



“Shriram Transport Finance Limited Q4 FY15 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q4 FY15 Earnings Conference Call of Shriram Transport Finance. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. I now hand the conference over to Mr. Umesh Revankar — CEO & Managing Director of Shriram Transport Finance. Thank you and over to you sir.

Umesh G. Revankar: Good Evening to Everyone and Good Morning to people who are joining from US. I have with me Sanjay, Sunder, Kelkar and Parag to answer your questions. To start with, there were some good things and some not so good. The good is the interest rates are slowly moving downward; RBI has changed the repo rate twice and it should have better impact on our cost of funds in the coming quarter. The Vehicle demand is slowly going up, especially in Heavy Vehicles, we witnessed growth of 20% year-on-year, even though it is much lower than what it was in 2011 and 2012, but upward trend is visible and we feel that maybe in six months to nine months, it will percolate to even LCVs. The fuel price reduction has helped the earnings a little better for our customers and their operations are becoming little more viable and they are able to run their business quite efficiently. The freight rates are little under pressure right now mainly because of unseasonal rains and the agri produce being little lower than expected in the month of March, has reduced the overall movement of agri goods; however, the industrial output is up and we expect the industrial output will continue to be better in the coming quarters. The coal and other mining activity also is likely to be starting from this quarter and also we feel a lot of government expenditure which is planned for this financial year would start spending and also most of the projects will start operational may be second half of this year, but the outlook seems to be a little better for this financial year.

Looking at this quarter numbers: Our net interest income on standalone basis has gone up from Rs.920 crores to Rs.1,085 crores and the PAT on standalone basis have moved by 7.4% to Rs.295 crores to Rs.16.7 crores. The NPLs have remained stable at 3.79 and coverage ratio is maintained at 80%. Number of branches we have increased, that conversion of rural center into branch, they have added another 20 in this quarter, total numbers are now 741, and number of rural centers also have been increasing. The employee strength we have not changed; it has remained flat, we are able to utilize the man power much better even though we are adding new branches, we are able to use existing manpower more efficiently and increasing the

productivity of the employee. On consolidated basis, Shriram Equipment Finance which was mostly into Infra Equipment Funding or Construction Equipment Funding, there were some major movement of buckets and therefore there has been higher loss NPLs in this quarter and mainly it is due to the Infra projects being stuck across India in all the states, last four quarters we have been witnessing this, we expected most of these projects stalled will be operational by the last quarter that is by February-March, but somehow the payments have not been coming and projects are stuck. But, we are hopeful that with now government planning to come out with projects and the schemes, and have been announcing in last three to four days, we are seeing several announcements including the Smart City today. I feel the Infra activities will start maybe from the second half of this year and we should be able to manage our portfolio quite well from the present one and we also see a higher outlay for highways; many of the highway projects even though it is announced are getting delayed due to uncertainties on Land Acquisition Bill, etc., but I think irrespective of Land Acquisition Bill is getting through or not, government would be able to push the projects and scheme in the next six months, so that second half of this year, we should be able to get back into our business quite well. The numbers are in front of you, I would not read the number. The other subsidiary Shriram Automotive is being well, it has earned a profit of around Rs.4.6 crores in the last quarter and Rs.8 crores for the year, and the prospect looks quite bright in Automobile business in the coming year because many more banks, institutions, individuals, fleet operators are getting added to the customer base of our Shriram Automobile activity, and we also expect the both Used Vehicles and New Vehicles credit demand would be higher in the second half of this year, even in the first of half we would be quite aggressive I should say because we have started more branches and these branches will be operational and we will be able to penetrate deeper into geography and able to generate business.

With these initial remarks, I would like to invite questions.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Gaurav Maheshwari from Unilazer Venture. Please go ahead.

Gaurav Maheshwari: If you can give a more detail on what actually happened in Shriram Equipment Finance because our understanding would be it should be something gradual, because one quarter and a hit of Rs.236 crores going to provisions, something that we would

like to understand more into it? And second thing is whether they are recoverable or it cannot be recovered that is why you put it under the provision out of bad debt?

Umesh G. Revankar: These are just provisions, not bad debt, it has just moved into that NPL recognition buckets. So we are very confident of recovering the entire amount.

Gaurav Maheshwari: Who would be your customers – would it be the small contractors or...?

Umesh G. Revankar: They are mostly small contractors attached to either bigger projects or may be to the bigger contractors.

Gaurav Maheshwari: But it is not a write-off kind of situation, you...?

Umesh G. Revankar: No, no, it is never a write-off because all the assets are there and we have been able to establish contact with most of the customers.

Gaurav Maheshwari: Have you started the auctioning process or you expect to recover through whenever the winding starts through that process only?

Umesh G. Revankar: It should be a normal collection only. I do not think the repossessions are required, because we expect many of the activities would start resuming in a couple of quarters.

Gaurav Maheshwari: The entire thing went into the GNPA bucket only into this quarter?

Umesh G. Revankar: Yes.

Gaurav Maheshwari: On the overall Shriram Transport side of the business, when do you expect the growth to resume because most of your business if I understand correctly would be either towards the mining or towards the intracity or intercity kind of customers? Just on that point of view, the coal mining auctions have just happened, is it not at least a year away before the mining starts for those coal mining projects? And secondly, rural is obviously going through the bad phase right now or at least not growing and if the monsoon turns out to be bad, would not that all be impacting your AUM growth further in FY16 as well?

Umesh G. Revankar: One thing is we are not so closely link to mining activity, only a small portion of our activity is in and around mining activity. So mining starts or not, I do not think it will have a major impact. Maybe it is a growth booster to us, but the normal growth will definitely come. If you look at last two quarters, our disbursements were quite high.

