"Shriram Transport Finance Company Limited Q1 FY'2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Shriram Transport Finance Company Limited Q1 FY'2021 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note this conference is being recorded. I now hand the Mr. Umesh Revankar – Managing Director and CEO, Shriram Transport Finance. Thank you. And over to you, sir.

Umesh Revankar: Thank you. Good morning, friends, and good evening to those joining from western part of the world. A warm welcome to all of you who have joined this call. I hope all of you are keeping good health and safe in confines of your homes.

Joining with me today on this call are Parag Sharma -- CFO; Sunder -- Executive Director; Sanjay Mundra -- our IR Head.

I will take a few minutes to speak and then let us go for Q&A. We witnessed total lockdown in the beginning of April, which started from March 24th. We opened our office towards the end of April and the government allowed NBFCs, e-commerce delivery to start functioning even though in a limited way. The farm activities, construction activities in the rural area, goods carrier vehicles, highway shops, manufacturing in rural area and special economic zones, all were opened over the period and subsequently, the taxi cab aggregators were allowed to operate in the orange zone. The government unveiled phased reopening from June onwards. These included restrictions being lifted on inter-state and intra-state movement of goods and persons. Further, in July, most of the activities were allowed in non-containment zones, except entertainment, recreation, gathering and educational institutions.

The government unveiled a series of growth measures to kick start the economy. The government announced production-linked incentives for various industries to increase their domestic production. The coal sector was thrown open to privatization. In mining, it was announced that blocks would be auctioned and stamp duty payable on mining lease allocation would be rationalized. FDI in defense, manufacturing was raised from 49% to 74%. Indigenization of imported spares was promoted by way of a proposal to notify certain weapons for import ban. This is expected to lead to an upward correction in the medium-term in the index of industrial production, i.e. mining and manufacturing index, which contracted by 57%, 33%, 16% in April, May and June on year-on-year basis.

The RBI also announced various measures. It undertook conventional and unconventional measures to ensure liquidity to the extent of 4.7% of Indian GDP. Its efforts to transmission of monetary policy to bank lending rates led to lower borrowing cost and in turn a record issuance of corporate bonds amounting to Rs.2.1 lakh crores in Q1 FY'2021. The RBI announced various relief measures for MSME, including new restructuring guidelines for retaining standard classification of banks and NBFCs loans to such eligible MSME within the regulatory framework.

The government and RBI started a special purpose vehicle under SBI Capital Market to purchase short-term papers of eligible NBFCs solely for the purpose of extinguishing their short-term liabilities. The government also increased its focus on rural economy by the way of upward revision of minimum support price, increased budgetary allocation to Mahatma Gandhi National Rural Employment Guarantee Scheme, which is popularly known as MGNREGA, to Rs.1 lakh crore. And also introduced NABARD refinanced additional emergency working capital for farmers.

The cumulative monsoon rainfall till July 31st was near normal, leading to total area sown as on July 31st, 2020 under kharif crop being 5.9% higher than last five years average. The rural economy is doing relatively well on account of measures as stated above.

India's infrastructure investment target for the next five years has got bigger with the task force on national infrastructure pipeline increasing the figure to Rs.111 trillion from its initial projection of Rs.102 trillion. We expect some additional push on infra spending in the second half of the financial year resulting in higher economic activities.

I now come to "Auto Industry." The commercial vehicles sales fell by 84.8% to around 31,636 units in Q1FY21 on a year on year basis. Within the commercial vehicles industry, the pre-owned commercial vehicles segment is doing relatively better due to lower ticket size and increased usage in the rural area. The LCV segment is expected to do better than HCV due to steady rural demand and rise in E-Commerce deliveries. The overall commercial vehicles industry is expected to contract by 25% to 28% as per the ICRA estimation.

The new tractor sales have gone up in the month of June and July reflecting higher agri-based activities.

The Earthmoving and Construction Equipment new sales are currently down by around 64%. But we find steady demand for used one as the local government especially municipalities and city corporations, and rural infrastructure work continue to be there in most of the states.

We expect improved demand post rains as large infra spend kick starts. However, all the above mentioned measures announced by government and RBI are acting as enablers for Shriram Transport Finance performance in the coming quarters.

In terms of "Operations", all our branches were fully functional in Q1 FY'21 subject to a few local administration restrictions. We focus more on reaching out to customer eithers by phone or physically meeting in predetermined places like petrol pumps, grocery shops, etc., The disbursement for the quarter was Rs.985 crores mainly in the second half of June. And disbursement for the month of April and May was totally impacted because of lockdown and RTO offices remained closed. All our lending activity involves RTO being present because transfer of ownership needs to take place, and in the absence of that, we cannot do the lending.

