"Shriram Transport Finance Company Limited Q4FY19 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Shriram Transport Finance Company Limited Q4 and Annual Results for the Financial Year Ended March 31, 2019 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 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 and CEO, for his opening remarks. Thank you, and over to you, Sir.

Umesh Revankar: Thank you. Good evening to everyone in India, and good morning to the investors who joined us from the U.S. I hope you have already gone through the investor update, which has already been shared.

India's GDP growth for the fiscal year 2019-2020 was revised down by the Central Statistic Office (CSO) to 7% from 7.2% earlier. Data from first three quarters indicated GDP growth has been broad-based, and industrial growth accelerated to 7.9%, making up for the deceleration in services. Meanwhile, agriculture growth was robust at 4%. Even with the downward revision to 7%, India remains the fastest-growing large economy in the world.

Importantly, even as growth has moderated slightly in the second half of the year, several indicators point to a stable macroeconomic environment. Inflation based on the CPI has been largely benign throughout the fiscal.

There was an improvement in the current account deficit. Currency has been stable. IFC numbers has shown some green shoots during the year. In April, Monetary Policy Committee of RBI announced its second consecutive rate cut, bringing total reduction in policy rate to 50 basis points in this ongoing rate easing cycle. The recent policy rate cuts by RBI bringing down the REPO rate to 6% are expected to positively impact all sectors by valuing the demand.

However, it is likely that automobile consumer durables and industrial sector will be key beneficiary once the impact of the rate cut is transmitted through banking system. While a two-wheeler and passenger vehicle demand may see uptick over the next couple of months, the impact of commercial vehicle sales will certainly be visible as the investment cycle improves.

Starting January 2019, vehicle manufacturers hiked prices by 2% to 5%, owing to increased raw material cost and implementation of new safety features. Demand conditions were generally soft, and there was uncertainty prevailing ahead of ongoing general election. This led to subdued sentiments towards second half of financial year 2019.

Despite these issues as well as widespread liquidity crunch, commercial vehicle industry has posted double-digit growth for the full year, for 2019. Having said that, CV volumes would have been better but for the sustained slowdown in the real estate sector since the bulk movements of cement, steel and sand etc., were absent, the demand for the heavy vehicles came down and also the demand for the finished goods like AC, TV, refrigerators.

Over the past 3, 4 months, there has been dip in our vehicle sales because of that. The recent regulation for commercial vehicle has increased the axle load for the trucks, and that has helped the individual transporters to improve their profitability. And there has been 15% to 20% additional capacity and that has helped them to manage the increase in fuel prices, and that also helped us in improving our asset quality. Even as the demand for the new vehicle was muted, used vehicle, there is been healthy demand. The lending for used secondhand vehicle is largely dependent on the reach that we create, and we are able to create more reach by adding more number of branches in this financial year. We have added 332 new branches in this financial year and most of them beyond Tier 1 cities in the semi-urban and the rural market.

The other major factor for the industry has been liquidity. Following the development in October, November around the housing finance companies, we can safely say the situation has completely normalized now. Currently, we are witnessing stable liquidity. STFC has proactively explored alternate routes of funding from the start of financial year 2019 and have consistently raised adequate funds.

Over the course of financial 2019, we have raised 5,000 Crores through public issue of NCD, exhausted USD 750 million limit on ECB. And recently, we launched $2 billion Global Medium Term Note Programme, of which first tranche of $500 million of senior secured notes were successfully issued and allotted. RBI has been extensively supporting liquidity, which has helped to partly mitigate the tightening of yields in the second half of the year. Our securitization program is also doing well.

However, the cost of borrowing has gone up. Our pricing power in used CV is better, and increases can be easily passed on to the customer. Stronger growth in rural market, again, supports a higher yield. And we should be able to manage even a further increase in the coming year comfortably.

We are getting more into the rural market. And therefore, the spread will remain healthy for us. We had reduced LTV value for lending in mid of last year, and we are continuing to pursue conservative lending. And as we see good progress this financial year, we should be able to release the same and lend aggressively.

Coming to the results for the quarter. AUM stood at 104,482 Crores in Q4 compared to 96,261 Crore in Q4 last year and against 103,818 Crore in Q3FY19. The net interest income increased by 2.76% to 1,905 Crores from 1,854 Crores in the corresponding quarter last year. The net interest margin stood at 7.2% this quarter compared to 7.61% for the same quarter last year. Q-on-Q increase was about 22 bps from 7.22% against 7.44%.

PAT decreased by 22.43% year-on-year to 746 Crores against 961 Crores in Q4 FY2018 due to adoption of Ind-AS, and as per I-GAAP, it stood at 144 Crores last year. The profit for quarter includes 109 Crores of tax adjustment for the earlier year. The earnings per share are at 32.88 against 42.39 in the previous year.

Now coming to the results of full year. AUM increased by 8.54% to 14,482 lakhs against 96,260 lakhs. The net interest income increased by 15.07% to 7,807 Crores against 6,785 Crores. The net interest margin declined by 11 BPS to 7.41% from 7.52%. PAT for the full year stood at 2,564 Crores against 2,460 Crores for the financial 2017-2018. As per the I-GAAP, it stood at 1,568 Crores.