So that same number of disbursement would be there in the first two quarters, and the second half of this year probably will go little faster, that is our assessment. And as far as rural is concerned, yes, unseasonal rain had hampered the rabi crops and the expected lower than the normal rain, we do not know which geography it will have impact because if it rains in right place in agri belt then there will not be any change in agri produce, only thing is if does not rain in the **(Inaudible) 11:30** So that is something which is not forecasted. And rural is not entirely dependent on the agri, rural also has lot of micro units, cottage industries, a lot of producers that come from village, and today a lot of activities and manufacturing also is happening in the village. So the village economy or rural economy is not totally dependent on agriculture. So, I personally feel that all our rural initiative by going to rural centers which are mostly in the small towns are doing quite well. Only thing is we would be careful in lending big ticket. We have been focusing on small tickets where people can easily pay the amount; it was small ticket lending of 250,000 on an average, we will have the repayment also being very small of 10,000 to 12,000 that should not have any difficulty for customer to repay.

Moderator: Thank you. The next question is from the line of Mayur Parkeria from Wealth Managers. Please go ahead.

Mayur Parkeria: About the Equipment Finance, almost our entire network probably has got wiped off for the subsidiary companies around Rs.250 crores and this year written off around Rs.230 crores and we have infused around Rs.100 crores. Sir, again, when we look at Shriram, we look at very conservative policies and I also was trying to understand that in one quarter what caused so much such a higher quantum of bucket change, how did it happen, if you can just throw, all our efforts over the previous years have gone wiped off in one quarter, so if you can throw some light what actually happened in terms of how such a big amount? And given the fact that this is a distributed amount amongst smaller ones, was it that in one period the loans were given and hence all happened to be NPA recognition in that one quarter of three months, how did it happen?

Umesh G. Revankar: It has been moving the buckets over the period when no payment is being released. This Construction Equipment has a very peculiar issue, they get stuck to this height and they get stuck to project, and even the projects do not come up, then they are stuck forever, they neither can come out of it nor claim the amount, which they already worked because many of them they would have worked for two or three months hoping that amount will come, then nothing will come, then will wait

eternally and they get stuck there. This is how it happens in a construction activity. So many of these machineries were stuck in most of the projects and it was moving. Some part movement we were getting, so we were hoping that things will become alright, but somehow it got accumulated over the period, so it is not that the one particular period loan was given and it got stuck, it was given for various period, even the loan given 36 months back also are stuck, the loan given six months back also are stuck.

Mayur Parkeria: For Equipment Finance, what recognition days we follow – is it 180 or...?

Umesh G. Revankar: 180-days only.

Mayur Parkeria: So despite that this has actually unfortunately got translated in a one quarter period?

Umesh G. Revankar: Some of them are due to multiple contracts. Normally what contractor does? He takes **(Inaudible) 15:43**, high backhoe loaders like that, it will be around 10 to 15 assets he takes loan for one particular project or two projects then puts in different projects. He may be getting payment on 10 and he may not be getting on 5. What happens is in 5, it goes beyond 6 months. Then what happens is entire 15 will be considered as a gross NPLs. So the impact of that looks big, but it is not that big as it looks like.

Mayur Parkeria: On the Medium and Heavy, you mentioned we are seeing some growth picking up, in fact, you mentioned in your opening remarks it is high as 20% year-on-year growth. So, what we come to understand is yes, there is a growth in the sales but are these Vehicles even having road factors, is the Vehicles being deployed relatively or is it still in anticipation that people have started buying Vehicles, are the real load factors being improved or is it just today an anticipatory action from the buyers?

Umesh G. Revankar: No, no the road factors have been good, the inter metro transportation has really gone up, haulage activity has been quite high, and if you look at the IIP numbers also it has been going up. So the industrial produce and also the general FMCG goods transportation has gone up for substantially in the last three to four months. Since also there has not been much sales in the last three years, what has happened is the availability of vehicles got reduced and you always require a newer vehicle on the road where you have less than two years age for inter metro transportation. So the heavy vehicles are in demand and road factors good and the repayment on all the new loan given is quite good because of that.

- Mayur Parkeria:** We saw regulatory development in terms of banning of vehicles above 10-years or 8-years, correct me if I am wrong, will that have an impact in the medium-term to us, what is the kind of impact you are assessing on that?
- Umesh G. Revankar:** This is right now only in Delhi and Delhi being all the bureaucrats and politicians stay, they want clean air, so they had asked the older vehicles to go out.
- Mayur Parkeria:** This can get extended over a...?
- Umesh G. Revankar:** No, these vehicles will move into nearby places like Agra, Meerut and all. So from Delhi these vehicles may go out but it will have usefulness in some other cities, some other towns, the usefulness of vehicles will not go, and if that has to go then government has to fund huge amount, because so many vehicles will be shot overnight, LCVs and Heavy Vehicles put together there are around 90 lakhs Vehicles in India, and out of that around 25 to 30 lakhs Vehicles would be 10-years old. Then imagine 30 lakhs vehicle not being there. And what is the amount required to buy new vehicle? It does not going to happen overnight. And also you need to compensate the people who are owning this vehicle, it is not going to be that easy, and if the older vehicles are owned by only the operator who makes a living out of it. So it is not going to be possible even if all automobile manufacturers try to lobby and get it done, because they have been lobbying for scrapping nearly 20-years old vehicle. It has not happened, so, I do not think it will happen.
- Mayur Parkeria:** Any number which you would like to put on the AUM growth, what should we look at for the next year?
- Umesh G. Revankar:** By taking into account likelihood of monsoon being weak, we are looking into a 10 to 12% AUM growth.
- Moderator:** Thank you. The next question is from the line of HR Gala from Panav Advisors. Please go ahead.
- HR Gala:** Sir, can you help me with some numbers because I do not find the March Presentation on our website, like what has been our consolidated full year return on average asset, NIM, CAR, etc.,
- Sanjay K. Mundra:** The capital adequacy for Shriram Transport Finance Limited is 20.88% and the ROE is almost 14% and ROA is 2.2%, Net Interest Margin is roughly 6.7%.