Now I discuss "Key Performance Numbers for this Quarter." The AUM was Rs.1,11,756 crores in Q1'21 as compared to Rs.1,06,343 crores in Q1'20. The net interest income was Rs.1,820 crores in Q1'21 as compared to Rs.1,947 crores in Q1'20 due to low disbursements in the month of April, May and first half of June. Profit after tax stood at Rs.320.06 crores in Q1'21 as compared to Rs.636.25 crores in Q1'20 due to additional provision of Rs.956.15 crores related to COVID-19. The EPS was Rs.14.11 as compared to Rs.27.96 in Q1'20.

In terms of collection for the month of July, number of customers paid either full or part of EMI were 73% against 71% in June and May and April were 52% and 23% respectively.

I am pleased to announce that we successfully concluded our Rs.1,500 crores rights issue which was opened on 16th July and closed on 30th July. The same was oversubscribed by 1.65x and the allotment was done on 6th August 2020. The promoter stake increased to 26.48% from 26.25%. The liability buffers as on August 12 stands at Rs.9,686 crores against Rs.5,724 crores as on May 31, 2020 last reported.

That concludes my opening remarks. Now, I request moderator to open the floor for question-and-answer.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have a first question from the line of Kashyap Jhaveri from Emkay Investment Advisors. Please go ahead.

Kashyap Jhaveri: My first question is on this payment numbers that you have given in the COVID update. So, when you say 73% of the customers have paid in July 2020, just wanted to check, how does it reflect in collection efficiency ratio, for example, if you have raised the demand of let's say Rs.100 from your customers in July, what kind of collection could you do in the month of July, if you could give that number cumulative for April to July also?

Umesh Revankar: See, you are talking about raising demand. Since there is a moratorium, there is no demand as such in July, the demand will be lower. We have offered moratorium to most of our eligible customers and...

Kashyap Jhaveri: Under 2.0 also?

Umesh Revankar: Yes. So there is no demand. But what we have told customers since they would be paying additional interest for the moratorium period, we requested them that if they are earning they can pay. So people have started paying. So, our collection effort is with moratorium or without moratorium both.

Kashyap Jhaveri: This 73% payment which you were mentioning, would also be only interest payment if they could do it?

Umesh Revankar: No, it is the EMI payment only, but they include the customers who are under moratorium or who are not under moratorium both.

Kashyap Jhaveri: Last quarter, there was this INR depreciation on your ECB which probably impacted the margins, but again, this quarter, the margins have come down by another about 30 basis points. So what is the reason for that?

Umesh Revankar: Because we are carrying little higher cash than the normal, that is the main reason. And other reasons could be higher provisioning.

Kashyap Jhaveri: How would it impact margins actually?

Management: See, we were tapping the overseas borrowing for the past couple of years and the major borrowing happened in the first quarter of 2019-20. Till December 2019 quarter, we had gains in the foreign exchange transactions and then in the last quarter of March 2020, there was a reversal of the gain to start with and hence there was an artificial increase in the interest cost, and there was shrinkage of net interest income. Then in the current quarter, what we observed was that the forward premiums had shrunk substantially and then was resulting in a huge impact to the P&L and hence we decided that since it is more of a notional hit that we need to take on the P&L, the company decided that we will start following the hedge accounting and accordingly, the Rs.254 crores has been pushed out of the P&L and then brought under OCI component. Going forward, we expect that the fluctuation on account of derivative accounting will not impact the NII.

Kashyap Jhaveri: I will probably take this offline. One last question is that working capital loans again in this quarter have gone up another 10% QoQ. There is no insurance premium because there is no sale, probably businesses are not there. So, why there is this increase again in the working capital loans -- are we making sure that people are not using this money to probably pay back that 73% payment that we are seeing?

Umesh Revankar: See, this payment goes to insurance company directly. The insurance is for renewal also. It is not only for fresh business. So the vehicle which has insurance, every year it gets renewed and we do give insurance loan to customers. Not only that, our fuel credit last year in the first quarter we had a tie-up only with HPCL. Subsequently, we have tied up with BPCL and IOC both. So more customers are availing fuel credit now. So the insurance premium what has been financed, that is almost same as last year because all these last year's loans will come for a renewal. And all the payments are going directly to either fuel company, tire company and to the insurance company and nothing goes to the customer.

