with these people. And now the total size is just below 2% of the total AUM.

Darshan Shah: Okay. And, sir next question is on, can you please share the proportion of Stage-2 assets, the total exposure that you have shared of Stage 1 & 2 as of June '19? Basically I want to know the amount of Stage-2 assets as of June '19.

S. Sunder: Yes. Stage-2 assets as on June '19 is 23,560 crores. And the Stage 1 is 72,328 crores.

Darshan Shah: Okay. And last question is, what is the incremental yield on advances during the quarter and incremental cost of funds?**S. Sunder:** 9.5%.

Darshan Shah: And yield on advance, incremental?

Umesh Revankar: Its yield is around 16%.

Darshan Shah: Okay. And continuing with the Stage-2 questions. Stage-2 assets have seen significant increase as compared to March '19 numbers. Can you just share some light on that?

Umesh Revankar: See, basically, last quarter because of the election in India, there were some challenges in cash-oriented or cash-related businesses because cash carrying was banned by the Election Commission. Therefore, the collection was a little slower during the election period. But it has picked up inJune. But there were still some postponement, which in this quarter, we should be able to set right, collect and set right.

Darshan Shah: Okay. And can you please share the same number last quarter June '18, stage 2 assets?

S. Sunder: Stage-2 assets, I don't have it right now. You can touch base with Sanjay Mundra and take it.

Moderator: Thank you. The next question is from the line of Hemant Sultania from Crisil. Please go ahead.

Hemant Sultania: Two questions from my side. Firstly, sir, with respect to the disbursements, what will be the number for the quarter?

S. Mundra: The new vehicle is 891 crores, used vehicle is 11,260 crores. And others loan and business are 145 crores, making it total 12,296 crores.

Hemant Sultania: And, sir, second question. Sir, with respect to passenger vehicles, what we have been seeing over the quarters is that there are proportion of PVs and overall AUM has been coming down. Any specific reason for the same?

Umesh Revankar: See, the demand for LCVs, light commercial vehicles, have been relatively robust. But passenger vehicle has, as a proportion, it may look less because others have grown faster, but the demand is reasonably good. But the urban demand is slowing down, urban demand for transportation, because we normally finance only the taxis and passenger transportation vehicle. In urban, the demand is a little lower. But in the rural area, demand has been quite good.

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

Utsav Gogirwar: Can you just tell me how much bank borrowings and NCD borrowings for the quarter?

Parag Sharma: Securitization is the largest resource what we have tapped, which is 5,700 crores. And as we mentioned that we did dollar bond which was close to around 3,400 odd crores and the bank borrowings were not very significant, it was not very significant amount.

Utsav Gogirwar: And NCDs, that too negligible?

Parag Sharma: That also was not very significant.

Utsav Gogirwar: Okay. And you mentioned that the incremental cost of fund is 9.5%. And the landed cost for foreign borrowings is around 10%. So, securitization is the balancing? Is that correct way to look at it?

Umesh Revankar: Yes, securitization comes because of the priority sector assets, it comes at a lower cost to us.

Utsav Gogirwar: Okay. And how much that could be?

Umesh Revankar: It varies from anywhere from 8.5% to 9.5%.

Moderator: Thank you. Next question is from the line of Madhuchanda Dey from M.C. Research. Please go ahead.

Madhuchanda Dey: My question is very simple. Last time, you had given aguidance on the overall AUM growth. Given that we have started the year with a 5.8% and you're talking about a revival in the second half. Would you stick to similar numbers or you are revising it a bit?

Umesh Revankar: Yes. See, overall AUM growth for the year, as it is planned now, the way things are moving, we expect it to be between 14% to 16%.

Madhuchanda Dey: Okay. You're expecting FY '20 to be 14% to 16%. And what are the kind of lead indicators that you are looking at for this to happen? And why this might not happen?

Umesh Revankar: There are 2 lead indicators which we expect is reasonably good monsoon, normal monsoon. And the second one is the BS-IV demand because the BS-VI vehicles are likely to be costlier, and we expect there'll be pre buying demand for the BS-IV vehicle. That will create more transactions on new vehicle and used vehicle, both. And there also will be some re-rating of used vehicle because of the new vehicle price being higher. So, these are the factors we are looking into. And if at all, the monsoon is weak, turn out to be weak, and because of monsoon being weak, economy being slow and people do not respond to pre-buying the BS-IV vehicle, then the growth rate could be lower.

Madhuchanda Dey: Okay. Sir, second related question, which you partially answered, is like there is already a bit of a sluggishness, in fact, significant sluggishness in the new vehicle market. In light of this, do you think that the expected pickup of BS-IV will actually happen because of the transition to BS-VI?