- HR Gala:** How much is the net NPA?
- Sanjay K. Mundra:** The net NPA is 0.78%, we have a coverage of 80%.
- HR Gala:** In terms of NIM, going ahead, how do you see if the interest rates come down, then naturally your borrowing cost will also go down, then will you also reduce your yield on assets?
- Umesh G. Revankar:** It depends upon the growth opportunity; if there is a good growth opportunity, we will be reducing the yield and prefer to grow and have a bigger market, and also depends up on the New and Used mixed. So these are all factors we will determine, but we would like to give a guidance that it would be on present level at least.
- HR Gala:** Sometime back you said in reply to a question that you expect asset under management to grow at about 10-12% in FY16, considering that monsoon is going to be weak. Now, if the monsoon somehow happens to be reasonably good, then what could be the growth rate like best case scenario?
- Umesh G. Revankar:** Probably it will be around 15%.
- Moderator:** Thank you. The next question is from the line of Gaurav Agarwal from E&R Advisors. Please go ahead.
- Gaurav Agarwal:** I just want to understand your segments in a better way. So what kind of yields do we get on Pre-Owned Financing?
- Umesh G. Revankar:** Pre-Owned Vehicles will be between 18 to 20%.
- Gaurav Agarwal:** These Vehicles are how many years old?
- Umesh G. Revankar:** Typically, average of around 7 years.
- Gaurav Agarwal:** What is the LTV ratio do we have on them?
- Umesh G. Revankar:** LTVs are around 65 to 70.
- Gaurav Agarwal:** What about New Vehicles?
- Umesh G. Revankar:** New Vehicles would be between 14% to 16%.

- Gaurav Agarwal:** This 14% to 16% include one-time processing fees also, or they are excluding of that?
- Umesh G. Revankar:** Processing fees it depends, sometimes it is not mandatory we collect it, we collect a small amount.
- Gaurav Agarwal:** So that must be in the range of 0.5% to 1%?
- Umesh G. Revankar:** Yes.
- Gaurav Agarwal:** These loans are typically for the duration of these loans – Pre-Owned and New?
- Umesh G. Revankar:** New would be typically 36 to 48 months and Used would be between 18 months to 30 months.
- Gaurav Agarwal:** Do you have the breakup how much of loans are given to big transport owners and small transport owners like two or three kind of?
- Umesh G. Revankar:** Big transport owners... we do not finance people who have large fleet of 50 and above, but because of some relationship build over the period and customer who have been with us we may give. It will be just hardly 1 or 2% only. So people with one or two vehicle will be more than 70% and others will be in between 1% to 10%.
- Gaurav Agarwal:** In rural area which is more profitable --- financing of Passenger Vehicles or financing of Pre-Owned CV Vehicles? Because the kind of yields you mention there is another company which is into rural financing, they also have similar kind of yields, they finance Passenger Vehicles. Trying to understand because CV is something which is more cyclical than a PV. So we operate in CV still we are having the same yields.
- Umesh G. Revankar:** Passenger Vehicles we have a reasonably a good presence; out of our total portfolio nearly 23% in Passenger Vehicles.
- Gaurav Agarwal:** In your presentation, where does that go, because I can see only Pre-Owned and New kind of breakup?
- Umesh G. Revankar:** It is there in the presentation
- Sanjay K. Mundra:** If you go to the AUM break up slide, you have the Heavy Commercial Vehicle, Light Commercial Vehicle, Tractor, Passengers and Others.

- Gaurav Agarwal:** Which one is more profitable, in the sense which gives higher yield – the PV segment or the CV segment?
- Umesh G. Revankar:** Yield will depend upon geography-to-geography; some geography PV will be more, some geography the Commercial Vehicles will be more. So in India we have so many deeper geographies it will keep varying, we do not give a specific rate off of head, it is determined locally.
- Gaurav Agarwal:** If I see your quarterly filing to BSE, the one which is regulated, so the number which is given for interest expenses and the number which is given in your quarterly presentation, so that does not match for the last 4-5 quarters, so is there anything which I am missing?
- S. Sunder:** There will be some grouping which in the ‘Investor Release’ we keep changing, if required Sanjay will mail with the reconciliation.
- Moderator:** Thank you. The next question is from the line of Amin Pirani from Deutsche Bank. Please go ahead.
- Amin Pirani:** First of all, on the Equipment Financing business, just a clarification. Does this business also include financing of Used Tractors?
- Umesh G. Revankar:** No, Used Equipment they do, but not Tractors, Tractors we do in Shriram Finance.
- Amin Pirani:** Just wanted your sense on how the pricing has been in the Used Truck market over the last few months because what we are hearing is that at least last year a lot of the new CV demand was driven by replacement and discounts rather than actual recovery. So that would have increased the supply in the Used Truck market. Is that a correct assessment?
- Umesh G. Revankar:** Discounts are given by manufacturers depending upon what they estimate to be their sales, imagine if they estimate the sales to be a particular number and they manufacture, if they have to sell it, then they have to give a discount if the market is not favorable and also sometimes the manufacturers fight for market share, then also they play discount game. So, the discounting depends up on the demand and they do not normally get into the Used Vehicles market, it is mostly for particular application where New Vehicles are required, this is the only resort.