Gross stage 3 assets stood at 8.37% against the 9.39% year-on-year, improvement of 100 basis points. And the net stage 3 assets stood at 5.49% for Q4 in this financial year against 6.19% year-on-year and 5.86% Q-on-Q.

We also have brought down the overall credit cost from 2.25% to 1.92% in the last quarter and for the full financial year to 2.16%. Our total number of branches stood at 1,545 and the employees at 26,630. STSC has proposed dividend of Rs.7 per share this, in addition to interim dividend of Rs.5 per share. This works out to 120% of Face Value of Rs. 12 per share against the total dividend of 110% of Face Value or Rs. 11 in the previous year.

Looking forward, there is a huge growth potential particularly in semi-urban and rural market. In the census statistics from 2001 to 2011, the number of towns increased from 1,500 to 7,000. That means there is more and more small towns and hubs are coming in to the commercial activity. And we should be able to reach out to all these centers and improve our reach and improve our lending and business.

The results of general election are just about two weeks away. With the conclusion of the process and settling in the new government, we can expect activity to resume unhindered once more. Also the initial prediction of good monsoon is really very good for us, especially when we are of a rural focus and having a good rural reach.

We expect that with the good monsoon and good demand from the rural market, consumption would increase, and that will create better demand for the credit. Additionally, the BS-VI implementation will also help us because there will be an increase in price by 15% to 20%, and that should help us, expecting a better demand. The demand should come from both the heavy vehicle and the LCVs. And used vehicle also would benefit because there will be a repricing or the resale prices of the vehicle would get repriced and we will have better asset coverage. And not only that, ticket size per vehicle would go up, and that should help us to grow our AUM. We expect around a 12% to 15% growth by September and 18% to 20% for the full financial year.

That brings me end of our opening remarks. I have with me Sunder, Parag and Sanjay to answer specific questions. I would now like to request the moderator to open the floor for analysts' questions.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Good evening Sir. Thanks for the opportunity. I have a question regarding our urban AUM growth. If we come to slide 7 of the presentation, we have added up 195 urban branches during the year. But the urban AUM growth had been almost flattish at around 2% year-on-year growth. So probably even on the existing branches of business, urban seems to have weakened. If you could share some color on what is happening in urban geographies. Is that relating to a weaker growth?

Umesh Revankar: Our focus has been, in the last five years, on the semi-urban and the rural market because we feel that growth opportunity in this market is much larger than the urban. Urban areas are well covered by most of the other institutions and bank. So where there is credit shortage, we wanted to focus there so that we can have a niche presence. And the used vehicle demand is also much higher in semi-urban and rural market, the same in the urban market. So our growth will be more towards semi-urban and rural market going forward also.

Rohan Mandora: In urban locations, you have added around 195 branches. If your focus was not in urban so what was the rationale in adding these branches?

Umesh Revankar: No. These are the satellite branches, which we have added to the urban centers. We have split the existing urban branches and created a satellite branch, which is bordering the semi-urban areas.

Rohan Mandora: Okay. Can you have share a disbursement number for the 4Q FY2019 in terms of new, preowned and other?

Umesh Revankar: Disbursements, the new vehicle is 812 Crores and used is 11,024. Total is 11,958 Crores.

Rohan Mandora: 11,958 Crores.

Umesh Revankar: Increase of 25%.

Rohan Mandora: Sir, in terms of your sourcing, looks like, how is it split between say private financiers and field officers? And how has it changed in the past for you?

Umesh Revankar: See, for our financier, there has not been much growth, but we expect now a better growth because many of these private financiers who are not able to leverage and raise resources, and they are wanting to become our franchise. So I believe next couple of years, we should be able to add more private franchise into our network. And we should be able to build better reach.

Rohan Mandora: Right. But Sir, out of the new disbursements, what percentage would be contributed by private financier right now?

Umesh Revankar: Right now, not significant enough.

Rohan Mandora: Sir like what is the guidance that was mentioned for disbursements for next year?

Umesh Revankar: Next year, we expect AUM growth of around 18% to 20% because we are factoring in the higher demand because of the BS-IV to BS-VI.

Rohan Mandora: Second, in NIM? Net interest margins?

Umesh Revankar: Net interest margins would remain at present level, at around 7.2% level.

Rohan Mandora: Thanks a lot.

Moderator: Thank you. Next question is from the line of Pratik Chheda from IIFL. Please go ahead.

Abhishek Murarka: Sir good evening. This is Abhishek from IIFL. Sir, my question is one, what is your incremental cost of funds for the quarter? And the second thing is have you changed any PD-LGD assumptions in this quarter versus the last quarter as far as the ECL provisioning goes?

S. Sunder: For the PD and LGD for the current quarter, we have seen on normal PD to be 6.07% as against 5.83% in the previous quarter December quarter. And coming to the licensed PD, in March, we have considered 17.24% as against 17.09% in the December quarter. And the LTV, we are within 32.46% as against 34.78% in the previous December quarter.

Parag Sharma: We are borrowing; in fact there are two major sources what we tap. One was the dollar bond market and the other one was securitization. The securitization, because it is in the priority sector is still, the rates were around 8.5% to 8.75%. But the dollar bond what we did for $400 million that was hopefully, on a fully hedged cost to us was slightly higher. It was close to around 10% because one-off transactions, we cannot take the average, if we talk about incremental. If we exclude this, then I think we are around 9.5%.