Umesh Revankar: I still feel it will happen because many of the customers whom we know, they says that if at all, vehicle cost is going up by 10% to 15%, it is better to buy 6 months earlier -- 6 months to 10 months earlier rather than buying a costly vehicle after March -- after April 1. So, that is what most of the customers have been indicating. But it all depends upon the sentiments because if there is a lot of dampening event, which forces people to postpone their decision, then people may postpone their decision. So, that also can happen. So, we have to wait and see. Generally, if we go by the way the Indian seasons work, the post monsoon and the festive period is the time when people start buying new things or new vehicles or even consumption going up. So, we have to really wait and see September to November time. These are 3 most crucial months where most of the consumption pattern of India gets decided. And that demand and that enthusiasm will last for more than 7, 8 months subsequently. So, we have to just wait and see till this quarter end to see the momentum.

Madhuchanda Dey: Okay. And one last question. You obviously would have seen a loss of momentum in the market, in general. So, if you can highlight between rural and urban, where has the loss been more pronounced in recent times in the last couple of months?

Umesh Revankar: See, by and large, if you look at rural, rural is now reasonably active and the demand from the rural area unlike in the past is spread across the country. So, except for a few locations of the Central India where there was drought last year, the demand from the rural market has been reasonably steady. And as far as the urban market is concerned, Urban market is largely dependent on the overall economic activity or the way the export activity or the industrial activity is growing and that is subdued for last 1 year. So, I see a lesser demand from the urban market as of now.

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

Nishant Shah: A question based on one of the replies that you gave earlier. You mentioned that some of the AUM has been reclassified based on some branches. Some asset centers being now corporate branches. So, the proportionate rural AUM, the AUM has been moved from urban to rural. So, could you just qualitatively comment on what kind of rural and urban demand are you seeing?

And probably if you can just quantify the growth, excluding this kind of reclassification impact in both the geographies?

Umesh Revankar: For us, the rural demand has been higher than the urban demand mainly because we are creating a more reach. So, the additional reach is getting us additional growth. So, whatever growth we are getting in the rural, because in urban, we have already grown. There is no further scope to grow. In the rural, we are adding more numbers. So, automatically, the fresh businesses will be mostly from the rural market.

Nishant Shah: Okay. And one more similar question. So, when you say you've converted your asset center into a branch, what does that entail? Like do you necessarily move to a bigger location, like hire more employees? How do the cost move up? Like could you just throw some light on that?

Umesh Revankar: See, rural center converting into branches. It's typically if you have 500 customers in that particular location, we convert that into branches. So, that is the thumb rule for converting into branches. So, as we have 500 customers, we would have already added around 4 people there working in that location. Only thing is, we will be having a manager there because the manager in the branch, who is responsible for handling the rural center, especially credit decision, that will be split into the new branch. So, the new branch manager would come. So, typically, one among the 4 who has done the best performance would become the branch manager, senior most. And may be the additional cost would be of branch premises because the rural center would have run from a small center. They would be paying around 5,000 to 6,000 rent. That will go up to around 20,000 to 25,000 rent. Other than that, there will be initial furnishing cost of around Rs. 5 lakh. Beyond that, there is no additional cost.

Moderator: Thank you. The next question is from the line of Anusha Badhwar from IDBI Federal Life. Please go ahead.

Anusha Badhwar: Sir, we wanted to ask if there is a scenario of slowing economic growth, will there be any impact on asset quality or will that be maintained at around 8.5% to 9%?

Umesh Revankar: We are quite confident of maintaining at this level because as of now, if you look at the first quarter, there was a little slowdown because of election process. And we have managed it quite well at 8.5%. And we should be able to maintain at 8.5%, and if economy improves, it can further improve.

Anusha Badhwar: Okay. And you have recently diversified your borrowings in terms of ECB and now you're also passing the retail entities. But going forward, is there any kind of borrowing mix that you have in mind? Like what percentage you'll be taking from bonds, long-term loans and from other avenues?

Umesh Revankar: See, there will be some increase in the retail. We are definitely looking at increasing the retail and probably some increase in the ECB and securitization. So, the bank and institution, which was around 70% earlier together, that will come down and probably bank and institution and others will become 50-50.

Anusha Badhwar: Okay. And lastly, sir, I've been like following your other conference call transcripts. Sir, there was some news of this merger that's going to happen. So, is there any update on that? Or that's still under process?

Umesh Revankar: Yes, there is no further update. They are just still at the discussion stage.

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

Aditya Jain: Sir, why has the increase in cost been low? And is there an outlook for the full year?

S. Sunder: It is in line with the growth per se, and it will continue to be in the same percentage growth going forward also.

Aditya Jain: You're saying 3% type growth for the full year?

S. Sunder: Even around 6% to 7% will be the growth for the full year.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Umesh Revankar for closing comments.

Umesh Revankar: Thank you. As I said in the opening remarks, we are quite satisfied with the way things panned out in the first quarter. Mainly due to a very long election process this time we had a little apprehension. But June month has been quite good for us, both in collection and disbursement. And this gives us confidence that this quarter will be relatively better. And good monsoon should definitely give us a very good indicator of the growth. And we strongly believe that festive demand will create further increase in demand and improved asset quality. So, next time, probably when we meet, we should be able to talk about improved numbers and better asset quality. And of course, it depends on good monsoon and the festive demand. But I'm quite confident and optimistic that things will become much better. Thank you very much.

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