- Amin Pirani:** So you are not seeing a follow-on impact on the Used Truck pricing because of the discounts in the New market?
- Umesh G. Revankar:** The resale value of Used Vehicles were little depressed in the last two years, but the last six months we are able to see some positive and resale values have been better.
- Amin Pirani:** In terms of the Trucks being out of business because of the mining ban, that was a very large number you had highlighted some number maybe a year back. Has that situation improved or there are equal or more number of trucks still out of business?
- Umesh G. Revankar:** No, Trucks when they go out of business in one segment, they get into another segment, no truck will remain idle, it is very unlikely that trucks remain idle and this specialized vehicle which are into this would have transferred to some other person who have different application. So when moves from one application to another application then the resale value will be lower, that is all, but it will not stand idle.
- Moderator:** Thank you. The next question is from the line of Devam Modi from Equirus Securities. Please go ahead.
- Devam Modi:** Firstly, what kind of percentages do we have in the ages of Pre-Owned Vehicles, what kind of categories do we follow like 4 to 6-years, in that what kind of percentages do we have in our portfolio currently?
- Umesh G. Revankar:** Percentage I may not be able to give immediately, may be Sanjay will be able to reach you and give you, generally, we do not put that 6% to 8% and all, we only have Old or New category.
- Devam Modi:** Because in the earlier concalls you had mentioned that greater than 6 to 9-years or something like that, if you can just broadly mention...?
- Umesh G. Revankar:** I do not think we ever mentioned, only thing is we said Used Vehicles between two to five years old where we did focus in the last two years when diesel prices are going up, so, we did encourage people to move from 10-years old vehicle to younger vehicle because of the operational challenges. We do not have any percentages on that, but if you ask me New and Used, then we can give you.
- Devam Modi:** Like we had this bucket issue in Shriram Equipment Finance, are there significant portions above 120 DPD or 150 DPD also there in Shriram Equipment or Shriram Transport Finance now?

Umesh G. Revankar: Shriram Equipment it should be around Rs.400 crores, Shriram Transport it would be around Rs.500 crores.

Devam Modi: Of course, in Shriram Transport, you would be handholding the customers, so there will be a chance that you will continue to get something out but there is a chance there might be some minor additions like continually in the last 4-5 quarters you have been seeing gradually 2-3% sequential increases in the GNPA and Shriram Transport, so that trend may continue in the near-term till the project activity picks up?

Umesh G. Revankar: Yes, project activities are very-very important for getting the collection. Meanwhile, we are trying to increase the engagement with the customer. So, what we are trying to do is STFL team also will coordinate with SEFL team, because we have a much larger number of people and also much deeper penetration. Shriram Equipment is operating out of 150 branches and we have 740 branches. So we will try to reach out to most of the customers and try to find out how best we can recover the money and help in, and also probably we also should inculcate the habit of paying the part, because if we keep collecting part payment then you will be able to collect the full amount over the period. So that is what we are trying. So I think we will be successful and once the project starts then there should be full swing of activities there and collection will be robust.

Devam Modi: So this whole chunk of bucket shift that happened in Shriram Equipment, this is related to any particular geography or it is widespread across India?

Umesh G. Revankar: It is mostly in the northern belt and Andhra. In Andhra what happened is the two states were created and both the states there is no activity till they presented budget in the February, and after the budget also the state governments have not really started functioning and therefore a lot many of projects got stalled, and now I was told that some activities are on the ground in Telangana and Andhra Pradesh also is they are pushing, and if the new capital which they are planning to build as per CM's plan that is going to be a mega project because he has done it in a very visionary style, what he is contemplating is 33% of the built area is for the capital that is for state government and 33% is for the builder, another 33% is to be sold to public. There is a unique business model. I have not gone to the detail, but he is trying to get international investors into that for a long term funding, and if that happens I think it will be a mega project and maybe one of its largest kind in the world. So I think that is going to get a lot of business for everyone.

- Devam Modi:** Any idea of how many accounts were concerned in this recent Rs.237-odd crores addition in gross NPA or average size of the account in Construction Equipment?
- Umesh G. Revankar:** Around 5,000 number of contacts.
- Devam Modi:** What is the breakup between Used and New in Construction Equipment?
- Umesh G. Revankar:** Recently, they started with 80 is New and 20 is Old, should be 70 is New and 30 is Old.
- Devam Modi:** In this Construction Equipment, we are basically going with new Equipment-owned?
- Umesh G. Revankar:** Yes.
- Devam Modi:** In case if we have a poor monsoon, there could be some further pressure that could be there on the Shriram Transport Vehicle side as well?
- Umesh G. Revankar:** I do not really expect so because it all depends upon where the rainfall is less. If the rainfall is less in non-agri area it will not have impact and also where you have river belt. Even at 95% you can still have good agri produce and even at 105% of the rainfall you may have a normal produce. We have to really wait and see. But I feel over the period pattern has been changing and we are not very sure how the pattern will be this year.
- Devam Modi:** Which are the key top-two or three Agri focus geographies in our portfolio out of the areas that we are financing where we have substantial chunk?
- Umesh G. Revankar:** No, we are there almost the rural area and what we consider is may not be actually rural, because they are small towns if you really look at, and they also have other activities like cottage industries, micro units and so many manufacturing and the local consumption items get produced there. So it is not just agri that is they are dependent on.
- Moderator:** Thank you. The next question is from the line of Sunil Kumar from Birla Sun Life Insurance. Please go ahead.
- Sunil Kumar:** First in Transport Finance, could you give me the number of Disbursement in the quarter?
- Umesh G. Revankar:** It is around Rs.9000 crores.

- Sunil Kumar:** So which is almost same as QoQ?
- Umesh G. Revankar:** Yes, same as earlier quarter.
- Sunil Kumar:** I think you mentioned earlier in the call about Disbursement that you see similarly kind of Disbursement in the first two quarters, is that...?
- Umesh G. Revankar:** Maybe little less. What happens is second half is little robust. So it will be either on same line or may be little less because during the monsoon it can be little less, but we should pick up in the second half.
- Sunil Kumar:** Because this quarter and the last quarter the Disbursement growth has been in the range of 30-40%?
- Umesh G. Revankar:** Yes.
- Sunil Kumar:** On Equipment Finance now, addition to the gross NPA has been to the tune of Rs.380-390 crores and I think you provided Rs.237 crores, which is around 60% you already provided in the Q4 itself?
- Umesh G. Revankar:** Yes, you are right.
- Sunil Kumar:** Now, going forward, how do you see this particular segment – do you see some more provisioning coming in, how do you see the asset quality here?
- Umesh G. Revankar:** Right now, we are trying to engage with customer and see that we will be able to recover money. And my own assessment is that the most of the money will be recoverable, we may not have issue in recovery. Only thing is it has jumped the bucket.
- Sunil Kumar:** So the Rs.400 crores number which you mentioned is this incremental number which is under stress right now in addition to whatever you already provided?
- Umesh G. Revankar:** Yes.
- Sunil Kumar:** So these are some more accounts where you are trying to engage with the customer?
- Umesh G. Revankar:** Yes.
- Sunil Kumar:** How about the asset quality in Shriram Transport sir?

