



“Shriram Transport Finance Limited Q4FY16 Earnings
Conference Call”

April 29, 2016



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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Shriram Transport Finance Q4FY16 Earnings Conference Call. As a reminder, all participants' 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 '*' and then '0' on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Umesh Revankar – Managing Director and CEO, Shriram Transport Finance Company Limited for initial remarks. Thank you and over to you, sir.

Umesh Revankar: Good Evening to Everyone, Good Morning to the people who have joined from US. I have with me Sanjay, Kelkar, Sunder and Parag to answer specific questions. I hope that everyone had a chance to run through the "Investor Update" which is already shared with you. As you can see from the numbers, the Credit growth has been quite robust. Continuing from the last quarter, the demand for the Commercial Vehicles has been quite good especially the new vehicles sales also has been exceptionally good. On Heavy Vehicles, around 38% growth was there year-on-year and for the first time LCVs have shown a positive, that is around 11% year-on-year growth.

In the Agriculture Segment, harvesting season of Rabi crop is on. As of now, the report says that Rabi crop production is quite good and even though there were some impact due to unusual weather conditions here and there, overall, the Rabi crop production is quite good with little increase over the previous year.

The excessive heat and related issues are there but what is most positive is the monsoon prediction by both IMD and Skymet. Last year hope you remember the Skymet had given little positive opinion and IMD had given little negative opinion. But this time both of them have given positive opinion. So the rains are likely to be around 104-105% and probability of 94% of the excess rain. Hopefully, the rainfall falls in the right catchment areas so that good rainfall in the catchment area we should be able to get our reservoirs full which normally helps us for two years. So, with this we see a positive outlook on the monsoon. There is another big positive on infrastructure spending. Right now a lot of tenders are being called and infrastructure spending by the government has taken shape. We expect that once the tenders are cleared and the work starts there will be a lot of further positiveness in the demand and the economic activity. However, with both these events – monsoon and the infrastructure – is likely to happen post-October because even if the execution starts on the infrastructure project, just pre-monsoon these activities do not start, starts post-monsoon.

So all the indications as of now shows that there will be a good positive economic activity, outlook and the overall demand growth in the third quarter. So next two quarters will be tough for us as far as the business is concerned, mainly because the excessive heat and also maybe onset of monsoon will reduce economic activity to some extent.

We also have seen Union Budget this quarter. The Budget this year has been very much pro-rural and pro-agri. Large amounts have been outlaid for these two things and many of these institutions are also activated, like NREGA and the Panchayat System, everything has been activated. It looks as if with activation of these institutes and Jan Dhan Yojana which enrolls a lot of bank accounts and Aadhar Card and the mobile technologies likely to make the transfer of money also easy for the government to the people. I feel very optimistic about the second half of next financial year.

Coming to the Interest Rate Scenario: RBI has reduced further another 25 basis points and that has resulted in some reduction in the borrowing cost for us. We are also able to raise good securitization amount around Rs.4,800 crores in the last quarter and that also at a very reasonable rate. So, all those positives are there. We also had the other specific development of merger – Shriram Equipment Finance and Transport Finance Merger is complete now. The results are the merged one on a standalone basis. So both the company's results are merged. Some figures will be comparable, some may not be comparable but we can explain on whenever you have queries on these.

As far as Numbers goes: Total income has gone up by 26% from Rs.2,312 crores to Rs.2,918 crores and net income has gone up from Rs.1,098 crores to Rs.1,443 crores, so that has gone up by 31%. PAT has come down to Rs.143 crores from Rs.316 crores last year same period and mainly due to the Equipment Finance subsidiary **being** merged with the company and also due to recognition of NPAs moving from 180-days to 150-days and also the merger impact. We have brought down the coverage ratio from 80 to 70%. In a very ideal situation, if the economic conditions were good, we could have brought it down further. But since the drought is still continuing, resale value of vehicle has not improved significantly for all categories of vehicles. We felt that keeping at 70% and being very conservative is better and look at revising it maybe after two quarters. So overall GNPA on a percentage has moved up to Rs.6.18 crores because of this impact and the net NPAs have gone up because of the lower coverage.

