# "Shriram Transport Finance Q4 FY17 Earnings Conference Call"

**April 27, 2017**

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**Moderator:** Ladies and gentlemen, good day and welcome to the Shriram Transport Finance Q4 FY17 Earnings Conference Call. 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Umesh Revankar –Managing Director & CEO for his initial remarks. Thank you and over to you sir.

**Umesh Revankar**: Good evening to everyone in India. Good morning to the investors who have joined from US. I hope all of you have been able to run through the investor update that has been sent to you earlier about the highlights of our key operational and financial metrics. I will briefly discuss developments in the macroeconomic environment before I share highlights of our performance.

The disruption caused by demonetization in Q3 is slowly waning. The IMF increased India's GDP growth rate estimate for 2016-17 to 6.8 from 6.6 earlier while retaining the GDP growth projection of 7.2 for fiscal 17-18. Further following above normal rain monsoon last year, the India Meteorological Department (IMD) and Skymet have predicted that India is expected to get normal rain between June to September this year and with 95 to 96% long-term average which is big positive and hope we get well-spread rain this year especially in the South because last year Southern part, Tamil Nadu and Karnataka did not get good rains and there is presently a drought in that particular part of India.

As far as post demonetization, the cash availability has really increased. The cash which was virtually dried out in the month of January as the old currency was not in circulation and new currency was not available, but by the time we entered February, the currency availability increased and by March, we did not feel shortage of the currency. So overall collection if you look at, our collection through cash dropped significantly in the month of January and by March, it is increasing that means the cash component is coming back to around 40%-45% whereas in January, it went below 30% of the total collection and as far as the agriculture is concerned, we are seeing a bumper crop in this Rabi crop which is harvested now and likely to come to the market in the May and June. So May and June should be good for rural agri movement and economy and we expect good demand in that particular rural area for vehicles especially used vehicle segment. We did have good demand for new vehicle in the month of February especially the change in BSIII to BSIV standard and that too the verdict from Supreme Court coming in the fag-end of the month. There was a huge demand for new vehicles as BSIV compliant vehicles, people are expecting increase in the price by around 7%-8%. So we also got some benefit out of it and but what we did not participate in the fag end demand that is 29 to 31st - whatever the demand came we did not participate. Otherwise, we were quite active in the market for used vehicle and new vehicle demand naturally coming from our customer.

Let me now go through some headline numbers for the quarter. Overall, our AUM grew 8.3% year-on-year to 78,760 crores against 72,760 crores. The net interest margins were marginally lower at 6.97 compared to 7.17 in the previous quarter due to some income reversal and the late disbursement growth in Q4, i.e. most of the disbursement happened in February and March. With reduction in MCLR rate and replacement of old borrowing, we expect 15-20 basis point advantage coming to us in the next two quarters and we should be able to maintain the net interest margin above 7% and expecting it to grow further. Our PAT for the quarter was 149.63 crores against 143 crores in the previous year and PAT for the full year was 1,257 crores against 1,178 crores in the previous year. We have maintained the coverage ratio to around 69.3 despite moving to 120 DPD in this quarter. We had temporarily increased to 75 in the previous quarter, but first two quarters we had maintained it at around 70. We have maintained with that and the GNPA increased to 8.16% and net NPA stood at 2.65%. The Board of Directors have proposed a final dividend of 6 per share. This is in addition to interim of 4 per share.

To conclude, we maintained our forecast of 12% to 15% AUM growth in the coming financial year. The Union Budget of 2017 had announced several initiatives to spur the growth especially in the infrastructure and rural demand and we expect the demand from rural area to come about now and in the second half of the year, the demand from the infrastructure activity would be there and we expect bigger demand towards infrastructure led demand especially on the construction equipment and the dumpers and we also expect some temporary disruption through because of the GST implementation especially for SME and individuals who are in the business and it could be a short term or medium term pain, by the time they understand and get over it and manage. With monsoon being good, we expect good demand from the monsoon throughout the next financial year.