- Umesh G. Revankar:** Asset quality has been stable for the last four quarters, it has remained at around 3.7 to 3.8 range gross NPLs, the coverage ratio has been 80%.
- Sunil Kumar:** So going forward also, do you see the stability here?
- Umesh G. Revankar:** Yes.
- Moderator:** Thank you. The next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.
- Sonal Gupta:** You have some 5% of your portfolio's Tractor. Just wanted to understand because you are seeing significant drop in Tractor sales across states. Are you seeing any stress in terms of Tractor NPLs as of now?
- Umesh G. Revankar:** No, more than 90% of our Tractors are Used Tractors with a ticket size of around 2 lakh and they are used for commercial-cum-agri both. So the application for which we are financing, we do not see any stress there because they do have a good earning and we are able to recover the money and we also consciously give only monthly EMI, we do not offer them quarterly or half yearly. So, we may not have any surprise as far as the Tractor is concerned. We should keep increasing the portfolio because there is a quite good demand for this kind of commercial activity factors.
- Sonal Gupta:** Because the other thing is that commercial activity seems to slow down somewhat in rural, so that is not really impacting?
- Umesh G. Revankar:** No, commercial activities in rural is quite good, only the agri produce has been little lower.
- Sonal Gupta:** On a year-on-year basis, would you have any sense on how the freight rates have moved for say the fourth quarter?
- Umesh G. Revankar:** Freight rate has been stable, it has not moved up nor it moved down because the decrease in diesel price to the extent the freight rate have come down in the contractual movement of the goods. Where there is no contract, it is stable.
- Sonal Gupta:** Year-on-year, you have not really seen much change in...?
- Umesh G. Revankar:** No, I do not see much change, only where there is a link to diesel price contracts there it is reduced along with the diesel rates.

- Sonal Gupta:** That means the profitability of the transporters should have improved significantly, right, because the freight rates have not come down while the diesel prices have come down?
- Umesh G. Revankar:** To some extent, yes, there is some comfort with a customer and that was the one of the reasons that demand for the credit also has gone up.
- Sonal Gupta:** So sir, what I am coming to is like you said in answer to a previous question that resale values have improved, we have seen improvement in profitability, but your provisioning is not really coming down on Shriram Transport Finance side. Is this just the existing weak accounts such as just going through the buckets or are you seeing some fresh slippage as well?
- Umesh G. Revankar:** What happens is if some loans are generated in the last 1-1.5 years, if it reaches 4-5 buckets, then some moving up will be there. In Second Hand Vehicles you always have some kind of maintenance issue or some breakdown that will make the collection difficult or may not be possible to pay one particular EMI. If you are at 4 or 5, then it will slip into. So the natural slippage would be always there. So, that will be continuous.
- Sonal Gupta:** Do you anticipate any improvement in this reduction in provisioning in the near-term?
- Umesh G. Revankar:** First two quarters I do not see, after that if overall economy is robust, definitely there would be.
- Moderator:** Thank you. The next question is from the line of Mithun Soni from Geecce Investments. Please go ahead.
- Mithun Soni:** On the Construction Equipment, just want a little bit more flavor. For the assets where we have made provisions, what is the actual amount we have to collect – is it much lower than the LTV, how is it stacked up for that?
- Umesh G. Revankar:** LTV is taken care, but at this present time, we do not know what will be the value of the machinery, it will be difficult to give you the right number, but since at the time of lending, LTV is taken care, which would have big hit.

- Mithun Soni:** But, when you are saying that we should be able to recover the money, is it that the total amount what we have to recover is fairly equal to or less than the market value of the assets today, is it fair to say that way or may not be the same situation?
- Umesh G. Revankar:** It maybe or may not be, because how the value of asset gets dropped and for which asset how much drop is there, is something difficult to assess right now. In the Commercial Vehicles, it is a very standard process and everybody knows, but some of the Equipments are specialized, which has utility in particular projects only and for these equipments we are not sure about the value. So the best is to keep customer engaged and collect the money and not to really try to repo and sell and collect the money.
- Mithun Soni:** You said that you will take a help of your other branches. So is it that you are trying to get them sold somewhere else or also is it possible to move the equipment from the location of the site to the other projects, what sort of help you are providing at the ground level?
- Umesh G. Revankar:** It is basically to engage with the customers. The customers may be under stress. I feel best way is to keep collecting part amount and make the customer engaged and pay, rather than thinking of repossessing and selling it to somebody. If required, that also can be done. We have a wide network of customer base, you can always make that possible. We have to look at all possibilities.
- Mithun Soni:** Now, going forward, with this experience, now what will be our plan going forward for next 2-3 years in this subsidiary like once the economy picks up and again you would like to build the book or now go slow, what will be the strategy there?
- Umesh G. Revankar:** We would like to do the lending to a very familiar and known equipment and machineries which has standard resale values and where it is not dependent on specialized project. So there are dumpers, they are all very common machineries which it can be used for any activity and has a reasonably standard resale value. We would focus on that and we would not go into a specialized equipment.
- Mithun Soni:** But of the existing book what we have gross NPA of Rs.380 plus another Rs.400 odd crores, if things were to go bad particularly for specialized projects, how much actual loss you feel can come up – 20% of that 800 can convert to actual losses?
- Umesh G. Revankar:** That is difficult to answer and assess.