This is about the overall performance of the company. Now, I open for the Question-and-Answer.

Moderator: Thank you, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We have our first question from the line of Pranay Narasimman from Financial Express. Please go ahead.

Pranay Narasimman: Can you just please repeat the explanation that you gave for provisions?

Umesh Revankar: We have moved from 180-days to 150-days and there is also a merger of the Equipment Finance Subsidiary.

Pranay Narasimman: So how much of an effect of the merger is are we seeing here?

- Umesh Revankar:** Due to merger, the NPL on a whole has gone up by 1.3%, that is when we moved from 4.18% to 6.18%, the merger portion is 1.3%, on the standalone basis it has gone up from 4.18% to 4.9%.
- Pranay Narasimman:** Your NPAs keeping the merger aside yours has only gone up by 0.7%?
- Umesh Revankar:** You are right.
- Moderator:** Thank you. The next question is from the line of Nidhesh Jain from Investec. Please go ahead.
- Nidhesh Jain:** The question is on GNPA first. So if we would have been on 180-days what would be the GNPA like-to-like number for 4.18%?
- Umesh Revankar:** It would have been same as this quarter.
- Nidhesh Jain:** Because of movement this 4.18% has increased to 4.9%?
- Umesh Revankar:** Yes.
- Nidhesh Jain:** Secondly, what is the reason of improvement in margins because there must be some interest reversal because of the increase in GNPA, but even then our margins have improved?
- Umesh Revankar:** The borrowing cost has come down marginally and the most of the reserves raised in the last quarter was through securitization at lower cost. So that has helped.
- Nidhesh Jain:** What is the amount of interest reversal during the quarter because of GNPA movement?
- Umesh Revankar:** It is Rs.15 crores.
- Nidhesh Jain:** What is the additional provisioning that we have done because of the movement?
- S. Sunder:** Around Rs.300 crores additional provision on account of moving from 180-days to 150-days and Rs.15 crores we have made in income reversal and the reversal on account of the coverage being reduced from 80% to 70% we wrote-back around **Rs. 416 crores** of provision.
- Nidhesh Jain:** Can you share the disbursement number for the quarter in terms of New and Used CV?
- Sanjay Mundra:** The total disbursement was Rs.12,700 crores, out of which New Commercial Vehicles disbursement was Rs.1,920 crores and remaining Rs.10,000-odd crores was Used Commercial Vehicles.
- Moderator:** Thank you. The next question is from the line of Ashwin Balasubramaiun from HSBC. Please go ahead.

Ashwin Balasubramaiun: I have two questions actually ; first one related to the Equipment Finance book. If I look at your last year presentation, I think the total AUM of this book was about Rs.2,900 crores and now if I calculate it, it comes to about Rs.1,500 crores. The remaining Rs.1400 crores, what proportion would we like let us say contracts such have been repaid and what would have been like written off?

S. Sunder: From Rs.3,000 crores in the previous year it has come down to Rs.1,650 crores in the current year. So the reduction is mainly on account of collection and write-offs we have done around Rs.200 crores.

Ashwin Balasubramaiun: The NPA in this book is about Rs.890 crores?

S. Sunder: Rs.893 crores.

Ashwin Balasubramaiun: So if I compare it from last year to this year it has moved up by about 100 bps from Q4 of last year to this year, while your borrowing cost have also decreased, it has not decreased to the same extent, so just wanted to understand is there a change in terms of the customer profile or something which we are lending to which is sort of leading to the increase in the NIMs?

Umesh Revankar: No, lending rates have remained same. The improvement is mainly because one is better treasury management, we have kept a less cash in hand. Second is because of lowering borrowing cost.

Ashwin Balasubramaiun: Out of the interest income for the full year, how much would be from investments and how much from advances if you have that...?