As far as some equipment which merged last year, that portfolio which was at 1,800 crores has come down by to around 880 crores. Most of the reduction has happened only because of collections. So collection has been quite good, even in the last quarter the collection was 280 crores in that portfolio. Out of 880 crores, 730 crores is the NPL and 95% is already provided on the NPL. So we have almost fully provided for whatever it has moved into NPL and as far as SAMIL is concerned, Shriram Automall is concerned, it has done quite well. Against 5.2 crores profit in the previous year, it has delivered 8.2 crores profit for the year and going forward, Automall is likely to do very well because there are many tie-ups with banks and other financial institution is helping them to improve their business. Overall topline is growing and bottomline also is growing because they have controlled their expenses on the operations. So we expect next year the Automall to do very well and with the equipment portfolio also reducing and since we have already provided whatever the recovery we do next year beyond maybe around 200 crores, we should have some write back coming. So next year, we are looking forward for very promising growth and bottom-line. I have with me my colleagues Sunder, Parag and Sanjay also with me to answer specific questions. Now I request moderator to open for Q&A.

**Moderator**: Sure, thank you very much. We will now begin with the question and answer session. We have the first question from the line of Kartik Chillappa from Buena Vista Fund Management. Please go ahead.

**Kartik Chillappa**: Sir my first question is on our capital position. If we look at our capital adequacy right now, it is probably one of the lowest that we have had in many quarters below 17%. So how are we thinking in terms of our capital raising and how are we thinking in terms of our own AUM growth for let us say the next couple of years given that we are targeting a 15% kind of a growth, but generating an ROE of around 11%-12%. So I would love to get your thoughts on that and secondly we have started hiring field officers and increasing our employee count again, but this quarter the OPEX has been under control. So when should we start seeing our operating expenses inch up again and what kind of growth are you expecting for FY18?

**Umesh Revankar**: As far as AUM growth is concerned, we do expect 12%-15% in this year and next year it can be little higher because most of the infrastructure projects and government spend is likely to happen in the next 2 years and the capital adequacy, right now we are reasonably covered and I do not see much pressure on capital increase immediately because as per the statutory requirement, it is 10% on tier I and tier II is 5%. So total 15. So we have enough scope there. But having said that, we may look at raising capital once growth momentum comes into the overall economy and if you feel that growth can be beyond 15%, we will look at raising capital. Question on the employee count, yes we did increase the employee count because as our business model is relationship based, we need more people to reach as we expand, as we grow and most of our lending is to individuals, so we do need more people. So we have added around 2,800 people this quarter and we are going to end up with around 20,000 employees by the year end. The operational costs may not go up initially because when they are in the training period for first 6 months or to 9 months, they do not add to the cost much, but as they become part of the system, then there is incentive component to them, but they also start producing results. So even though the OPEX has come down now, but it will gradually grow as the headcount goes up, but it may not be significant, it could be around 2% increase, now it is around 19. We should be able to manage at 22%.

**Kartik Chillappa**: And sir just on that capital point, assuming we are growing at 12%-15%, are you trying to indicate that at least this year you should be able to manage with the existing capital position and if growth does start to accelerate in FY19, you may think of raising capital depending on the situation at that point of time?

**Umesh Revankar:** Yes, I agree with you.

**Kartik Chillappa**: And one question if we look at our AUM growth for the last 3 quarters that has been moderating somewhat on a Y-on-Y basis. So could you talk about apart from demonetization or so, is there any other factor which is causing this deceleration?

**Umesh Revankar:** It was mainly because of demonetization in the Q3 and maybe in the Q2, it was because of employee attrition which we have now managed to hold on and added more manpower. So we should be able to grow in future.