Mithun Soni: In terms of our standalone Vehicle Finance, are we collecting more than the normal quarterly installment or is it 104% of the normal, so basically collecting for the quarter as well as for the previous quarter or is it just badly meeting our quarterly requirement?

Umesh G. Revankar: I think it is a quarterly requirement right now.

Moderator: Thank you. The next question is from the line of Sagar Ahluwalia from Laburnum Capital. Please go ahead.

Sagar Ahluwalia: Just wanted to get some perspective on two issues: First is your employee cost went down. So, I am just curious what is the likely evolution in terms of employee schedule we expect the headcount to stay stable, rise or fall, also, the salary increases you have done it will be good? The second question is in terms of Used CV ratio and New CV ratio seems quite heavily in favor of Used CV. We are not seeing the commensurate upshift in yield and I am curious about that. So we would like your perspective on those two things.

Umesh G. Revankar: Employee count has been stable QoQ, it was a conscious decision to reduce the employee count and increase the productivity and the efficiency of each employee. So, we were able to increase number of branches and put employees into new branches without adding new manpower or adding more manpower. So that is what we have consciously done in the last 1-year and therefore, we are able to manage with reduced manpower headcount. As far as the Used Vehicles yield is concerned, also is a reasonably competitive market, especially when you are in 2-5 years old vehicle. So, the company has gone into financing 2-5 years old also, where the yield is little above the new. So, it does not really make big difference. So, as a combination, the yield will not go up, because we are mostly into Used Vehicles.

Sagar Ahluwalia: On your Shriram Equipment Finance book, what is the plan with that – you are growing that book, is the idea to kind of run it off given the issuance you had so far, are we thinking to scrap assets in this area or it is just a matter of bumpiness that is expected in the business, and as you say you expect to recover?

Umesh G. Revankar: We are looking into the entire operation of the business. We would like to engage the employees of Shriram Equipment and also the customers, then, take a call at an appropriate time how we are planning to take that company to next level.

- Moderator:** Thank you. The next question is from the line of Alpesh Mehta from Motilal Oswal Securities Limited. Please go ahead.
- Alpesh Mehta:** The first question is related to our Shriram Equipment Finance book. Since when all these loans were standing on our books, so what would have been the average duration of this portfolio?
- Umesh G. Revankar:** It will be more than 18-months average.
- Alpesh Mehta:** Obviously, if they are classified as NPL, that means so they paid installments only for the first 12-months and after that it started becoming...?
- Umesh G. Revankar:** Yes, you are right.
- Alpesh Mehta:** Out of the Rs.3,000 crores AUM, what would be the mix between New and the Old?
- Umesh G. Revankar:** 70 should be New and 30 should be Old.
- Alpesh Mehta:** Out of the complete 4.7 billion of gross NPLs, what are the number of contracts outstanding and the number of customers for these loans?
- Umesh G. Revankar:** 5,000 contracts and number of customers could be less, because many of them have multiple contracts.
- Alpesh Mehta:** Second question is on the Shriram Transport Finance. We have seen some improvement in growth happening in the heavy commercial vehicles segment. Is it largely Old Vehicle Loans or the New Vehicle Loans?
- Umesh G. Revankar:** We are getting proposal for both New and Old, but Old will be much bigger growth for us, but New also is picking up. If you look at our Lending portfolio, the New Vehicle Lending is going up in the last two quarters, so slowly customers are going for a New Vehicle.
- Alpesh Mehta:** Are the customers just driver-cum-operator kind of customers at least since the growth has started picking up over the last two quarters or the customers who are owning two or three vehicles with them?
- Umesh G. Revankar:** New Heavy Vehicle is normally people with two-three Vehicles and LCVs are typically driver-owned.

- Alpesh Mehta:** So basically the incremental growth which is coming right now is with the customers who are owning at least two-three vehicles?
- Umesh G. Revankar:** Yes in Heavy Vehicles.
- Alpesh Mehta:** What is the Tier-1 capital adequacy ratio?
- Sanjay K. Mundra:** Around 17%.
- Alpesh Mehta:** Sanjay, this is post deducting the capital infusion that we did in the Shriram Equipment Finance?
- Sanjay K. Mundra:** Shriram Equipment happens after that, this is the March data.
- Alpesh Mehta:** And on the securitization portfolio. We understand that there is some lower demand from the banker side, considering the lower credit growth. How do you see this portfolio behaving over the next two or three years and what would be the mix between the New and the Old ones between the off balance sheet and the on balance sheet?
- Parag Sharma:** We did securitization to the extent of Rs.4,500 crores in the current year and we expect the similar quantum to be done next year also. So we do not see the overall portfolio outstanding of securitization to come down, we should be able to maintain it.
- Alpesh Mehta:** In absolute terms. So in a percentage term, the proportion will come down?
- Parag Sharma:** Yes, that will come down.
- Alpesh Mehta:** So would this lead to some kind of a pressure on margins considering the proportion is coming down in the overall AUM?
- Parag Sharma:** We do not expect that because anyway bank rates are also looking much better now and bond yields also have come down.
- Alpesh Mehta:** Did we see any fall in the cost of funds in the current quarter, not on the incremental side, but on the average cost of funds?
- Parag Sharma:** Because of the bond rate advantage, there was some reduction.