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

Sanket Chheda: Our disbursement in this quarter was down 92%. Now we have stated in the presentation that collections for the month of May and June were about 52% and 71% concurrently. So my question is if we add the disbursement to last quarter's AUM, still the reported AUM is slightly higher. So just wanted to know the quantum of maybe interest accrued that has got added to the advances? And also why the repayments look very low like if collection efficiency in April was 23%, in May 52% and in June it was 71%, at least for the full quarter, the repayment should have been at least 50%. So proportion of maybe partial EMIs looks much higher. So any sense on that?

Umesh Revankar: Partial payments are much higher because most of them are under moratorium.

Sanket Chheda: The quantum of addition maybe due to accrued interest to the AUM?

Management: See, in a quarter there is an accrued interest of around Rs.4,000-odd crores and as against that if you see in the June quarter, we had a total collection of Rs.3,600 crores which maybe if you consider the pre-COVID demand, it works out to around say 33% collection for the quarter. But in terms of the number of customers being able to pay, whether it is a part payment or full payment, it was as high as 73% in July. And coming to your question, "Why the collection is low?" That is primarily because even though the number of customers paying is 73%, the quantum was 33% as of the June quarter and the interest accrued for the quarter was more than the collection. Technically, that is the reason why the AUM has gone up and also there was a disbursement of Rs.985 crores which contributed to an increase in the AUM. Coming to the July scenario, we had stated that 73% of the customers have paid; however, if you see the absolute amount pre-COVID demand, we should be around 53% of the collection which translates to around say Rs.2,300 crores, Rs.2,500 crores of actual collection coming in which is higher than the interest accrual for the month. So this Q2, I would say that the collections will be much more than the interest definitely and some component of principal also will be collected.

Sanket Chheda: Any further update on merger?

Umesh Revankar: There is no discussion on merger as of now. It is under pause.

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

Piran Engineer: Just a couple of questions. Firstly, in the last four months, how has driver cum owner profitability moved given the low capacity utilization and rising diesel prices?

Umesh Revankar: See, the utilization level of owner-operator has been much higher especially in the month of May, June, July other than April, because all the essential goods movement has been done through owner-operator only. Because of lack of driver availability, most of the large fleet operators have not been functioning. So the utilization level of owner-operator has substantially gone up and I do not really see much challenge for their profitability.

Piran Engineer: But what about rising diesel prices impacting their inherent profitability?

Umesh Revankar: Freight prices on an average has gone up by 15% to 20%. All the FMCG manufacturers have increased the freight rate plus on all the essentials what we call your vegetable and perishable goods the freight rate has gone up by 30%. And that is maybe reflected in the food inflation also. I think yesterday if you had seen the food inflation, it has gone up to nearly 9%. So this is mainly due to increase in the freight price.

Piran Engineer: What percentage of our customers have not paid us since April? And then for these customers, how are we thinking about restructuring -- will it be on a case-by-case basis or will it be a blanket restructuring plan for all customers, how does that work out after the moratorium?

Umesh Revankar: We do not really see much scope for restructuring because we have given moratorium to the customer. What happened in the month of April, it need not be in the month of July or August because April was totally lockdown. So we have to remove April out of our question and look at how many people have been paying in the month of July and August. So around 73% of the people are paying either part or full, they do not really need further restructuring. So what we feel is that people who need restructuring are the people who have not operated at all in the last six months and do not have a feasibility in the next couple of months after the moratorium is over, only those people we need to restructure. So my expectation is restructuring is required for less than 5% of the people unless more customers really want to do the restructuring. So, we are keeping the restructuring as low as possible.

Piran Engineer: So it is fair to say that 27% of our customers have not paid us in the last four months if 73% has paid us so far?

Umesh Revankar: You are right. Some of them would have paid part, some of them would have not paid at all.

Piran Engineer: As far as paid in part, they are part of the 73%?

Umesh Revankar: No, some who have paid part in July would not have paid in August and would not have paid in June, you will have such kind of accounts. But people who felt that they have a moratorium, they need not pay, they are also there in the number. They would have earned but would not have paid because they are under moratorium. So that also we need to look into account. So actual people who need restructuring would be less than 10% is my guess, because we need to look at people who cannot start their business. People who have not started their business, only one segment I see are the aggregator vehicles like Ola and Uber. Even though they have started in some cities like Bombay and maybe Chennai, these are the two cities where they are not operational, but rest of the places, they are operational. So, we need to only see those cases and take a call. So the industries which are most affected because of COVID are travel, aviation and hotel industry. And our exposure there is very-very limited.