Umesh Revankar: Investment income is very low, we do not have.

S. Sunder: We will send it across to you.

Ashwin Balasubramaiun: If I look at your segment wise breakup, there is others which is about 3.1% and QoQ there has been a fairly substantial increase in that proportion. So just wanted to understand what exactly this other portfolio would consist of?

Umesh Revankar: That is mainly some business loan and working capital products we have launched. So that is gaining momentum.

Ashwin Balasubramaiun: What would be the size of this portfolio currently?

Umesh Revankar: Should be around Rs.2,000 crores.

Ashwin Balasubramaiun: The entire thing will be this business loan?

- Umesh Revankar:** Yes.
- Ashwin Balasubramaiun:** So what is the plan on this going forward – would it be a substantial portion of the portfolio or like you will rest...?
- Umesh Revankar:** It can reach around 5% of the portfolio in maybe a couple of years.
- Ashwin Balasubramaiun:** This is largely SME kind of loans?
- Umesh Revankar:** You are right.
- Ashwin Balasubramaiun:** It will be collateralized or...?
- Umesh Revankar:** It will be collateral only and to the existing customer.
- Moderator:** Thank you. The next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.
- Digant Haria:** The two statements that we made the demand for Commercial Vehicles has been very strong, that is also visible by the strong AUM growth, but at the same time resale prices are not moving up. So how do these two things tally?
- Umesh Revankar:** The resale values are basically a rural phenomenon because most of the used vehicles move towards the rural India after maybe 5-years, 7-years, 10-years. Since, rural India is not doing well, so the resale values have not really picked up. But there is a substantial demand for New Vehicles, especially on high value added goods transportation and also on the mining and steel movement. So demand which has come for New Vehicles has come, one is replacement, another one is the heavy goods transportation like steel, mines, etc.,
- Digant Haria:** So going ahead for FY17, can we expect a similar kind of growth that we saw because last year I think we started thinking that we will grow by around 15% and we ended up with around 21% even if we adjust for the Equipment Finance business merger?
- Umesh Revankar:** Partly it depends upon the monsoon, but still we would like to keep 15% guidance as of now, we do not wish to give more than that because uncertainties could be there in business.
- Moderator:** Thank you. The next question is from the line of Jignesh Siyal from Quant Capital. Please go ahead.
- Jignesh Siyal:** Can I get the breakup of your gross NPA percentage and how much is because of shift in deals and how much is because of Equipment Finance merger... I am saying what standalone numbers?

- S. Sunder:** The gross NPA of Shriram Transport standalone pre-merger is Rs.2,976 crores and Equipment Rs.894 crores and total into Rs.3,870 crores and when it translates into the percentage it is 4.88% on a standalone basis pre-merger and after-merger it is 6.18%.
- Jignesh Siyal:** So the balance is because of the merger?
- S. Sunder:** Yes, correct.
- Jignesh Siyal:** Your Q3 gross NPA was 4.29%...
- S. Sunder:** Had we followed the same 180-days norm, our gross NPA would have been around 4.2-4.25%.
- Jignesh Siyal:** But that addition of 4.2-4.88% is because of shift?
- S. Sunder:** Correct.
- Jignesh Siyal:** If the days would not have been removed, basically your gross NPA would have actually declined, so there has been an improvement?
- S. Sunder:** Yes.
- Jignesh Siyal:** Similarly, can I get the provision breakup also because the number I got was Rs.300 crores we provided due to change in days, is there any additional provision which has come up with because of merger?
- S. Sunder:** One is provision has gone up by Rs.300 crores on account of moving from 180-days to 150-days, additionally the income reversal because of the change was Rs.16 crores, so totaling to Rs.316 crores on account of transition from 180-150-days, we had written back the provision when we reduced from 80% coverage to 70% to the extent of Rs.415 crores and the loss that we got from Shriram Equipment because of the merger full year was Rs.360 crores.
- Jignesh Siyal:** You were just discussing about the margin part that; one was because of the lower cash in hand, the treasury management and the reduction in borrowing cost. MCLR also has been into the system as in place and there is a recent reduction. Can you give some idea about what is your estimate for the margin for the next financial year?
- Umesh Revankar:** I do not really see a big expansion in margin because one is New Vehicles upgradation by our customers is continuous. So there will be some mix of new coming into the portfolio which will be a little larger than the previous year. So to that extent there will be some pressure on the yield because of that. Second is MCLR is not really benefiting because three years MCLR rates are higher than the base rates. So MCLR maybe for shorter period only is lower, longer period this is not advantageous and we normally borrow more than 3-years. So we do not really see a big advantage unless the repo rate further comes down.