Abhishek Murarka: So domestically, you would be borrowing at 9.5% incrementally for rupee fund.

Parag Sharma: Correct. Correct. We are at around 9.5%, yes.

Abhishek Murarka: Sir, so in terms of your opex, you have added a number of branches. And obviously, some of them are satellite branches also. But your employee strength remains almost as it is at 26,000 for the last 2, 3 quarters. So is not that going forward, you will be adding more employees to man these branches? Or is not that into operating, it is really better productivity. And now you do not need that many people per branch?

Umesh Revankar: See, we have added, for the last financial year, around 3,000 people. So we did hire a little more aggressively in the first half of the year. And therefore, it was sufficient for us for the full financial year. So this year also we will be adding another 3,000 people. So we do definitely need people because our segment of the customer need more reach and better understanding of the business also is required for us. Each individual needs to be treated as a businessman. So therefore, our reliance on people would be there; however, we are also adding technology to improve the efficiency and productivity of each of the field officers. Today, we can do anything and everything on the mobile at the field, and our field officers need not really come to the office at all. But still, the human touch and reach is important to understand the business and also for better collection efficiency.

Abhishek Murarka: Okay. So, Sir, just sort of on this, if I just look at some metric like employee per branch or something, it still gone down to 17% from 20% despite your 3,000 people addition during the year. So would you think this kind of, at the current level of 26,000, 27,000 people, is this enough for 1,550 branches; or are you, how many branches, let us say, are you adding next year, or planning to add next year?

Umesh Revankar: We will be adding 250 branches, and we will be adding 3,000 people. So approximately 10 per new branch we need to have, and that is including back office, front office, field, etc. But as you rightly said, there is definitely productivity gain over the period. And that productivity gain will help us to reduce number of staff per branch.

Abhishek Murarka: Okay. Sir, just because you said that your NIM would remain broadly at the current level, so does this also mean that the elevated amount of investments and cash that you are carrying today, that will continue through FY2020? Or are you looking to bring that down?

Umesh Revankar: No. We will be carrying additional cash. It is not just to have the, what you call, precaution, but we also look at good scope to grow during the second half of the year. So we would like to keep the cash. And that will continue for the next financial year.

Abhishek Murarka: Roughly 4000-odd Crores plus, minus something will remain in cash and similar amount of investments will also be there on the book.

Umesh Revankar: A little more on that. Correct Parag? Yes. A little more than that would remain in the balance sheet.

Abhishek Murarka: Thanks so much. Thanks and best of luck.

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

Kunal Shah: Sir, three questions. Firstly, in terms of the interest income there is a sequential decline in the absolute amount. Sir I just wanted to get the sense, is it on account of lower lending rates? Or lower yields and shift in the portfolio mix? Or there is some component of the off-balance sheet item, which is leading to this?

S. Sunder: There are 2, 3 factors affecting this. One is that we were also carrying higher investments and cash bank balance that has contributed a lower interest yield in the current quarter. And disbursements were primarily driven in the current quarter until fag end of the year, March specifically. And hence, the average balances during the year, during the quarter were comparatively lower compared to the December quarter. So these factors contributed to the lower income compared to the December quarter.

Kunal Shah: Okay. So maybe in terms of yields, would we consider it to be more of a normalized level in terms of Q4, because this is despite the stage 3 assets also coming off?

S. Sunder: Yes. Yields are fairly stable in the current quarter also.

Kunal Shah: Secondly, in terms of ground checks, in fact, some of the customers, have they started asking for a relatively higher tenure loans? Or maybe in terms of the extension of the existing tenure, is it more pan-India phenomenon? Or it was just there in terms of the pockets?

Umesh Revankar: We have not really experienced that because normally when we lend itself we do take consultation of the customer and fix the tenure. So in between, we do not really encourage any increase in the repayment rate. And a new loan for customer asking for higher tenure does not happen with us because what we do is we reduce the LTV and reduce the loan amount to match the instalment so that because of increased lending rate, the interest amount going up and because of that, tenure going up does not happen with us.

Kunal Shah: Okay. So we try to offset it with a relatively lower LTV?

Umesh Revankar: Yes.

Kunal Shah: Lastly, in terms of the loan loss provisions. If we look at Q4 of last year, in fact, there the provisions under the Ind-AS are significantly lower, they are like 97-odd Crores. So now what exactly and when we look at last 4 quarters, in fact, on an average, it has been around about 600-odd Crores. So was there any change in the assumption in the Q4 of last year, which is leading to this under Ind-AS?

S. Sunder: See, there are 2 factors that contribute to a lower provision and write-off in Q4 2018. One was around 250 basis points came down in the LGD, compared to December 2017 quarter. And similarly, with PD levels also were again revised in the March 2018 quarter. This has contributed to a lower provisioning compared to December 2017. And the other factor was the write-offs in Q4 2018 were comparatively lower. So these 2 factors put together resulted in a lower provision and write-off of 97 Crores. And we generally revisit the LGD and PD levels on a yearly basis in the quarter of March every year. So going forward also, there maybe some deviations in the March number.

Kunal Shah: Okay. What will be the LGD of Q4 of last year and this year?