- Alpesh Mehta:** But when I see your margins they are hardly 3 basis points up. So is there any pressure on the yields?
- Parag Sharma:** No, there is no pressure, but most of the rate reduction happened during the last quarter only. So the benefit of it will come in the subsequent quarters only.
- Alpesh Mehta:** If you can just quantify, would that be on an average around 25-50?
- Parag Sharma:** We have roughly around Rs.17,000 crores of bank loans, from banks have reduced 15 basis points, 20 basis points, and so in the entire portfolio there will be reduction.
- Alpesh Mehta:** What would be the proportion of NCDs for us?
- Parag Sharma:** We have similar amount of NCD around Rs.16,000 crores are there.
- Alpesh Mehta:** And the rest would be?
- Parag Sharma:** We have Retail Borrowing. Public issue outstanding is roughly around Rs.5,000 crores and Fixed Deposits of Rs.6,000 crores.
- Alpesh Mehta:** So basically if I were to see from the gain perspective, the fall in the interest rate, the real gain can come on the bank side, NCD will be gradual, so immediate impact will come only on the base rate coming down from the bank borrowings?
- Parag Sharma:** Correct.
- Alpesh Mehta:** And incrementally, are you borrowing mostly by NCDs or by bank loans?
- Parag Sharma:** Mostly by NCDs.
- Moderator:** Thank you. The next question is from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.
- Sangam Iyer:** Just wanted to understand the pain in the Equipment business a little bit more. Rs.400 crores that we are showing in the stressed asset bucket currently, going forward the movement of that into NPA would happen or what timeframe assuming that the current status of the project businesses remains as is?
- Umesh G. Revankar:** Next two quarters would be a little challenged, but I feel the second half of the year we should be able to resolve many of the problematic cases.

- Sangam Iyer:** So assuming that the status remains as is for various projects wherein we have financed, these Rs.400 crores which are currently you have identified as further stress. Would this slip into NPA or would they still be better off and slip into NPA if things do not turn in the second half?
- Umesh G. Revankar:** We are trying to engage with the customer and see that does not get into NPA. Even those cases which have gone into NPA we are confident of collecting money.
- Sangam Iyer:** Secondly, on the Vehicle Finance book, we did indicate that the second half of this calendar year, especially Q4 has been pretty strong with disbursements growing faster and the next couple of quarters we expect the disbursement rate to be similar to that of the last couple of quarters and second half being much better than the first half. Still we are giving guidance of around 10-12%. I am just trying to understand are we being too conservative here, could you just...?
- Umesh G. Revankar:** We are conservative mainly because what they call is El Nino effect or the monsoon being weak. We are trying to be cautious on that. So, subject to that otherwise we should be growing at 15% is what I feel.
- Sangam Iyer:** Thirdly, with improvement in your cost of funds coming through, typically, what percentage of that does get pass through to your customers, is it like immediate pass-through that you do or we do retain certain large portion of that because we are guiding for a flattish kind of NIM?
- Umesh G. Revankar:** If we have a good growth prospects, we would like to pass it on to the customers and improve a number of customers. So that will be the criteria. And if the growth is not big enough, then we will try to increase the NIMs by keeping the yield.
- Sangam Iyer:** So for 15% kind of a growth, what is the kind of NIM that one should be assuming because there the NIM should be growing faster or...?
- Umesh G. Revankar:** Right now, the NIM we are expecting it to be at a present level.
- Sangam Iyer:** Assuming 15% growth is steady state, for that 6.7% is what one should assume?
- Umesh G. Revankar:** What happens is when you are increasing your volume at same cost you will get the overall benefit.
- Sangam Iyer:** For that, an assumption of 20% growth in AUM, you are passing on the total benefits?

- Umesh G. Revankar:** Some we will pass on...
- Sangam Iyer:** But for a 12-15% the better part of the benefit of cost of fund should get retained, right?
- Umesh G. Revankar:** Yes, it should be. We have to see how much benefit we get out of cost of funds. If it is marginal, then we cannot and if it is substantial, then definitely we will have good NIM.
- Moderator:** Thank you. The next question is from the line of Gaurav Agarwal from E&R Advisors. Please go ahead.
- Gaurav Agarwal:** I just wanted to have a number of Disbursement segment price, how much to LCV, HCV, PV, Tractors out of the Rs.9,000 crores of fresh addition?
- Umesh G. Revankar:** These details you can get it from Sanjay.
- Gaurav Agarwal:** What is the typical loan size of two pre-owned vehicles?
- Umesh G. Revankar:** It is around 2.5 lakhs, because in the rural area it will be a smaller ticket, in the urban area the ticket size will be bigger; 4 lakhs plus.
- Moderator:** Thank you. The next question is from the line of Mayur Parkeria from Wealth Managers. Please go ahead.
- Mayur Parkeria:** You have answered this many times, but hypothetically, assuming the macro environment remains the same as far as the Equipment business is concerned, only from a pure accounting standpoint, how much more will you have to provide if the situation remains the same and no recovery in the first half?
- S. Sunder:** It depends. Whatever is currently in the 150-day bucket, assuming it is the worst scenario, supposing if everything goes well, which is very unlikely, so there may be some movement from 150-day to 180-day. So that as of now off hand telling will be very difficult, it will be very hypothetical I would say.
- Mayur Parkeria:** Moving from 120-day to 150-day, that also will be difficult?
- S. Sunder:** Very difficult.