Moderator: Thank you. The next question is from the line of Abhiram Iyer from Deutsche CIB Center. Please go ahead.

Abhiram Iyer: First, right now I wanted to talk about your collections. Can you give month wise from April to July, what was the percentage under AUM which paid partial collections…these are percentage numbers, I agree. Second question is on the fall in operating cost. I noticed that operating cost have been lower 30% quarter-on-quarter. Could you give a breakdown on how this was achieved and is this a run rate going forward?

Umesh Revankar: On the collection numbers, we will give you subsequently. We do not have against AUM the collection percentage, which Sanjay would give you. As far as the cost is concerned, what we had decided is senior management will take a salary cut by around 10% to 20% at three different levels, that is one. And most of the real estate, that is rental cost, we renegotiated and either we got some waiver on payment of rental or we got recalculation of rentals, in the sense, by lowering 15%, 20% for the next couple of years. So, these are the major decrease in the cost. And also other travel related restrictions; we restricted all travels and most of the meetings were held on virtual mode. So these are all the cost reduction plans. And we also have not recruited anyone. Around 700 people have either left the company because they could not join the office post-COVID when we restarted the office. So these are all I should say a major reason for reduction in cost.

Abhiram Iyer: Could you please let me know what the amount of unused bank lines availability you were as of date? How much was securitized during this quarter?

Parag Sharma: Securitization was Rs.2,100-odd crores. And unused bank lines is close to around Rs.2,000 crores.

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

Subrat Dwivedi: Just a couple of questions. So you have given the liquidity position as of end of June. As on date, after the equity infusion plus in the last one, one and a half months, you would have raised some money. As on date, if you could update us on the liquidity position?

Management: What we have given is as on 12th of August.

Subrat Dwivedi: On the MSME Guarantee Scheme, how much would be the eligible pool and how much would you have disbursed under that?

Umesh Revankar: The total sanction amount is around Rs.3,000 crores and disbursement is around Rs.100 crores now.

Management: There have been various modifications to the scheme. As of now, they have permitted individuals also. On the overall book, what will be eligible will be substantial.

Subrat Dwivedi: The collections in terms of absolute value, they were around 50%, 55% in June as well as in July if I am not incorrect. So why has it not improved significantly in July, it has more or less remained flat. And so how does the August trend look?

Umesh Revankar: In fact, the number of containment zones have increased and lockdown increased in the month of July, especially two large states, Tamil Nadu and Maharashtra are under full lockdown. Subsequently, Bihar, Jharkhand, Uttar Pradesh, they are in total lockdown plus also you see Bihar and Assam most of the places are under submerged because of the flooding. So that is the reason July collection substantially did not go up. But as the rains are now a little better in Bihar and Assam, and even this containment zone restrictions also are a little more relaxed, we expect the collection to be better in the month of August and probably in the month of September, it should be a first full month with normal collection.

Subrat Dwivedi: So equity raised so far is only around 8% of the net worth. Would you see further requirement of raising equity and whatever that enabling resolution where you could raise further capital through various other means?

Umesh Revankar: Post AGM, we will look at the situation. And as of now, we are not hurrying for further raise of equity. Our capital adequacy is good enough as of now; it is 18.5% now tier-1, so we are not in a hurry.

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

Aditya Jain: So on the 27% of customers who have not paid in July, how many would qualify for restructuring under RBI guidelines?

Umesh Revankar: See, we have to wait for August collection to see. But our initial estimation says that less than 10% of the customers, would be willing for restructuring. The qualification for restructuring may be higher. But how many we would like to be restructuring, that is important.

Aditya Jain: Did I hear it correctly that the main impact on NIM is due to carrying higher liquidity, there is no impact of hedge accounting in this quarter?

Management: Correct.

Aditya Jain: Does the AUM disclosure in the presentation include assumption of normalization of moratorium or is it as per all customers pay on time?

Management: AUM typically is what is receivable from the customer. So, it includes everything.

Aditya Jain: So as per contractual payments?

Management: Correct.

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

Vivek Ramakrishnan: I know it must be difficult operating in this on-off environment. So actually, all my questions are related to liquidity and ALM only. Sir, it is reasonable to assume that out of Rs.9,700 crores, if we take out Rs.2,000 crores of bank lines which are unutilized, we have Rs.7,700 crores of cash and that ties in with the Rs.5,800 crores which you show in your ALM statement in page #19 plus another Rs.1,500 crores coming in from equity issue, so is that mathematics correct?