S. Sunder: The LGD of March 2018 was 33.8%. And the LGD currently is 32.46%.

Kunal Shah: Okay. And that is still on year-on-year LGD loss?

S. Sunder: Yes.

Kunal Shah: Lastly, in terms of the write-off for this particular quarter?

S. Sunder: The write-off for the current quarter is 806 Crores, and we got a write-back in the provision of 267 Crores and the net comes to 540 Crores.

Kunal Shah: Okay. So 800 Crores is the write-off during the quarter?

S. Sunder: Correct. Correct.

Kunal Shah: And for full year?

S. Sunder: And for the full year, the write-off were 2,347 Crores. And the provision incrementally was 110 Crores.

Kunal Shah: Okay. So this is the reason for the lower tax rate as well.

S. Sunder: Correct. Correct.

Kunal Shah: Okay, thanks a lot.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from BOB Capital Markets. Please go ahead.

Shubhranshu Mishra: Thank you for the opportunity. I wanted to understand your acquisition strategy and the customer acquisition strategy in the rural and semi-urban areas and the cost of acquisition in the semi-urban areas versus the urban areas. So what is the difference quantitatively? That is my first question, Sir.

Umesh Revankar: So basically, there is not much change in the strategy on customer acquisition. We normally build a customer network. And through customer network and reference, we keep adding or lending to or identifying the new customers. Because when there is a buying and selling transaction, either the buyer or seller, one of them will be known to us or previous borrower, and that helps us in lending. We also take existing customer as a guarantor. And that is maybe a hindrance to faster growth, but it helps us in our future collection and putting a peer pressure. So our acquisition is basically by knowing the customer, understanding the customer, be part of the community and know each and every customer.

Shubhranshu Mishra: Great. And, or what is the difference in the cost of acquisition in rural and semi-urban areas versus the urban areas, Sir? Because of file size, what will be the difference, profile, what would be the expense?

Umesh Revankar: Yes. It is mainly because of a smaller ticket. The cost of acquisition as a percentage will be a little bit higher for used, or for our rural market, but that we compensate by charging lending at higher rate. So we normally lend around 200 basis points more at the rural market than the urban market for a similar product.

Shubhranshu Mishra: Just wanted, can you quantify the cost per file in a rural area versus in urban area, Sir?

Umesh Revankar: We cannot quantify that because we have not done that exercise.

Shubhranshu Mishra: Sure, Sir and two data keeping questions. One is what would be your tonnage-wise split of your portfolio? And second, how do we look at the credit cost in FY2020 going forward?

Umesh Revankar: Tonnage-wise, if we look at, see we have not given breakup of heavy LCVs. That is the major segments. We cannot go tonnage-wise because from 1 ton to 50 tons, we have so many segments.

Shubhranshu Mishra: Right. Sure, Sir. And credit cost guidance for FY2020?

Umesh Revankar: Credit cost is around 2% now. And it should remain at that level.

Shubhranshu Mishra: Thank you so much for your time Sir, best of luck.

Moderator: Thank you. The next question is from the line of Adarsh P from Nomura. Please go ahead.

Adarsh P: Sir, first question is you said the incremental cost of funds is 9.5%. What was the cost of funds on book in fourth quarter? What was on the stock, what is the cost of funds?

Umesh Revankar: Parag you would be able to answer?

Parag Sharma: It will be around 9%.

Adarsh P: So incrementally more in like 50 BPS higher than the stock, right? Okay. And what about the incremental yields on disbursement vis-à-vis the incremental yield on the book, if you can just give that as well?

Umesh Revankar: The incremental increase is around 50 basis points, almost same. If we do almost immediately on whatever increase is there, but in cost, we pass it on to the customer. But the only thing is since our lending has been a little slow, and it picked up only in the fag end of the quarter. It may not get reflected in our overall NIM.

Adarsh P: Sir, the other question is you kind of gave a very strong guidance specifically if you consider the environment today in terms of how OEM growth is. Just wanted to understand what is that based on, because OEM numbers look pretty weak. And if you target 15%, 20% growth, what specifically happened in this quarter you had similar problems with OEM growth, and your AUMs have not grown in this quarter. So why should that pick up barring an event of, say, the BS-IV to VI transition, which may happen in the second half of next year?

Umesh Revankar: See, there are multiple factors. The real estate is almost, what I would call, come to a standstill. And bulk materials are not at all moving, and that has slowed down the heavy vehicle movement. And the existing heavy vehicle has been used for the other business activities. That means once the real estate pickups there will be additional demand and also post election, many of these coal-related transportation also, many of the bidding has been stopped because of the election. And postelection, I believe, most of these coal-related movements also will start moving, so that should again help us. And infrastructure spending by the government has come to virtually a standstill because of a November, the 4 states or 5 states went down election. Again, now there is an election announced, election was announced. All these things have slowed down the demand for the heavy vehicle. But if we look at the LCV, LCVs have been growing at double-digit. Throughout the second half of the year when the heavy vehicle demand came down, LCV was growing at 10%. That means LCV has already crossed 5-lakh units in a year, so that means there is a good demand from the rural market. And I believe the demand from the rural market further improves because of good monsoon. Last year, monsoon was predicted normal. But it turned out to be a bit below normal at 91% against 97% production. So in spite of that, the demand has been or the LCV demand has been good. So I feel with the good monsoon, the LCV demand would continue to remain strong. The tractor demand will grow up, then automatically, the demand for the heavy vehicle also will start to picking up. BS-IV and BS-VI movement would be a significant impact in India because the price increase is likely to be 15% to 20%. Once these manufacturers start giving guidance on the price increase, there would be a significant prebuying in the month starting from August to March. So because of that, I feel there will be a significant demand for the commercial vehicle, both in new and used, even though we are focused more on used. The new vehicle demand will slowly percolate down and create a bigger demand. So these are all the assumptions on which we are going. And plus, with the new government coming in, they will come with a lot of ideas, plan and push the economy. They will not be facing the election. So definitely, they will be bold enough to initiate a lot of economic activity to boost the economy.