**Moderator:** Thank you. The next question is from the line of Abigail Fernandes from Crisil Limited. Please go ahead.

**Abigail Fernandes:** I would firstly like to ask you like are you still feeling the impact of demonetization in terms of your cash collection or disbursement and more importantly do you foresee any adverse impact of the same in your GNPAs for your future quarters.

**Umesh Revankar:** The impact is waning. It is Q-on-Q. I do not see demonetization to have further impact in the coming 2 quarters because currency availability is now reasonably good and rural economy also is picking up.

**Abigail Fernandes:** And the collections have also improved from previous levels?

**Umesh Revankar:** Cash collections have really improved. What happened is the overall cash component in the collection was low in January, but February and March, it has significantly gone up. In fact we wanted more and more collection through bank and digital, but the cash collection component has gone up. People are preferring cash for smaller ticket transactions, i.e. if the installment amount is less than 15,000, we are witnessing there are more chances of paying in cash. If the amount is bigger, then there are more chances of paying in cheque and digital. I think as the digital solution becomes more and more available, everybody will start using digital or banks, so it should happen, but temporarily the cash component is going up and we feel that it can further come down but it will not have impact on the collection. Collections will be robust.

**Abigail Fernandes:** So you will not see any major impact on your GNPAs for your future quarters? Sir I would also like to ask you so when you have to revise your NPA recognition norms at the end of FY18, what kind of impact are you expecting on your GNPAs?

**Umesh Revankar:** If the overall economic activity improves, it can come down. The second half of the year, the gross NPL situation will be improved. Otherwise, as it is if you look at 100 basis points increase we can expect.

**Abigail Fernandes:** Okay sir and any kind of change in your provisioning coverage ratio, PCR?

**Umesh Revankar:** Immediately, we cannot take a call, but as we look into the GST implementation overall, economic activity, GDP growth etc., then we will take a call.

**Moderator:** Thank you. Next question is from the line of Ankit Kedia from Crisil. Please go ahead.

**Ankit Kedia:** So sir as we were discussing about good monsoons and good crop of maybe this year, so sir but despite that in the southern states especially in Tamil Nadu and Kerala, there was drought situation and so are we observing easing of the rural stress in these states given the farmer protest, drought and everything and how confident are we of this 12%-15% kind of AUM growth guidance for this FY18?

**Umesh Revankar:** See, the monsoon will not cover across India. Every year there will be one or two states drought or maybe more. This year, it has been much less problem because only two states were impacted, Karnataka and Tamil Nadu, but rest everywhere there was a good rain.

**Ankit Kedia:** My questions again, so like most of our operations are based on the Southern region, so you might be having the ground level details. So I was keen on knowing are we seeing any improvement or any easing of the rural stress in these states in the last couple of months maybe.

**Umesh Revankar:** See, the rural stress in Tamil Nadu and Karnataka is not very acute because unlike the other states, these states are reasonably developed, industrialized. Whose dependence on the agriculture is very insignificant because it is most industrialized state in India. So for transport sector, it did not really impact. In some rural area, some impact is there, but Karnataka, yes to some extent the impact was there in Northern Karnataka, but it was not very significant. So we are very confident these two states are doing well as of now and we will continue to do well because their dependence on agri income is much lower compared to other part of the India.

**Ankit Kedia:** And sir similarly due to the demise of TMC and Jayalalitha and the political crisis since then, do you see any adverse impact of that sense it is going on from last 4 months almost?

**Umesh Revankar:** This has absolutely no impact because head of the government not being stable is not going to impact day-to-day activities and only the new projects will get delayed. It is the only thing. We have not witnessed any disadvantage there.

**Ankit Kedia:** And sir lastly just little data point. So what are your effective cost of borrowing and our incremental cost of borrowing?

**Parag Sharma:** The cost of borrowing is for the bonds is roughly around 8% and incremental cost of borrowing will be around 8.5% that is what we borrow incrementally and lending rates vary from new **vehicles to used.** Borrowing is only this much.

