"Shriram Transport Finance
Q4 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good morning and welcome to Shriram Transport Finance Q4 FY2020 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 and CEO; Shriram Transport Finance. Thank you, and over to you, Sir

Umesh Revankar: Thank you. Good morning to the participants from India, and good evening to those who are joining from western part of the world. It is a tough time as mankind has observed various pandemics throughout the history, where some were more disastrous than others to the humans. We are observing a very tough time once again fighting an invisible enemy, the novel COVID-19, Coronavirus. Initially observed in the Wuhan province of China now fastly spreading around the world. On March 22, 2020 India observed 14 hours voluntary public curfew at the insistence of Prime Minister Narendra Modi. Further, on March 24, 2020 Prime Minister ordered nationwide lockdown for 21 days, affecting entire 1.38 billion population of India. On April 14, 2020, PM extended the nationwide lockdown till May 3, 2020 which was followed by 2-week extension starting May 3, 2020 and May 17, 2020 with substantial relaxation. Beginning June 1, 2020 the government has started unlocking the country, barring containment zones in 3 unlock phases.

Let me begin with brief overview of macroeconomic scenario and on-ground development before I cover performance for the quarter. Amidst slowing global growth, India's GDP growth decelerated to an 11-year low of 4.2% in 2019/2020 according to data released by National Statistical Office. Although the budget estimate for GDP growth in 2019/2020 had been set at 8.5%, in the final quarter of the year, that is January to March, growth rate of GDP fell to 3.1%, reflecting impact of first week of COVID-19 lockdown, which began on March 25. Although this is lowest growth rate in the last 44 quarters, it is still higher than 2.2% growth predicted by most economists and rating analysts.

Agriculture and mining sector picked up steam in the fourth quarter, growing at 5.9% and 5.2%, respectively, even while the manufacturing sector contracted further, recording a negative growth of 1.4%. The public administration, defense, other services grew at 10.1%. Agriculture and government expenditure had been the savior. However, the most disturbing news is that 3 components of the demand have fallen. They are, consumption demand has slowed down, while investment and exports are both in negative territory.

There is a piece of good news for Indian economy, which is battling COVID-19, and its aftereffects of gloomy scenario, that is India is likely to have normal monsoon this year. As announced by IMD Monsoon, showers are expected to be 100% of long-term average. India's food grain production is estimated to touch a record 295.67 million tonnes in 2019/2020 crop year. This is up by 10.46 million tonnes from previous year production of food grain of 285.21 million tonnes achieved during 2018/2019. Record output is estimated in rice, wheat, coarse cereals, oilseeds, cotton during 2019/2020. Rice, wheat production is estimated to be record 117.94 million tonnes and 107.18 million tonnes respectively this year.

In view of COVID-19 pandemic, the central bank had advanced its monetary policy committee meeting. The RBI of India has reduced repo rate by 75 basis points to 4.4% from 5.15% on March 27, 2020. Further on May 22, 2020 the policy committee met in the emergency meeting to review current economic outlook and impact of COVID-19 and reduced the repo rate from 4.4% to 4%. It has reduced reverse repo rate to 3.35%. On March 27, 2020 RBI had provided a 3-month moratorium on all term loans, allowing borrowers more time to repay. The RBI on May 22, 2020, has extended the moratorium on EMI payments by another 3 months till August end, taking total moratorium period to 6 months.

Coming to the commercial vehicle sales data. There are lower volumes, both in HCV and LCV, on a year-on-year basis. In case of HCV, volumes have been impacted by higher capacity due to axle load norms last year, extended monsoon, which delayed the construction and mining activity and also due to clarity on the extent of discount around BS-IV as well as pricing of BS-VI vehicles. For LCVs, last year base was incredibly very high and had moderate fall compared to HCVs. Overall, vehicles catering to essentials are faring better than those catering to industries.