Adarsh P: Sir, just 2 questions here. When I see your AUM growth post September right from 2Q to 4Q, it is almost flat. When I compare for some time for most NBFCs it is a problem in the funding side for you the assumption would have been, should not be and similar gets reflected in your borrowing mix, right? You have been able to borrow from capital markets through NCDs. The point I am just trying to understand is, was any of the slowdown in the last 6 months for you also a function of funding constraint at some point of time? It does not seem so. I just wanted to check if that is the case because what I am seeing for most other financiers, especially banks, is that their CD books have actually grown. So it is quite surprising that if you did not have funding constraints, your AUMs have not grown for the last, whatever, 6 months?

Umesh Revankar: See, we did slow down in the month of October, then we brought new LTV norms where we decreased the funding, moment you ask more margin, more investment from the customers. Automatically, the demand would slow down. So this was basically to understand the market sentiment and then to move forward we did it, but we continued with that for last 6 months. And even, today, we are continuing with the lower LTV kind of lending loans. We have not relaxed that because we wanted to wait till the election and then depend upon the market sentiments or demand activities to relax. That is the reason we grew slow, but first half of the last year, we grew more than 20%. And for us, definitely, there was no constraint. But we decided to carry more cash because we are not sure how long the uncertainty would continue.

Adarsh P: That is very useful. Thanks a lot.

Moderator: The next question is from the line of Pranay Rajani from B&K Securities. Please go ahead.

Pranay Rajani: Just a few data keeping points. If you could just repeat disbursement number once again, it would be great?

Sanjay Mundra: Yes. The disbursement for the new vehicle was 812 Crores for the quarter. The used vehicle was 11,025 Crores and others was 122 Crores, so the total was 11,958 Crores, an increase of 25% over the previous quarter.

Pranay Rajani: Apart from this, the incremental cost of yields during the quarter stood at 9.25. Am I correct?

Umesh Revankar: 9.5.

Pranay Rajani: 9.5. And what would be the incremental yields during the quarter?

Umesh Revankar: We increased by 50 basis points, almost same.

Pranay Rajani: If you could provide me a number, that would be great, approximate number?

Umesh Revankar: Sanjay will give you the number.

Pranay Rajani: All right. And on the cost, on the credit cost, where do you see it going forward in next year? And like what are your plans on the same for credit cost?

Umesh Revankar: The credit cost has already come to 2.16 for the full year in the last financial year. So we are targeting 2% in the next financial year.

Pranay Rajani: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Thank you for the opportunity Sir. My first question is earlier, AUM growth guidance you alluded to around 10% to 12% for the first half of the year. How much of that would be coming from, let us say, a relaxation or increase in your LTV? Was it organic growth versus inorganic growth?

Umesh Revankar: We do not really plan to relax till the election is over, and maybe once the election is over, depending upon the market condition, then we would be relaxing. Mostly if the monsoon indication is good, maybe month of July, we would like to relax. Till then, we would like to have a controlled lending.

Karthik Chellappa: My second question is if we look at our employee expenses for the quarter, which is a little about 204 Crores, this was almost flat year-on-year. And it has actually dropped about 7% to 8% quarter-on-quarter relative to Q3. Given that we have continued to hire some employees even during the quarter and throughout the year, why are the employee expenses not growing?

S. Sunder: As you would have seen in the last 6 months, the disbursements are flat, and the AUM growth has been flat. And most of the component of the employee remuneration as far as the field staff is concerned, is more driven by the incentive. So since the business itself was down, consequently, the incentive also was paid lower. That was the reason.

Karthik Chellappa: So can we say that the incentives that you have, there is a higher weightage for disbursement as opposed to, let us say, collections and asset quality, which is why the expenses did not grow? Because the asset quality I think held up pretty well in the collection, must have also been pretty decent. It is just the disbursements were weak?

S. Sunder: The weightage is given for the all the sectors, be it disbursement, collections and then asset quality, and so it is interlinked. So I would not say that more weightage is given for disbursement.

Karthik Chellappa: Sir, if I heard you right earlier, your NIM guidance for the full year is similar to our exit quarter NIM, which is about 7.2. Am I right?

Umesh Revankar: Yes. That is correct.

Karthik Chellappa: Okay, got it. Thank you very much and wish you all the best.

Moderator: Thank you. The next question is from the line of Saurav Bhole from Trivantage Capital. Please go ahead.

Saurav Bhole: Thank you very much for the opportunity. I do have 2 questions. One is in this particular quarter you added about 200 branches as in you already spoke about how you had split some of your urban branches. Why does not this mixed in your opex because if I see sequentially the opex is kind of down. So why should not it reflect there?