**Moderator:** Thank you. The next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

**Digant Haria:** We had around 440 crores worth of NPAs which were not recognized last quarter because of that RBI dispensation. Now that dispensation has gone, so how much of that 440 crores would have been recovered and it would be standard accounts again?

**Umesh Revankar:** It is around 50% of that, has been recovered and balance 50% also we expected to be collected in the next 2 quarters.

**Digant Haria:** Sir in your opening remarks, you said that because the economy will be good, the infrastructure and rural economy is expected to pick up, we will do good growth and good asset quality as well. So let us say that this happens probably at a pace lower than what all of us expect. So then are we taking more measures to improve maybe the asset quality or the collections or it largely remains dependent on the economy?

**Umesh Revankar:** It definitely will remain largely dependent on the economy because we should understand there is a difference between our customers and banking customers. When you lend to businesses, when you lend to corporates, if business is not viable they are not able to pay and when it becomes NPL, they do not recover at all. It is hardly any possibility of that situation to improve, but when you lend to individual especially on the earning asset which our customers are, they have vehicles which operate and depends upon the earning, we pay the amount. If there is a delay by 4 or 5 or 6 installments, they still continue to pay. So 36 months contract can be paid in 43-44 months, but it may temporarily become NPL, but ultimately it gets paid. So what we lose is probably the overdue interest which we should be charging. Beyond that, there is not much of a problem. So retail business is totally different. NPL in retail is not a bad debt. It can become a pain for a temporary period, but it gets collected over the period. So we should not be get unnecessarily worried that the NPL in the retail or individual segment going up because most of the individuals would like to pay and close their arrears. They would not like to have the outstanding in their name. So we should differentiate between corporate NPL and retail NPLs.

**Digant Haria:** Sir my next question is we probably discouraged 10-year plus vehicles and we are now focusing more on 3-7 year segment and this was also one of the reasons why our margin in this year were a little less. So is this adjustment more or less done like or you think there is one more year where this adjustment will continue.

**Umesh Revankar:** It is not adjustment. The financing to younger vehicle will continue longer because there will be more and more pressure on a customer to buy more fuel efficient vehicle to improve his margins. So there is one thing and the ticket size of these vehicles will be much higher than the older vehicle. So as the ticket size is a little larger, it has some impact on overall portfolio. So the yields will be coming down to that extent, but as the borrowing cost also is coming down, we should be able to manage the NIMs above 7%.

**Digant Haria:** Alright sir and our ROAs at this year has been the lowest in the last 10 years. So if growth goes as we are expecting, should we hope for a bounce back more than 2% kind of levels for the next year?

**Umesh Revankar:** It will definitely happen post 2018 because we are moving into 90 days in the last quarter as planned and till then the ROA cannot improve, but once you cross that hurdle, then the ROA and ROE both can improve substantially.

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

**Nithesh Jain:** Sir my first question is on PCR. So we have maintained PCR of 70% which we were thinking that you will use because you are moving to 120 days, you will ideally reduce your PCR. So any particular reason for using high PCR, are you bit conservative, are you seeing actual credit losses in future?

**Umesh Revankar:** Yes, we are conservative by and large, but we also see that demonetization impact is there in certain pockets and certain segments of businesses and the second one, GST, we are not sure how it will turn out to be. Even though it is beneficial in the long-term for the Indian economy, there could be a short term or medium term pain for certain pockets, certain segments especially SME and individuals. So we want to see that before taking a call on the reducing of coverage ratio. So the Board felt that let us look at it ion Q-on-Q basis and then take a call. So the Board wanted to be little conservative on this aspect.

**Nithesh Jain:** And sir secondly on the margins, what would be the incremental yield that we are earning on the portfolio?

**Umesh Revankar:** It is around 16%. You mean the average lending rates?

**Nithesh Jain:** Yes. Average lending ratings on an incremental basis.

**Umesh Revankar:** Yes. It will be around between 16 to 17 depending upon the situation. If you do more of used, then it may go up to 17 or if there is more mix of new vehicle, it can come down to 16.