Prebuying of BS-VI, which was delayed in Q3 due to a lack of clarity on pricing and discount, did not kickoff in Q4 in spite of expected price rise, as at least price rise expectation was between 12% to 20%. As the COVID-19 scare was looming by the end of February, the sales, which were supposed to be picking up towards the end of the year that is in the March, did not pick up. The M&HCV vehicle sales for the year fell by 42.47% from 3.9 lakh units to 2.24 and LCVs fell by 20.06% from 6.17 lakh to 4.93 lakh units.

On liquidity, in terms of COVID-19 regulatory package announced by RBI on March 27, 2020, in accordance with the scheme approved by Board of Directors of company, the company has extended option of moratorium for installments falling due between March 1, 2020 to May 31, 2020 to all eligible borrowers. Further, pursuant to RBI notification dated May 20, 2020 the moratorium given to the borrowers are being extended to eligible borrowers for further period up to August 31, 2020. Most of our customers are SRTOs, individual owner operator, and they earn on their vehicle, equipment, tractor and pay. They do not have fixed monthly income or long-term contracts. It is very heartening to inform you that in spite of moratorium, the company has been able to collect from 84%, 23% and 52% of borrowers in the month of March, April and May. However, many of the customers preferred to make part payments and retain part with them to manage uncertainties in the month of April and May. Company had liquidity buffer of Rs.10,422 Crores and SLR investment of Rs.1,824 Crores as on March 31, 2020. The liquidity buffer and SLR investment as on May 31, 2020 was Rs.5724 Crores and Rs.1,801 Crores respectively, as we did not seek back-to-back moratorium from the banks and institutions.

Coming to the headline numbers for this quarter. AUM grew by 5.04% year-on-year to Rs.109749.24 Crores against Rs.104482 Crores in Q4 FY2019. Net interest income stood at Rs.1917 Crores compared to Rs.1902 Crores in Q4 and increased by 1.98% from Rs.7762 Crores in 2018/2019 to Rs.7916 Crores for 2019/2020. The interest margin in Q4 2019/2020 stood at 6.76% compared to 7.14% in Q3 FY2020 and for the full year, NIM stood at 7.06% against 7.41%.

Profit after tax stood at Rs.223.38 Crores against Rs.746.04 Crores in Q4 2018/2019. The company had made a provision of Rs.909.64 Crores related to COVID-19, and hence, the full year profit stood at Rs.2501.84 Crores against Rs.2563.99 Crores for the full year 2018/2019. EPS stood at Rs.9.85 compared to Rs.32.88 in Q4, and for the full year, EPS stood at Rs.110.27 to Rs.113.01 for the previous year.

The Stage 3 NPA stood at 8.36% in the Q4 FY2020 against 8.37% in Q4 FY2019. The overall credit cost, which stood at 1.92% in Q4 FY2019 came down to 0.74% in Q4 FY2020, excluding COVID provision and 3.82% after COVID provision. The full year credit cost stood at 1.64% as against 2.16% for the year 2018/2019, excluding COVID provision and stood at 2.43%, including COVID provision.

So that brings end to my opening remarks. I have with me Mr. Sunder, Mr. Parag and Mr. Sanjay to answer specific questions. Now I request moderator to open the floor. Thank you.

Moderator: Thank you. We will now being the question and answer session. The first question is from the line of Mahrukh Adajania from Elara. Please go ahead.

Mahrukh Adajania: Sir, I have a couple of questions. Firstly, what would be your incremental borrowings from banks in April and May? And would you have borrowed from the TLTRO?

Umesh Revankar: Yes. We had a TLTRO sanction of Rs.200 Crores, then incremental borrowing around Rs.800 Crores, we have borrowed in April and May.

Mahrukh Adajania: Okay, Sir, any new borrowings lined up in terms of either bonds from banks or...

Umesh Revankar: Yes. Pipeline is quite long. We have a good pipeline. We should be able to get something in this month and maybe in the subsequent quarter. Most of the banks are working with very thin staff in Mumbai and that is the reason the processing has slowed down. But we are confident that by this month end, we should be able to complete a few transactions.

Mahrukh Adajania: In addition to this Rs.1000 Crores that you have already raised?

Umesh Revankar: Yes.