Umesh Revankar: See, many of these branches have been open through the fag end of the year planning for the next financial year. So it will come through subsequently.

Saurav Bhole: I think you already spoke about the PD and LDG, which you revised, or revisit I think in the month of March. So the PDs and LDG that we presume for your current stock of Stage 1, 2 and 3, those are based on this particular year?

Umesh Revankar: Last 5 years.

Saurav Bhole: No, no, so they are based on the revised figures? Or they will get revised in April?

Umesh Revankar: Yes. It based on revised figure only. But every time it is previous 5 years.

Saurav Bhole: Okay. So it is on a rolling basis.

Umesh Revankar: Rolling basis.

Saurav Bhole: Sir, just one last question on slide #15 where you talk about the breakup of resources. There is that commercial paper figure, and you have written something like embedded with NCD, 3.4. Just wanted to understand what that is?

Parag Sharma: These are commercial paper, which has partly paid NCDs attached with it. So in case the commercial paper does not get rolled over, the full amount of NCDs get paid in. So these commercial papers are started while we are saying this is embedded because there is an NCD, which is for a longer tenure. Automatically, the CP gets rolled over every quarter. And in the case investor wishes not to renew the CP, they have to invest in the NCD for the longer tenure.

Saurav Bhole: Thank you very much.

Moderator: Thank you. The next question is from the line of Viral Shah from Crédit Suisse. Please go ahead.

Viral Shah: Thank you Sir. All my questions are answered.

Moderator: Thank you very much. We will move to the next question. The next question is from Prakhar Sharma from CLSA. Please go ahead.

Prakhar Sharma: Good evening Sir. My question is regarding the securitization income. I am looking at Page 5, the AUM breakup. Just wanted to confirm a couple of things. The off book part, which is at about 2100 Crores right now, this is the book which is not the PTC type, right? This is a direct assignment that goes off the books?

S. Sunder: Yes, that is correct. It is done as and when.

Prakhar Sharma: Right. Can I have the interest income related to this segment for the last 3 quarters, Q2 when it was very small and when post started moved up, could I have the interest because I understand that as per the Ind-AS accounting, the income recognition on this happens upfront?

S. Sunder: No, no. We have structured in such a way that, the interest income is not booked upfront. It is deferred over the tenure of the agreement. It is similar to what we were doing in the erstwhile securitization.

Prakhar Sharma: Okay. So it is normalized and kind of done on a coupon sort of a basis?

S. Sunder: Correct, correct.

Prakhar Sharma: Just in the rural market side, as you present, it will be more of an LCV market is clearly understood, but you are not doing tractors, etc., also their award because I see from the mix, the share of tractors has gone down. And it is a popular product. So just wanted to confirm whether you are not doing it as much as you should?

Umesh Revankar: No. Tractors are a very attractive product for us. The yield is also quite good. Only thing is, the ticket size being small, it does not get reflected. The average used tractor ticket size is around 2 lakh, so it does not get reflected. But we feel that, that is a very attractive product, and we should be able to add more. As we settle down in the rural market, much more comfortably.

Prakhar Sharma: Last question. This working capital loan of about 60%-odd growth? How basically I assume this will be mostly to existing clients but based on internal checks and balances, how are you trying to ensure that this is not taken to service an existing loan?

Umesh Revankar: Basically, it is a product based. And only when somebody buy a tyre, we fund him. So amount goes directly to the tire dealer or manufacturer. Similarly, we have HPCL, tie up with HPCL wherein he fills the fuel, and we make the payment directly to the HPCL. So most of this working capital loan goes directly to either the dealer, manufacturer or the petrol pump and to the insurance companies. All this general insurance renewal we normally give as a finance package, 12-month repayments. So every 12 months, it gets renewed. So nothing goes to customer directly.

Prakhar Sharma: The reason I was trying to check is between 4Q FY2018 to Q2, this book went up from by about like 400 Crores. And now, it has, from Q2 to 4Q end, it has gone up like by 700 Crores, 800 Crores in a tight liquidity environment?

Umesh Revankar: No. We started aggressively on HPCL and all in the second half of the year only. In fact, our tie-up with HPCL was only just 6 months old. So many of this activity we started later.

Prakhar Sharma: Thank you Sir.

Moderator: Thank you. The next question is from Jignesh Shial from Emkay Global. Please go ahead.

Jignesh Shial: Thanks for the opportunity. Most of the questions have been answered. Can I get the securitization done during the quarter?

Umesh Revankar: 3600 Crores.

Jignesh Shial: 3600 Crores. Does this assignment, and what is the securitization? Total assets of 600 Crores.

Umesh Revankar: The 800 Crores assignment and balance is separation.

Jignesh Shial: Thanks a lot Sir, all the best.

Moderator: Thank you. Next question is from Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: I did not quite follow the reason for lower provisions in fourth quarter of FY2018, just 97 Crores provision. So I was just trying to understand that math?

Umesh Revankar: FY2018, okay. Sunder?