- Moderator:** Thank you. The next question is from the line of Harshit Toshniwal from ICICI Securities. Please go ahead.
- Harshit Toshniwal:** I wanted to know that currently we are at 150-days NPA recognition. If this been around 120-days or 90-days, then what would be the GNPA numbers?
- Umesh Revankar:** At the current environment, you can expect it to be another 1.5% more than the current level for 120-days and 1.5% for 90-days. You have to ignore Equipment portfolio for time being because that is going to come down drastically in one year time.
- Harshit Toshniwal:** For this currently 150-180 portion, the amount was very less?
- Umesh Revankar:** Yes, because it is already in the elevated level last quarter, the impact was little less.
- Moderator:** Thank you. The next follow on question from the line of Digant Haria from Antique Stock Broking. Please go ahead.
- Digant Haria:** Excluding this impact of this entire migration from 180-150 and 150-120 and so on, how do we see the asset quality behave here -- are we seeing any changes because at least this quarter we have seen your NPA deterioration was absolutely not there if we remove all the one-offs?
- Umesh Revankar:** I explained you that the last quarter itself was at an elevated level, so further increase was not much and economic conditions have remained same and it is next two quarters also it is likely to be remain same or may be little depending upon the monsoon and other related factors, it is likely to remain at present level. On that background only we are giving you increase in the NPA level.
- Moderator:** Thank you. The next question is from the line of Rajesh Kothari from Alpha Accurate Advisors. Please go ahead.
- Rajesh Kothari:** What is your guidance for gross NPA next year?
- Umesh Revankar:** Gross NPL will move by 150 basis points if you move into 120-days at the present market conditions and environment. If the environment improves, it can come down.
- Rajesh Kothari:** When you say in the present environment means what underlying assumption?
- Umesh Revankar:** The environment today is a drought because the country is facing a severe drought, water shortage and so many of other rural activities have come down. So the activities at the rural level is stressful. So next year if the rain is good, monsoon is good and if everything is better, things can become much better than this.
- Rajesh Kothari:** So 150 bps addition in gross NPA at 120-days present conditions, am I right?

- Umesh Revankar:** Yes, if things are better, it will all come down.
- Rajesh Kothari:** That generally may happen post-October because first and second quarters it is not...?
- Umesh Revankar:** Yes, first and second quarter it will be at present level at 150-days.
- Rajesh Kothari:** Your accounting policy from next quarter onwards would be 150-days or 120-days?
- Umesh Revankar:** As of now we have decided to be at 150-days.
- Rajesh Kothari:** By when do you think you may move from 150-days to 120-days?
- Umesh Revankar:** We are supposed to move in the last quarter.
- Rajesh Kothari:** So are you trying to say that probably in second half you may move to 120-days?
- Umesh Revankar:** We have not decided it on that. As of now, we have decided to shift in the last quarter of FY'17, this is the present decision.
- Rajesh Kothari:** What do you think will be your credit cost going forward?
- Umesh Revankar:** If you look at our long term history it is around 2-2.5. In normal conditions it should be the credit cost going forward also.
- Rajesh Kothari:** What was last year's credit cost?
- Umesh Revankar:** Last year was at around 2.5%.
- Rajesh Kothari:** This is including merger? Excluding merger?
- Umesh Revankar:** Excluding merger.
- Rajesh Kothari:** On reported basis it would be because merger is done, am I right so?
- Umesh Revankar:** You can contact Sanjay, he will give a detailed number.
- Rajesh Kothari:** So do you think that FY'17 credit cost will remain around 2-2.25% which is you are saying is a normal scenario?
- Umesh Revankar:** It should be yes at the end of the 2017.
- Rajesh Kothari:** How do you see the competition environment?