Management: Vivek, that is right.

Vivek Ramakrishnan: You were talking about public deposits. The numbers being more or less flat for the quarter though you said that in July, there was a break-up. I think you can move to 1.5x of net worth, which is about Rs.30,000 crores and your public deposits is around Rs.12,000 crores. Is there any effort that the company is making in terms of improving that because that will give you liquidity as well?

Umesh Revankar: Vivek, we are working on that. We started working on opening…opening means accepting deposit at all branches from June this month. We are depending mostly on the channel for accepting deposit, not in the branches. And effective from this June we have started accepting in all the branches. And we are able to see good progress in the month of July. And we are aiming at reaching Rs.15,000 crores by the end of this financial year. And as rightly said, we can raise up to Rs.30,000 crores fully. So let us first reach a target of Rs.15,000 crores by this year-end, then maybe next year we will take further target and ultimately, we would like to reach the Rs.30,000 crores or 1.5x target because the deposit cost earlier used to be little higher, but now deposit cost is on par with any other cost like including bank borrowings or the capital market borrowings. So, we will definitely focus on deposits. And all the branches are enabled and we have around 1,758 branches. So this will take some time for building the momentum. But July has been good and definitely we will reach the numbers.

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

Umang Shah: I just had two questions; one was on the credit cost. Clearly, we have built a significant buffer on the balance sheet. So, if I look at our non-stage-III coverage, we are now a shade below 4% and even on stage-III our coverage is closer to about 39%, 40%. Any guidance on credit cost or how are you looking at building or sustaining these buffers once the moratorium ends?

Umesh Revankar: We have taken the latest situation for making the buffer and provisioning. So, if the COVID situation remains at this level or come down, then probably we do not really need to add further. So that is our assessment.

Umang Shah: So is it fair to assume that in the third and the fourth quarter probably we may see a more normalized sort of a credit cost and maybe Q2 might remain a bit elevated?

Umesh Revankar: Q2, we have to wait, I cannot comment on that, but yes, we are going for a normalization and I think the September month would be crucial. And if you see September month we come to normalization, then we may not really require to provide additional COVID because we have already substantially high COVID provisioning we have made in the month of March and June.

Umang Shah: My second question is on net interest margin. Given that now we would be routing all derivative-related gains or losses through OCI and probably we will start seeing full quarter of disbursement starting second quarter onwards. Is it fair to assume that the net interest margins that we have seen in this quarter should be more like a bottom margin and incrementally margin should kind of either remain stable or gradually improve from here on?

Umesh Revankar: One of the components is the higher cash what we are carrying. That cost would remain for another couple of quarters. But net interest margin definitely would improve because the borrowing cost is slowly now coming down. RBI has been trying to bring the borrowing cost down and that is getting reflected with the new bank loan sanctions. So, I think the cost should come down for us over the period. So we should go back to our normalized net interest margin of 7% by the last quarter.

Umang Shah: Just last data point wanted to confirm. Rs.2,100 crores of securitization was done in this quarter. What was the corresponding number for the fourth quarter?

Umesh Revankar: Rs.2,360 crores.

Moderator: Thank you. The next question is from the line of Subramanian Iyer from Morgan Stanley. Please go ahead.

Subramanian Iyer: Just wanted to know the absolute repayments for April, May, June and July in rupee terms?

Sanjay Mundra: Subbu, the percentage we have right now, but absolute amount, we do not have right now, percentage was 15%, 30%, 51% and 53%.

Moderator: Thank you. The next question is from the line of Oon Jin Chang from HPS Investment Partners. Please go ahead.

Oon Jin Chang: I have just a couple of quick questions. In terms of your gross stage-III assets, the number came down, absolute dollar amount came down. I just wanted to understand how did that number come down?

Management: That is primarily because of the moratorium extended to most of the customers. And in spite of the moratorium given and the due is not happening, the customers started repaying and hence, that is one of the major reasons why the gross stage-III has come down.

Oon Jin Chang: And then second question I have is can you give a bit of color in terms of your loans especially towards the commercial vehicles, the LTV, what is the ratio now and how has that changed for this quarter because any impact from the recent COVID?

Umesh Revankar: The segment wise, the ratios remain same because further disbursement was less in this quarter.

Oon Jin Chang: What is the number of LTV?

Umesh Revankar: LTVs are lower, but we have been maintaining lower LTV right from October 2018, so all the disbursement post October 2018, the LTVs have been reduced to around 65% from 75%.