**Nithesh Jain:** And sir lastly on the dispensation, so in these gross NPA numbers, there is no RBI dispensation, right? So we have recognized everything as an NPA?

**Umesh Revankar:** Yes.

**Moderator:** Thank you. The next question is from the line of Ankit Choudhary from Equirus Securities. Please go ahead.

**Ankit Choudhary:** I just have some 2-3 questions. The first one is as you rightly mentioned that the cash thing is coming back, the collection in the cash has gone up. So are not you on your side trying to push the customers for more of a digital transaction in terms of the collection?

**Umesh Revankar:** We are trying. We do have App and we have linked all payment gateways to the App. But many of our customers still do not have a smartphone and they have a basic phone. 70% of our customers still have basic phone only and that is one. Second thing is even though today we are talking about Aadhaar based payment and the BHIM application etc., they have not been extensively used. And most important is in smaller ticket, customer do not see an advantage of banking it and transferring the money especially as I was telling you, for a sum less than 15,000 the customers still prefer to pay to us by cash. So it is still continuing and we cannot force customer to forcibly pay through digital modes right now because the Indian economy is still not robust enough and once the economy is robust then we can insist on customer paying more digitally and through bank.

**Ankit Chodary:** Okay. Thank you. The second question was as you mentioned that the AUM growth will be in the range of 12%-15% going ahead in FY'18, so in which particular segment you will be seeing or you will be growing more as compared to the other segment or it would be like break up equally among all the segments?

**Umesh Revankar:** As a broad outlook, yes. We will be growing equally. But in the initially first six months, I expect the growth to be more in passenger tractor and SCV, small commercial vehicle. But in the second half, it will be more on heavy vehicles because infrastructure activities are likely to pick up in the second half, so the M&HCV and construction related vehicles, we have bigger demand in the second half.

**Moderator:** Thank you. The next question is from the line of Cyrus Dadabhoy from Anand Rathi. Please go ahead.

**Cyrus Dadabhoy:** In this quarter sir, in the incremental GNPA, just want to understand how much came from the transition to 120 dpd, roughly?

**S. Sunder:** Around 100 basis points.

**Cyrus Dadabhoy:** Okay. 100 basis points. So from an incremental of around 150, 100 has come around two third.

**S. Sunder:** Yes. It is correct.

**Cyrus Dadabhoy:** Okay. And a (+30) DPD number, roughly what would that be?

**S. Sunder:** 30? I didn't get you.

**Cyrus Dadabhoy:** Sir the (+30) number.

**S. Sunder:** That we do not have it right now.

**Cyrus Dadabhoy:** Okay. I will collect offline sir. And just on the funding mix, what is your sense on the funding mix for next year, 18 months?

**Umesh Revankar:** See, funding mix, you mean, which segment. I think almost all the segment is likely to grow well.

**Cyrus Dadabhoy:** Sir, where I am coming from is this, that basically…

**Umesh Revankar:** I will ask my CFO to answer.

**Cyrus Dadabhoy:** Yes. Sir basically you would see, you will do more of these BS4 vehicles, I mean you have vehicles also if you will see lower yields, I don't really see much of an interest rate cut now over the next 12 months or so. So funding cost in my opinion will be stable. So just want to understand how you will optimize that NIM from the funding side. I think you have mentioned just little bit earlier, you see the funding cost going down.

**Umesh Revankar:** We still feel an opportunity of 15-20 basis point reduction in the borrowing. Thus our all borrowings are not repriced and that will give us opportunity for next two quarters. And as you rightly said it, the BS-IV and new vehicle, the lending rates will be little lower. So it should match itself and we should be able to still manage (+7%) NIM for the next year.