- Umesh Revankar:** Used Vehicles we do not really see a big competition from big corporate, but from smaller entities across all our country we have competition.
- Rajesh Kothari:** For New Vehicles?
- Umesh Revankar:** New Vehicles, we are not competing with anyone. The only existing customers who are upgrading, we finance.
- Rajesh Kothari:** I see, so it is to the existing customer you mean?
- Umesh Revankar:** Yes.
- Rajesh Kothari:** And what is currently your market share in the existing customers who are upgrading?
- Umesh Revankar:** How can we give market share of existing customers upgrading.
- Rajesh Kothari:** No, because you are saying there is competition, but life does not work like that, am I right, your existing customer may also go to other financiers.
- Umesh Revankar:** They may go, but I cannot calculate market share for that.
- Rajesh Kothari:** So that is what I am asking, how is the competition level, but you said that I do not have any competition, so that was surprising.
- Umesh Revankar:** I have no competition in the sense, in Used Vehicles the large corporates are not present, only the local level financiers, small financiers at state level are there. So I say no competition from the large corporates in the second hand vehicle. In the new vehicle, since we are financing only for our existing customer who want to upgrade. So to the extent we are not competing in the market.
- Moderator:** Thank you, sir. We have the next question from the line of Rohit Shimpi from SBI Mutual Fund. Please go ahead, sir.
- Rohit Shimpi:** Two questions from my side. One was on the provisioning coverage, now we are down to at about 70% which is actually still quite high, right. So as we transition to 120 and 90 do we have any thoughts on where we would like to settle that number?
- Umesh Revankar:** See, ideally we would like to move 10% each, 50 and 50, that are at particular level of economic activity, the present level of economic activity. But if the economic activity is robust and looks very good then probably we may lower it further, but right now at present level of activity we expect it to bring it down by 10% each.

- Rohit Shimpi:** So actually in that sense we are not that far also, currently if I roughly calculate the PCR even on 90 DPD we will be about like mid-40, say 43% - 44%?
- Umesh Revankar:** Yes.
- Rohit Shimpi:** Second thing, if you just maybe talk about our management changes little bit.
- Umesh Revankar:** I am moving to Sriram Capital Holding Company, and Mr. Gujral is taking charge, Mr. Gujral was earlier north head for us and then he moved into Sriram General Insurance and he has been heading General Insurance for the last seven, eight years. So he is coming in my place.
- Moderator:** Thank you, Mr. Shimpi. We have the next question from the line of Sanjay Dam from Motilal Oswal Securities Limited. Please go ahead, sir.
- Sanjay Dam:** My question has been answered, thank you.
- Moderator:** We have the next question from the line of Sunil Kumar from Birla Sun Life Insurance. Please go ahead.
- Sunil Kumar:** My question is related to equipment finance, now since the merger is complete what is going to be the outlook in this particular business, because the loan book has already come down from those Rs.3,000 crores kind of levels. Are you going to remain in that business?
- Umesh Revankar:** Yes, we would like to remain in the business but we would like to remain in a very safe asset side, so that is what we have decided. So we will be in few identified assets.
- Sunil Kumar:** Like sir, if you can give some examples.
- Umesh Revankar:** Excavators, backhoe loaders, dumpers.
- Sunil Kumar:** These three lines?
- Umesh Revankar:** Yes.
- Sunil Kumar:** So we are going to see some disbursement happening and loan growth etc. in these lines?
- Umesh Revankar:** Yes.
- Sunil Kumar:** And the Rs.890 crores of gross NPA which is there in the books, how do you see that?
- Umesh Revankar:** I expect collections to happen because infrastructure activity being good I think things will improve and we should be able to resolve many of them. And next two years we should be able to collect on the balance of what was remaining as equipment book.