Oon Jin Chang: 65% from 75% and that has been the case for the last couple of quarters you mentioned even including the 1Q?

Umesh Revankar: Yes, for more than a year now.

Moderator: Thank you. The next question is from the line of Mansi Sajeja from SBI Funds. Please go ahead.

Mansi Sajeja: Just on the liquidity number that you have given, the SLR investments are a part of that Rs.9,600 crores that we have given? Secondly, if you could just highlight the various schemes which were the liquidity schemes like partial credit guarantee (PCG) or currently also the three months liquidity scheme, what has been the raise under all those avenues?

Management: SLR is not included in the liquidity. SLR is Rs.1,800 crores which is separate. When it comes to the various schemes, on the TLTRO we raised a very nominal amount of Rs.200 crores only. When it comes to partial credit guarantee, there we have raised close to around Rs.1,600-odd crores. And when it comes to other major special liquidity window, we have not raised anything because that is very, very short-term in nature. The SIDBI Liquidity Scheme, which has one year facility, there we have raised Rs.350 crores.

Mansi Sajeja: Any further proposals in PCG and other schemes which are pending?

Management: PCG, there are a few proposals which will be between Rs.2,700 crores to Rs.3,000-odd crores, that is the quantum. But they are slightly slow because the process is quite long getting guarantee approvals and all, slightly longer procedure. But we are pursuing it. If it is not coming through the guarantee route, whether we can do a direct securitization is what we are evaluating. But these are proposals are on.

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

Kunal Shah: Firstly, in terms of the gap between collection efficiency and restructuring number which we are talking about, so maybe if I have to look at it in terms of value terms, currently 47% would have not paid July installment and at the same point in time, we are talking about maybe not more than 10% getting into restructuring mode. So what would happen with this balance 37% -- are we sure that in terms of the recovery, once they are out of the moratorium, maybe they were just preserving cash and they would pay up or maybe we would be stringent in terms of restructuring looking at the viability and some of them would even slip into NPL or maybe they will get some ECLGS support and that would help them in the near-term, so if you can broadly break like that up between the gap which is there?

Umesh Revankar: The customers we believe once they are out of moratorium, they will start paying because during the moratorium, we normally do not force customer beyond a particular limit and repossession threat is virtually not there. And post moratorium, the situation will be totally different. So customer would be paying. And one of the major reasons for people not really earning and paying is lockdown. So once the lockdown is totally removed, the question of somebody postponing the payment does not come. So we feel that collection efficiency will go up. Only in the first week of September, we would be able to assess who requires a restructuring because if somebody has a business which is yet to become operational because of the COVID situation, then only we can restructure. Our own assessment is that people who really require restructuring, will be less than 10%. Rest of the people who can operate and cannot pay, then we have other options of recovery. So, all our recovery options we will keep it open. We will be quite strict and stringent on collection.

Kunal Shah: When we see this gap in terms of 73% in borrower count and 53% in value, so this 10% would be the customers, but given that the gap between customer and value is huge, so maybe actually in terms of quantum, percentage of customers who would seek the restructuring, could that be on the higher side, so maybe 10% of customers but much higher in terms of value, or it will be a similar one because that gap is high in the current collection efficiency?

Umesh Revankar: It will be a similar one; it will be around 10% in value terms also.

Kunal Shah: Secondly, you highlighted that significant proportion would be eligible for ECLGS, but some quantification would really help maybe in terms of sanctions, we said Rs.3,000 crores, but now with individuals also getting qualified, any quantification in terms of how much of our book would get eligible under the scheme?

Umesh Revankar: Eligibility wise, it will be much higher. Securitized portfolio is not included. So we need to eliminate a certain portfolio for the eligibility. Whatever is the sanctioned amount is including the individuals. One of the reasons for not extending is the cap on lending rate because there is a cap on lending rate at 14% which we do not want to extend to everyone. So, we need to be a little more careful because that should not become new norm for the customer.

Kunal Shah: How much can we sanction as a proportion of the AUM now going forward given the lending rate cap as well as the eligibility?

Umesh Revankar: Maybe another Rs.2,000 crores more we can sanction, but we need to really look at the customers need also. If a customer needs only, we can give. As I was telling you, the lending rate cap is one of the hindrance for us.

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

Alpesh Mehta: First question is on repayment. Sanjay, you mentioned that 15%, 30% and 51% the collection numbers. Does this include the interest component as well?

Umesh Revankar: Everything, it is EMI.