- Mayur Parkeria:** Actually, what we are trying to understand is will there be a one more surprise of a bigger amount? We understand the efforts which are being put into, but the quantum, will it become a significantly large enough in that sense, because it is wiping off...we have Rs.3,000 crores AUM in the Equipment Finance?
- S. Sunder:** Yes, correct, Rs.3,000 crores.
- Mayur Parkeria:** So how much of that is already being under stress on a total amount?
- S. Sunder:** Currently, the NPAs are Rs.480 crores on a total AUM of Rs.3,000 crores, this has already been classified as NPA and what is lying in the 150-day bucket is close to Rs.400 crores of principal outstanding and supposing if no collection comes which is very unlikely, this can move to the potential NPA.
- Mayur Parkeria:** On that we will have to again provide 60%?
- S. Sunder:** Correct.
- Mayur Parkeria:** Second, from a standalone ROE perspective, we have been in the range of 14% over the last 3-4 quarters. Given the fact that we are looking at some of the positive levers also in terms of reducing cost improving growth environment and stability as far as the credit quality is concerned. Where do you think we will exit the FY16 from an ROE perspective – will it be significantly upwards of 17-18% or we will still be in this band?
- S. Sunder:** I do not think so in the first two quarters of FY16 ROE is going to increase. But probably what we can see is that if the AUM growth goes up to 15% and if the margin improves by say another 25 basis points with cost of funds coming down, and if the credit cost comes down by say another 10-20 basis points, ROE can go up to around 17-18%, but we do not expect by FY16, it could be by FY17.
- Moderator:** Thank you. The next question is from the line of Manisha Porwal from Taurus Mutual Fund. Please go ahead.
- Manisha Porwal:** Again on the Equipment Finance. I just was wondering that in one quarter we have made this accelerated provision. Had it not been an accelerated provision and we would have gone by our normal provisioning, what would that amount be, in the sense, we have provided 60% of the fresh slippage, is it?

- Parag Sharma:** 60% is the coverage what we have maintained on the gross NPA. If we could have gone by the RBI, it could have been around 20-25% coverage. Since we have been maintaining 60% coverage for almost last three-years so we decided to maintain that coverage rather than having a lower coverage on the fresh slippages.
- Manisha Porwal:** Suppose by the end of this year once we move to 150-day DPD, what is this PCR going to look like – is it going to remain at this level or we are going to utilize a bit of the cushion?
- S. Sunder:** Currently, we have been consistently maintaining around 60% coverage and in the change environment once we move to 150-day norm, maybe the Board will again revisit the coverage requirement and can appropriately decide which may be lower than the 60% or so.
- Manisha Porwal:** This 60% is for Equipment? For Shriram Transport main business we maintain much higher. So there...
- S. Sunder:** Currently, we are maintaining around 80%.
- Manisha Porwal:** So there also the board is going to take a decision?
- S. Sunder:** Correct.
- Manisha Porwal:** Reason given for the failure was that government projects are not paying up. So majority of our equipments is for those people who are using it for government projects?
- Umesh G. Revankar:** It depends. All large contracts are typically government contracts. So, these equipments maybe working with smaller contractors or larger contractors but ultimately the source of payments will be either government project or even private project but linked government project. So, there has not been much corporate investment in India infrastructure or private infrastructure by the private people, most of them are state government or central government. And as I was explaining you that many of these central government projects or even state government projects are stalled for last one year.
- Manisha Porwal:** Unseasonal rain you said has given you some signal that it has hampered the rural economy. So, will it give any kind of impact to Shriram in coming quarters, is this

Rs.500 crores which we are seeing in the 150-day, is it something to do with the rainfall or has that not been considered?

Umesh G. Revankar: No, it is nothing to do with rainfall at all, because what happens is in every bucket there will be some portfolio. And the recovery normally in the fourth quarter is supposed to be better than the previous quarter because that is where you have every crop coming and all. So, we expected the fourth quarter recovery to be much higher and because of this it was not better than the previous quarter, it remain at the previous quarter level.

Manisha Porwal: The incremental loans are going at different LTV or we maintain our LTV?

Umesh G. Revankar: No, same LTV, we have not changed.

Moderator: Thank you. The next question is from the line of Rohit Shimpi from SBI Mutual Fund. Please go ahead.

Rohit Shimpi: Just wanted to check that would we be requiring to pump in any further equity post this Rs.100 crores in Shriram Equipment?

Umesh G. Revankar: No, for time being this is more than sufficient, then as we go towards the end of the year we have to revisit the requirement, but personally we do not think it is required.

Rohit Shimpi: No, I was just looking at, currently we are at 9.9 Tier-1 there and say Rs.100 crores would take it up by around maybe 3.5-4% and then if you just say Rs.400 crores is lying in 150-180 DPD, even if half of that slips, you provide 60% of that, that is an impact of around Rs.120 crores, so that should again pull the Tier-1 to below 10%. Do you not think that will require further infusion possibly?

Sanjay K. Mundra: The portfolio right now is around Rs.3,000 crores, so we will have some collections also and next two-quarters probably we are not going to lend in a big way. So I think the portfolio will be on the decline side hence the capital requirement will be slightly lower.

Moderator: Thank you. The next question is from the line of Kunal Mehra from MSD Capital. Please go ahead.

Kunal Mehra: For the Equipment Financing book, 5,000 contracts that we are referring to for the purpose of this conversation, which contribute Rs.480 crores of NPAs, are those all on a monthly installment basis

- Umesh G. Revankar:** Yes, all are monthly.
- Kunal Mehra:** You referred when you were talking about the Tractor book that you do not do quarterly installments. I was just wondering in the ...
- Umesh G. Revankar:** We do not do quarterly or yearly in any activity, all are monthly.
- Moderator:** Thank you. The next question is from the line of Sandeep Jain from Sundaram Mutual Fund. Please go ahead.
- Sandeep Jain:** Some answer to the some question you said that the strategy going on in Equipment business would be not lending to a single activity equipment and all. So, in our current book of Rs.3,000 crores, can you break up that – how much would be a single activity project or how much would be a multiple purpose kind of?
- Umesh G. Revankar:** We do not have details right now, we can provide it later... Sanjay will give.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Revankar for closing comments.
- Umesh G. Revankar:** Thanks, everyone for joining this call. We are very optimistic and hopeful that new financial year will be good and we will be expecting good environment, good infra projects, etc., in the next and we also expect our Equipment portfolio to behave well in the next couple of quarters and we are extremely bullish on the second half of the year but first two quarters we will be definitely putting all our effort to improve the results.
- Moderator:** Thank you. On behalf of Shriram Transport Finance, that concludes this conference. Thank you for joining us and you may now disconnect your lines.