**Moderator:** Thank you. The next question is from the line of Priyank Sanghvi from 5Y. Please go ahead.

**Priyank Sanghvi:** Yes. I just have two questions. Can you give us the gross disbursement number for FY'16 and FY'17?

**S. Sunder:** Gross disbursement number or…

**Priyank Sanghvi:** Yes. The gross disbursement for FY'16 and FY'17?

**S. Sunder:** For the year 2016-'17, the total disbursement is 39,120 for the year.

**Priyank Sanghvi:** For the year, right. And FY'16?

**S. Sunder:** Comparative was 41,930.

**Priyank Sanghvi:** Okay. And the net spread for FY'16 and FY'17 would be?

**S. Sunder:** You can touch base with Mr. Sanjay offline and he will provide you the numbers.

**Moderator:** Thank you. The next question is from the line of Jignesh Shial from Quant Capital. Please go ahead.

**Jignesh Shial:** Just firstly on the data keeping part, can I get this disbursement number for this quarter on preowned and new series?

**S. Sunder:** Yes. For the current quarter, we have disbursed 10,517 crores and out of which new is 1,167 crores and used was 9,349 crores.

**Jignesh Shial:** 9,349 and what was the new one. I couldn't get the new number, sorry.

**S. Sunder:** 1,167.

**Jignesh Shial:** So the total is close to 10,536 crores.

**S. Sunder:** 10,517.

**Jignesh Shial:** So just wanted to ask you on this only, if I am seeing your disbursement numbers, on Y-o-Y basis we have seen a consistent decline. So this is close to 17% kind of a decline. Last quarter it was 22.5. So do you see that this strength would be improving, considering this GST uncertainty which is also coming in plus new norms in the auto and all, so how do you see that recovery coming in apart from just depending upon the infrastructure spending from the government side because that itself is a little uncertain or a little slower event relatively?

**Umesh Revankar:** See, comparing with the last year and this year last quarter, there is a big difference because this quarter we still had demonetization impact in the January. So only in the second half of February, the demand started coming for loan. So you cannot compare with previous year. And Q-on-Q if you look at, we have increased disbursement from 8,120 to 10,500 which is nearly 30% growth. So Q-on-Q we are able to grow. So that gives us a comfort that we will be able to grow this year also. So other than the government expenditure, we do have a strong rural demand which we expect to do well in the rural area in the first two quarters and if the monsoon being good, monsoon being expected to be good, we should expect the demand to continue in the next second half also and infra is something where the demand is, we are already seeing the demand. It is not that we are waiting for that to happen, we are seeing in certain belts that government projects are taking shape, especially in the eastern part and we expect it to spread across the country basically in the road development.

**Jignesh Shial:** Secondly, you already said about that there is a probability of margin improvement considering repricing of the existing debt as well as the MCLR giving you a little more benefit. So the full year you are expecting a margin close to 700 bps. Is it a fair assumption that we should make, particularly in FY'18?

**Umesh Revankar:** It should be (+700), it will be a little higher than that. So we are trying to attain that.

**Jignesh Shial:** And other is that, if I am seeing the trend, your off-book AUM actually has grown on Y-on-Y basis by close to around 22% and whereas the on-book says just 6%, so any specific reason behind it, why your off-book total AUM is consistently rising in such a rough pace?

**Umesh Revankar:** Off book is only what asset we have securitized, demand in the last quarter. In fact, the full year we have done around 11,000 crores compared to 9,000 crores what we did in the previous year.

**Jignesh Shial:** Can I get your total securitized book as of March 31st, 2017?

**Umesh Revankar:** 13,298 crores.

**Jignesh Shial:** That is the total securitized amount?

**Umesh Revankar:** Correct.

**Moderator:** Thank you. The next question is from the line of Aadesh Mehta from Ambit Capital. Please go ahead.

**Aadesh Mehta:** So sir, what kind of fee income, what kind of processing fee would be charging our customers when we are disbursing a loan?