- Sunil Kumar:** Next two years, by March 2018?
- Umesh Revankar:** Yes.
- Moderator:** Thank you, sir. We have the next question from the line of Gaurav Jani from JHP Securities. Please go ahead.
- Gaurav Jani:** Just wanted to ask, as we move from 120 to 90, what percentage increase would we witness in our NPAs?
- Umesh Revankar:** 120 to 90?
- Gaurav Jani:** Correct.
- Umesh Revankar:** 1.5% is what we have been saying for every jump in bucket.
- Moderator:** Thank you, Mr. Jani. We have the last question from the line of Sangam Iyer from Shubhkam. Please go ahead.
- Sangam Iyer:** Sir, just wanted a small clarification. When we say 15% plus kind of a growth, and again that too we are saying assuming that the rainfall is good then it would come in the second half of the year. So the theme for what we have been seeing prior to this quarter that continues in terms of the asset quality, etc., or how should one be looking at it?
- Umesh Revankar:** Asset quality, if the environment and infrastructure activity improves asset quality should improve by third and fourth quarter.
- Sangam Iyer:** And in the interim whether the loan book growth would be also tepid itself or whether there would be any pickup in the loan book in the first half.
- Umesh Revankar:** In the first half the loan book growth will be slower and we will pick up only in the third quarter and fourth quarter.
- Sangam Iyer:** On the credit cost I just missed, one of the participant asked the credit cost for the next year, how much should one be looking at the credit cost for the next year?
- Umesh Revankar:** See, we would ideally like to contain at 2.5 and reduce it because our long-term credit cost history is 2%, so we would like to do at that level.
- Sangam Iyer:** So it would be more elevated in the first half and if the economic activities improve it would start tapering down, that is how we should be looking at?
- Umesh Revankar:** Yes.

Sangam Iyer: It is a more hypothetical, but just assuming a scenario wherein both IMD and the met department actually indicating a better monsoon this year, if that comes through how would you classify the probability of (+20%) growth that we have seen this year, coming back next year as well?

Umesh Revankar: This year the growth was little exceptionally big because the Heavy Vehicle sales increased beyond expectation, so the average Heavy Vehicle sales was around 28% to 30% and that is not likely to happen next year. So Heavy Vehicle ticket size being large and Used Vehicle in Heavy also has good demand, our larger ticket size loan was there and because of that the credit growth looks larger. So we have to really see whether Heavy Vehicle sale and Used Heavy Vehicle demand will remain as robust. So depending upon that the AUM growth can be determined.

Sangam Iyer: In your 15% growth assumption what are you factoring in?

Umesh Revankar: I am factoring in reasonably good monsoon.

Sangam Iyer: So that is an overall kind of growth and that would offset whatever be the decline in the Heavy Vehicle sales that happened this year?

Umesh Revankar: Yes.

Moderator: Thank you, Mr. Iyer. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Revankar for closing comments. Over to you, sir.

Umesh Revankar: Thank you. We are in a very optimistic mood as of now because of government spending on infrastructure and the execution seems to be reasonably fast. And post monsoon, most of this infrastructure activity should start galloping. Plus, good monsoon should give us some strong growth in the second half. But first half, definitely our focus would be more on the credit quality and trying to contain the overall quality in the portfolio, that should be our focus. However, business opportunity looks quite good and the number of branches last year we opened around 110 branches we opened and we expect same number of branches to be opened this year and business outlook looks quite positive for all of us. Thank you very much and expect to meet you all in the next call. Thank you.

Moderator: Thank you, sir. Ladies and Gentlemen, on behalf of Sriram Transport Finance that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.