Alpesh Mehta: So effectively, the principal component, I believe the total absolute number would be around Rs.3,500 crores to Rs.4,000 crores, and of that, almost 50% would be interest?

Management: We will take this question offline. Maybe you can touch base with Sanjay. He will update you.

Alpesh Mehta: Secondly, Parag, I just wanted to get some sense on this derivative thing. So what was the exact quantum routed through P&L as a mark-to-market number for FY'20? I see in your annual report in the cash flow it is around Rs.6 crores. Is that number right?

Management: Correct. See, as I was telling you, it was minimal in the previous year. We had a couple of quarters of some marginal gains and in the last quarter, there was a reversal and the current year only the first quarter we had a substantial impact and hence we decided upon the hedge accounting. And in the current quarter, there are two components with the hedge accounting; one is the effective portion and the other is ineffective portion. The ineffective portion of 9% which comes to around Rs.25 crores has been routed through the P&L and the effective portion of 91%, which comes to Rs.254 crores has been taken to the OCI.

Alpesh Mehta: Just a related question to this, if I see your balance sheet, 1Q FY'20 number for derivative financial instrument mark-to-market on the asset side was around Rs.13 crores which increased to Rs.759 crores. The entire increase would have been because of the increase in the foreign currency liability, right, you would have entered into the contracts because of that?

Management: Correct.

Alpesh Mehta: And this quarter decline is largely because of this mark-to-market gains or losses that you had taken through this year?

Management: Correct.

Alpesh Mehta: For the past whatever the mark-to-market gains or the losses, whatever the changes that you had to do in this quarter current accounting, you would have routed into the reserves itself, right?

Management: Yes, it goes directly to the reserve.

Alpesh Mehta: So there is no reversal in the P&L and then you routed into the OCI?

Management: No, there is no reversal.

Alpesh Mehta: What would be the capitalized interest for the quarter because of the moratorium number?

Management: We had booked around close to Rs.4,000 crores of income and out of that, we also got a collection. So the net may be around Rs.1,000 crores or something would have been the capitalized income.

Alpesh Mehta: Because I am just trying to see the numbers. If I see the change into the AUM on a quarter-on-quarter basis, that is around Rs.2,000 crores, the disbursement that you did was around Rs.1,000 crores?

Management: Yes, out of that, fresh disbursements contribute to Rs.1,000 crores and the balance Rs.1,000 crores is the capitalized interest.

Alpesh Mehta: Yes, but there would be some collections as well, right?

Management: Correct. See, if you see the AUM, Rs.1,09,000 crores was the opening, and we booked Rs.4,000 crores of interest income, Rs.1,000 crores of disbursement, so Rs.5,000 crores has been added and collections of close to Rs.3,000 crores and hence, we get the Rs.2,000 crores of increase. So effective interest capitalization is Rs.1,000 crores.

Alpesh Mehta: But logically, that Rs.4,000 crores of interest that you booked in the quarter, logically the entire interest component should not be the part of the AUM movement, right?

Management: Out of the Rs.3,000 crores we have collected, so Rs.1,000 crores is increase on account of interest capitalization and Rs.1,000 crores on the fresh disbursement.

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

Nidhesh Jain: Can you give the data on the customers who have paid full EMI in July and who have paid partial EMI after this 73%?

Umesh Revankar: We do not have the number right now. You can reach Sanjay for that.

Nidhesh Jain: Just on margins, is it correct to understand that the impact on margin this quarter is just Rs.19 crores because of this movement in foreign currency derivatives?

Management: Correct.

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

Chirag Shah: My question was on repossessed vehicles. So if you can indicate what is the scene over there, what kind of stock you are having and post moratorium, how are you looking at repossessed vehicles kind of addition that you see?

Umesh Revankar: Probably you are aware that we do sell only through physical auction and we have not done much of physical auction in the last three months. So whatever the repossessed asset as on March remains. And last month, July, we have started doing physical auction. So, in the couple of states, we could start doing it. Maybe in the month of August and September, we would be able to sell off the balance. So total repossessed assets should be around 15,000 numbers.

Chirag Shah: How does this numbers stay generally -- is it on the higher end of the down cycle or this is the normal run rate that you generally have?

Umesh Revankar: No, no, 15000 is the normal run rate. So every month we will have at the end of the month. And whatever was there in the month of March is continuing. In April, May, June, we have not done any repossession because of the moratorium.

Chirag Shah: And once moratorium opens up and if customers are unable to pay, you will be looking at doing the repossession activity or you will give some leeway for another two, three months to them?