**Umesh Revankar:** It is more of a structuring. See, we talk about overall IRR for the customer. So it will be combination of some processing fee and then interest cost. So that differs from case to case.

**Aadesh Mehta:** Yes. But just to get a sense on a broad range, what could be the minimum and what could be the maximum processing fee?

**Umesh Revankar:** Around Rs. 5,000-10,000 depending upon the case.

**Aadesh Mehta:** Okay. So that could be easily between 1%-2% of the disbursement, right?

**Umesh Revankar:** See, less than 1%.

**Aadesh Mehta:** So sir, is it right to say that actually when our disbursements pick up, we also see this processing fee coming into play in our margins and therefore when actually our disbursement growth picks up we see our margins improving?

**Umesh Revankar:** It is part of the yield. So it has already been…

**Aadesh Mehta:** Yes. So it is accounted in the yield, right?

**Umesh Revankar:** Yes.

**Aadesh Mehta:** Okay. And sir what I am also seeing is that, our provisioning coverage right now is broadly settled at around 70%. So should we expect that to remain even as we migrate to 90 day NPA recognition?

**Umesh Revankar:** We will look at it, as we go near that. But as of now we felt that because of the demonetization impact still being there in certain pockets and the GST, once we go through the GST, then we let more comfort on overall scenario plus if the economic activities are robust, then we will look at it totally differently and ultimately the Board has to give us a guidance on that and depending upon what Board looks at it, we will take a call.

**Moderator:** Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

**Amit Premchandani:** This year, I had seen almost 7% decline in the overall disbursement for you. Is it safe to assume that you must have lost significant market share this year because the market doesn't seem to have degrown this year?

**Umesh Revankar:** As far as the new vehicle is concerned, we did not participate in the competition at all throughout the year, only in the last two months we were little more active on the new vehicle segment. So in used vehicle we were quite active, the disbursement came down only because of the demonetization and the impact we had in the Q3. If not for that we would have really grown over the previous year. So I do not think we have lost any significant market share anyway. But maybe there will be some pockets where the competition has come especially from the smaller NBFCs and small business banks. So there will be some minor losses. But I do not think it is significant. We should be able to get back, as we are planning to increase our manpower and we have already done it in this quarter, we should be able to get back that.

**Amit Premchandani:** And sir generally you have seen significant operating cost reduction or growth reduction, generally. So 25% reduction this quarter. So is it the new number that you will have much lower operating cost driving earnings or as you said just now that you will be hiring employees and this is just one-off that we have seen?

**Umesh Revankar:** Yes. It is one-off. We should have because we are adding manpower and some increase would be there.

**Amit Premchandani:** And sir generally your margins have on a trend basis gone down over the last 2-3 years and that has been a trend for you, why is it so margins are going down? Is it to do with the transition from say 180 days to 120 days that we have done up till now or underlying margins or underlying yields of your portfolio are going down because you are moving into newer older vehicles and that should also lead to lower credit cost going forward?

**Umesh Revankar:** It is a combination of both.

**Amit Premchandani:** So generally if you can give some color on what percentage, what is the share of the combination?

**Umesh Revankar:** Sunder, can you give that. It is difficult to give break up on that.

**Amit Premchandani:** So, is it safe to assume that in current portfolio that you have and that you will grow going forward margin should be lower than what we have seen in say FY'10-'14 levels and credit cost would be also lower that we have seen as compared to FY'14 to '17 levels?

**S. Sunder:** As we have guided at the beginning of the call, we expect the margins to remain in excess of 7% that is what we have been guiding and we are confident of achieving that.

**Amit Premchandani:** What I am trying to understand is that since yield of the portfolio has gone down, is it also reflected in the lower riskiness of the portfolio or the riskiness remains the same?