S. Sunder: In Q4 2018, we had a provision requirement of negative, it was a write-back, in fact, of 295 Crores, and the bad debt that we wrote off in the particular quarter was 384 Crores. And this resulted in a lower provisions and write-off of 97 Crores. In Q4 2018, we had revisited added one year the ECL provisioning norms wherein the PD and LTV came in lower compared to the December 2017 quarter. As I was telling you every year in March, we revisit this LGD and PD computation, and there was a benefit in the previous year, and there was a lower write off in the particular quarter. These 2 factors resulted in a lower provisions and write-off.

Nischint Chawathe: Can you share the PD and LG numbers assumed in December and March?

S. Sunder: Yes. The LGD of December 2017 was 35.94, and the PD was 5.95. Government PD and lifetime PD was 16.57. And up against it, the LGD in March when we revisited, it came down to 33.81%. PD was 5.81, and the PD, lifetime PD was 16.76%

Nischint Chawathe: For the one that you assume for this quarter?

S. Sunder: Current quarter, it is 32.46%, LGD; 6.07, PD 12 months; and 17.24, lifetime PD.

Nischint Chawathe: There has actually been a fair amount of improvement between last 4 quarters as well. I mean I am not doing the math up-front, but all I am trying to say there is been a fair amount of improvement in this period as well?

S. Sunder: Yes. There has been. We can write back in the current quarter also. If you see the provision requirement in Q4 was 267 Crores. However, since we had written off equipment early equipment portfolio and other portfolios wherein there was settlement happening. So those are net write-off of 806 Crores in the current quarter. So 806 Crores and negative of 267 Crores has made 539 Crores as a provisional write-off for the Q4 2019.

Nischint Chawathe: Just one more number, I wanted how much was the securitization that you added during the entire year?

S. Sunder: Entire year was 15,123 Crores.

Nischint Chawathe: Okay, of which assignment was?

S. Sunder: Assignment was 2,800? 2,800 roughly.

Nischint Chawathe: Thank you very much and all the best.

Moderator: Thank you. Next question is from Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal: Sir to grow your AUM by 20% Y-o-Y you will need roughly 20,000 Crores of additional liabilities next year. How are we going to fund this, especially when mutual funds are seeing redemption pressure and banks are not interest in their exposure to NBFCs. So do you think 20,000 Crores will be easy to get next year?

Umesh Revankar: See, we have already raised the $500 million 2 years bonds and another $250 million we can raise. We can also go to RBI asking for additional limit. That is one thing. Second, we have a retail program. We will definitely come out with our NCD issue every year. Last year, we raised around 5,000 Crores for the full year. So this year also, we will have similar plan to raise the retail NCD issue. Then we are also deposit taking NBFC. We are also having good inflow of deposit. Apart from that, the securitization is one route we look for raising in resources. And last year, we raised around 16,000 Crores. And next financial year, this financial year also, we can look at. So the sources for us are plenty. And we need to only we plan according to the requirement.

Pankaj Agarwal: But if you are going for more retail NCDs and deposits, don't you think your cost of funds will inch up because these are two instruments where funding costs are higher than NCDs and bank borrowing?

Umesh Revankar: Yes, yes. We have factored in that. Only if we are able to pass it on to the customer, we would be able to raise it and lend it. So we are confident of passing on to the customers.

Pankaj Agarwal: Second, Sir is if you are guiding for 20% AUM growth, it leads to 30% disbursement growth Y-o-Y next year. Is that correct number? I mean if I back calculate based on your repayment rate?

Umesh Revankar: Yes. I think approximately it should be same.

Pankaj Agarwal: You are saying disbursement growth should be also around 20%, right?

Umesh Revankar: Yes. It should be around 20%.

Pankaj Agarwal: Given that now your disbursements will pickup, right, and earlier, you gave a reason that your disbursements are weak, and that is why NUMBER compression, but now your disbursements are picking, and you are saying that there would be 20% AUM growth, but roughly half of your book would be originated next year, right, where you will be able to pass on increased cost of funds to your borrowers, right? Do not you think your NIM should improve? You understand.

Umesh Revankar: Since we will be carrying a little higher cash, so NIM would remain at present level. Maybe there could be some improvement. But as of now, we would like to give a guidance of maintaining the NIM.

Pankaj Agarwal: Thank you Sir.

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

Abhijit Tibrewal: Thanks for taking my question. Sir, of late we have been hearing that you are facing problems in raising funds from banks what is the process that you just taking?

Parag Sharma: Banks were slow, but of late, some of the public sector banks we have approached, and the money is coming through. So it was slow from October to January or it was difficult but now it is slightly revised. So it's not that nothing is coming from banks. It has just now started.

Abhijit Tibrewal: Okay. At what rate are they giving you money now?

Parag Sharma: Banks, the lending is around 9.5 to 9.5, around 9.5.

Abhijit Tibrewal: Is there anything else that you would like to comment on with merger evaluation?

Umesh Revankar: Nothing for now because it is only discussion point, and we are only looking at right synergy among all the entities. Once we have a clear thought process and synergy to present, then we will come out and discuss it openly.

Abhijit Tibrewal: Sir, do you have timelines in mind?

Umesh Revankar: No timelines in mind.

Abhijit Tibrewal: Thanks a lot.

Moderator: Thank you. We will move to the next question. The next question is from Umang Shah from HSBC. Please go ahead.

Umang Shah: Thanks for the opportunity. I wanted one data point. What is the outstanding cash and cash equivalent as of March 2019?