Umesh Revankar: No, no, we will be repossessing the assets. It depends upon the market condition. If the local area comes under containment zone and if the operator is not able to operate, then we will give time. If not, we will not give any time.

Chirag Shah: As a follow-up, would it be right statement that resale value would have actually gone up in last few months simply because this activity has slowed down and also BS-VI has come, so even that would have led to some increase in resale value of trucks?

Umesh Revankar: Resale values of trucks have improved. But since transactions are very few, we cannot take that as the value because unless there is a large number of transactions, we will not be able to assess. As of now, the resale values are better. And you are right, because of BS-VI, vehicle prices are 15% more, the resale values of used vehicles is higher.

Chirag Shah: In general, how would you rate or assess the financing situation in the system from your perspective or from any financiers perspective -- can it tighten further because you have indicated you have tightened your financing more than a year back, the LTV ratios or the credit profiling or this is probably where it would stay?

Umesh Revankar: LTV wise, we have tightened. But credit profile wise, since we have been lending to our customers without track record also. If the driver wants to become owner, we have been funding. But we always ensure that he has a good guarantor. So the guarantor is the key for our lending decision. And guarantor is normally our existing customer. So there we have been quite stringent and that will continue.

Chirag Shah: Unless it worsens from what it is today, that is a point?

Umesh Revankar: You are right.

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

Nishant Shah: In some of the earlier questions, you mentioned that the driver availability is a problem for the utilization, but the SRTOs is higher. You also mentioned that the freight rates have gone up between 15% and 30% depending on the type of consumer. So, in this context then how does this not translate into a better kind of a collection efficiency or overall activity level or income level from our customers' point of view, where is the disconnect between the two?

Umesh Revankar: See, basic disconnect is overall logistics and supply chain, it is not as efficient as it was in the past. Like imagine certain state has lockdown, certain place has containment zone. So you do not have a perfect system. Now imagine from Mumbai you go to Ahmedabad and from Ahmedabad whether you will get a return load is not sure. But freight rate is good up to Ahmedabad. And if you have to wait there for two or three days to get a return load, then it is not a very efficient system. Because of the restrictions, the overall supply chain is not as smooth. But whenever you are operating, you are making money. But you are not running your vehicle for 23, 24-days as it was in the past. You may be running it for 17 days. So that is where the collection efficiency will not be as same as it was. So the individual operator has an advantage because he is not dependent on driver. That is the big advantage. All the manufacturing activities have also not started. Even this manufacturing, only 30% to 40% of the laborers have come. So unless the supply chain becomes perfectly seamless, then only the overall earning will be smooth throughout the month. And second, many of the customers, they are not parting away with full cash to us because there is uncertainty, they do not know what happens tomorrow, whether their area will come under containment zone. So, this uncertainty is making the people keep higher cash with them. In fact, we do feel that is good for them because if somebody is keeping higher cash and looking at a total certainty before paying the full amount, it is always good for us because customer is able to manage his business quite efficiently without really expecting further support to run his operations. So we do not enforce further collection if a person wants to keep some cash for the uncertainty. So, this will continue till the lockdown situation is totally lifted. So I feel maybe in September, when the lockdown is totally lifted, the uncertainty will go and people will part away with more earnings.

Nishant Shah: Just one follow-up segment. So in this MSME segment in which you sanctioned Rs.3,000 crores, this is essentially what, this is just money which is now available to the truck operator to fund his next trip or something or how exactly does this work?

Umesh Revankar: See, for next trip, we have been funding the customer for his fuel requirement, we have been funding him for his tire replacement, so that is apart. But this 20% is something additional for anyone for undertaking a repair or making the vehicle more efficient. So, he can use it for any purpose to improve the efficacy of his business.

Nishant Shah: So like you mentioned in the working capital loans, it is going directly to the insurance company or something like that, is that kind of a mechanism in place even here as well or is it just disbursed to his bank account and it is then up to him to allocate it appropriately?

Umesh Revankar: Yes, this amount will be given to him in his bank account.

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

Umesh Revankar: Thank you. We have just finished a most difficult quarter I should say because this quarter was totally under lockdown. As we see lockdown is reopening, we are able to see a much better picture of the overall activities. The rural activities are definitely much better and we expect same thing to happen to the urban areas in the month of September. And rains being normal, we expect the festive season should bring in better cheer to us. So next quarter, we should come out with much better results and also higher disbursement. Thank you very much. Catch up again next quarter.

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