**Umesh Revankar:** See, we always like to reduce the risk of our portfolio and we also are trying to lend to younger fleet, not very old fleet. So that is a continual process of as we know market well, we will try to reduce the risk. But we cannot be straight away saying that we have reduced the risk and our entire current portfolio will have less risk, we can't say that. But that is a continuous process of managing the risk better and better.

**Moderator:** Thank you. The next question is from the line of Vidha Bhatra from FairConnect. Please go ahead.

**Vidha Bhatra:** My question is on NPAs, now that we are moving to more stringent NPA recognition norms and we are 70% covered and we do expect some improvement in environment, do you think that you will have significant write back from the provisions that you have already created and this year would be the last year for adjustment for stringent recognition norms, so if you were to kind of say that how would provisioning move in FY'19? Would it be materially different, all other things remaining the same? I know it is a very complicated question.

**S. Sunder:** Same will continue for one more year when we migrate to 90-days norm which will be happening in the last quarter of 2018. Post 2018, we are confident that the write backs should start happening and this subsequent year should be definitely positive in all the ratios and numbers.

**Vidha Bhatra:** Okay. But what is your estimate on eventual loses from the gross NPLs that you have, would it be 30-40 depending on your forward flows, how does it look at this point of time?

**S. Sunder:** They have been consistent in the last 15-20 years and I think it has been hovering around 2% to 2.5%. The NPAs are more because of the regulatory changes and the ultimate credit loss continues to remain the same. So there will be no change in that.

**Vidha Bhatra:** And one more question I have for Mr. Revankar**,** you have Shriram Transport **DMD** joining as Head of another NBFC. So do you see that as a challenge for people or for asset growth or it would be premature to say that?

**Umesh Revankar:** There is huge ample opportunity for everyone to grow here. So I don't think competition would be there for us especially in the segment which we are in and it is extremely difficult to replicate what we have built that is specialization in used vehicle. So I don't think it will have any impact on us, our ability to grow. So I don't really feel that there could be challenges on that.

**Vidha Bhatra:** And my last question is if you were to remove the disbursement from November to Feb, which are the months where demonetization had maximum impact. What would be the percentage increase in disbursement that will be readily available?

**Umesh Revankar:** It would have been around between 13%-15%.

**Vidha Bhatra:** Increase or decline?

**Umesh Revankar:** Increase.

**Moderator:** Thank you. Next we have a follow up question from the line of Nithesh Jain from Investec. Please go ahead.

**Nithesh Jain:** Sir can you share the amount of interest income reversal that we have done in the year FY'17?

**S. Sunder:** Full year?

**Nithesh Jain:** Yes.

**S. Sunder:** We do not have the figure, but we will provide you post the call.

**Nithesh Jain:** And for the quarter?

**S. Sunder:** For the quarter it is 40 crores.

**Moderator:** Thank you. The last question is from the line of Sameer Bhise from Macquarie. Please go ahead.

**Sameer Bhise:** Umesh sir, just wanted to ask on a steady state basis considering 90-day NPL, what is your expectation of steady state return on assets for the business now because the asset mix is also changing and recognition norms are also changing. Possibly you have lower cost income numbers on a structural basis if at all. So if you can give some medium term picture on this?

**Umesh Revankar:** See, ROA should become around 2.5 after crossing 90-days hurdle. So maybe at '19-'20 we should achieve 2.5 ROA.

**Sameer Bhise:** Okay. So that is more of a steady state ROA assuming that some degree of positivity also flows in the environment?

**Umesh Revankar:** Yes. All put together.

**Moderator:** Thank you very much. That was the last question, ladies and gentlemen. As there are no further questions, I would like to hand the conference back to Mr. Umesh Revankar for any closing comments.

**Umesh Revankar:** Thank you everyone for joining the call. We are quite hopeful, next year should be a good growth year for us and economic environment in India should be quite positive and help us in growing. Only GST is going to be small disruptor. It could be a short term or medium, we are not sure. But as more and more people embrace that, we should have a very good year going forward. Thank you. See you next time.

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