Parag Sharma: 8,000 Crores.

Umang Shah: Okay. And disregarding this PD LDG model, what is the time series of the data based on which we calculate PD LDG?

Umesh Revankar: 5 years.

Umang Shah: Thank you and wish you all the best.

Moderator: Thank you. The next question is from the line of Suchit Kavatkar from ICICI Lombard. Please go ahead.

Suchit Kavatkar: My question is regarding liquidity position. You said total liquidity position is around 8,000 Crores. Is it including unutilized bank liens?

Umesh Revankar: Excluding.

Suchit Kavatkar: It is excluding. So if I go to the balance sheet, I am not able to connect?

Sanjay Mundra: It is in the investment book and the cash balance. It is there. If you look at cash banks and other cash and cash equivalent is 3,000 crore roughly. And if you look at investment, it is 4,000 Crores.

Suchit Kavatkar: Okay. And how we see ALM position for next 6 months to 1 year? Will it be comfortable?

Parag Sharma: ALM is comfortable. One is the bonds we have raised overseas is long duration. Securitization is what we largely did, and this is also matching the entire duration of assets. ALM currently is positive in all buckets, and I do not foresee any change there. It should further improve, in fact.

Suchit Kavatkar: Because if I see around monthly outflows are higher than 6,000 Crores. So that is why I asked how we see it going forward? It is comfortable according to you?

Umesh Revankar: What outflow? We do not get you.

Suchit Kavatkar: Just the principal repayment outflow if I see monthly for the company.

Umesh Revankar: I do not know where you are getting it from, but this specific question can be answered by Sanjay later because we are not able to understand it.

Suchit Kavatkar: I will get back offline.

Moderator: Thank you. The next question is from Darpin Shah from HDFC Securities. Please go ahead.

Darpin Shah: Thanks for the opportunity. Our disbursements have grown significantly on Q-on-Q basis, but the AUM has been flat. So what explains this?

Umesh Revankar: The collections were quite strong. And that could be the reason.

Darpin Shah: So any change in strategy or something why collections were up significantly in this quarter?

Umesh Revankar: I think nothing in that. The focus and drive was there on collections, so no change in strategy, as such.

Darpin Shah: Okay. Fair enough. And second thing is on the borrowing mix, which you have mentioned where some CPs are embedded with NCDs. So there, do we pay any cost? Or how will be the pricing difference?

Parag Sharma: We do not pay any additional costs.

Darpin Shah: So for this, these CPs and the normal regular CPs will be priced the same?

Parag Sharma: Yes, they are priced same.

Darpin Shah: Thanks a lot.

Moderator: Thank you. The next question is from Praveen Agarwal who is an individual investor. Please go ahead.

Praveen Agarwal: Thank you for the opportunity. I wanted to understand a couple of questions. One, does our loan book still qualify for priority sector for banks. That is one. Two is what would be hedging cost of the dollar bond, which you did, what level would be the bond and what the hedging cost of converting it into INR?

Parag Sharma: When it comes to the bonds hedging, the coupon, what we did was around 5.7. And it depends upon when you are doing and with which bank you are doing the cost involved. It keeps varying. There will be 10 to 20 basis points difference between various banks and the time when we are doing it. As of now, if we look at the weighted average cost of the entire bond issue, the total cost came to us at around 10.25%-odd. Depends upon, I am not saying that is the single cost across all banks but depends upon wherever we have different lines. 10.25% is overall cost to us.

Praveen Agarwal: Also if you can shed some light on the priority sectors. There are loans qualified for priority sector banks?

Parag Sharma: Yes. Since we lend to small truck operators, everything qualifies for priority sector.

Praveen Agarwal: So if you can share then again some light how the priority sector lending certificates market has developed, do you participate in that where we do not transfer the assets but just kind of?

Parag Sharma: NBFCs are not eligible for participating in priority sector lending certificate between the banks.

Praveen Agarwal: Thank you Sir.

Moderator: Thank you. We have one last question in queue. The last question is from the line of Harsh Agrawal from Infina Finance. Please go ahead.

Harsh Agarwal: My query is regarding the derivative financial instruments line item on our balance sheet. For the second quarter and third quarter, we are around 3,000 Crores of derivatives on our balance sheet, and this quarter, that number has drastically reduced. If you can help me, what has happened on that line item?

S. Sunder: It was primarily related to the hedging that we had done earlier.

Harsh Agarwal: So hedging, we did on foreign currency borrowing?

S. Sunder: Yes. Foreign currency borrowing.

Harsh Agarwal: But Sir, during the quarter, we also raised further foreign currency borrowing so shouldn't this line item could have gone up?

S. Sunder: I do not have the number off-hand. Okay, offline maybe Sanjay will be in touch with you on this.

Harsh Agarwal: Thank you.

Moderator: Thank you very much. That was the last question in queue. I would now like to hand the conference back to the management team for closing comments.

Umesh Revankar: Thank you for joining. We do see a strong next financial year as far as the credit demand is concerned. The post-election scenario where the new government will push the overall infrastructure is what we believe strongly. And second, the monsoon prediction being good, BS-IV to BS-VI, these are 3 big things I think will create a better demand both in urban and rural. So we are very confident that our growth rate, net interest margins, collection and overall credit quality will improve. Thank you for joining the call. That is all.

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