Mahrukh Adajania: Okay. Sir, what would be your debt repayments in the second quarter and in the third quarter, that is July to September and then right through to December?

Umesh Revankar: Parag, do you have numbers with you?

Parag Sharma: Yes, I have. It is around Rs.4000 Crores.

Umesh Revankar: It is around Rs.4000 Crores.

Mahrukh Adajania: Right through to December? So from now to December?

Umesh Revankar: No. Next quarter, up to September.

Mahrukh Adajania: Okay and up to December?

Parag Sharma: Another Rs.4000 Crores.

Umesh Revankar: It is another Rs.4000 Crores, so you can take a run rate of Rs.4000 Crores per quarter.

Mahrukh Adajania: Okay. Sir, just 1 last question. What would be your moratorium by value up to end May? And what do you expect it to be in the second phase?

Umesh Revankar: Sunder, do you have a number?

S. Sunder: It will be for the quarter June, it will be around Rs.10000 Crores, will be the moratorium that we have given and maybe a similar amount for the next quarter.

Mahrukh Adajania: Sorry, how much? Rs.10,000 Crores?

S. Sunder: Yes.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Investment Managers. Please go ahead.

Kashyap Jhaveri: My first question is, in your press release with respect to SEBI circular dated May 20, 2020 point #5d says that we have applied for moratorium from banks for the loans that we have taken. Some of them have granted, and some of them probably we will receive consent in some time. Whereas if I look at your presentation, the COVID-19 update says that we have serviced all interest and principal payments to banks and financial institutions on time. So is there a disconnect here or how should one read it?

Parag Sharma: In fact, when it came to the first moratorium announced by RBI, we did not avail any moratorium, we had sufficient liquidity. So up to May 31, 2020 we have not availed moratorium from any bank. When the second moratorium was announced for another 3 months, that is the time we thought we will approach banks and seek moratorium. That is for the next 3 months up to August. So then only we started approaching banks and around 8, 9 banks have given their consent for moratorium. So up to May 31, 2020 all liabilities have been met. Going forward, to the extent moratorium is granted, that will be further liquidity buffer, which we will be able to create when banks give their consent.

Kashyap Jhaveri: And let us say, even if most of them, give a consent, do we still intend to sort of keep making payment despite having availed it? Like some of our borrowers, despite availing moratorium, have been paying us, right? So do we also intend to do the same?

Umesh Revankar: Yes. So we will keep connecting to customers on a very regular basis. We are in touch with all customers because vehicles are running, around 65% of the vehicles are running and as and when they earn, they will pay. Ultimately, it is earn-and-pay model. So the moment they earn, they will pay. So we will keep collecting it and it will remain as a prepayment in their account. However, all the settlements when the customer closes the loan, it is done on the IRR basis, contracts on IRR-based.

Kashyap Jhaveri: No, Sir. Sorry to interrupt, but my question is different. My question is that like our customers have availed moratorium, but they are still paying you. You have availed moratorium from banks, but would you still be paying those installments to your banks in terms of excess liquidity?

Parag Sharma: I think that is some call we will have to take in case the liquidity is good. As of now, many measures have been announced, and some measures are yet to take shape, particularly the partial credit guarantee, which has been announced, some of the SIDBI scheme, some of the MSME liquidity window, which have been announced. But if the liquidity comes out to be good under all the measures announced, then we will look at it. Because as of now, we have liquidity buffers, which has taken care of liabilities till September. If the liquidity further is good, that is more inflow is there, that time we will take a call because anyway, there will be interest accrual from banks side also.

Kashyap Jhaveri: Okay. Second question is on your quarter-on-quarter drop in margins. What would have contributed to that drop?

S. Sunder: It is mainly because of the derivative treatment for this overseas borrowing that we have done, wherein in the previous quarters, if you see, there has been some gains on the fair value of the currency. However, in this current quarter, if you observe that the dollar movement has gone up substantially and we could not get any gains in accounting terms, and hence, the interest cost seems to be artificially high compared to the previous quarters.

Kashyap Jhaveri: Okay. But as I understand, our overseas volumes are completely hedged, right?

S. Sunder: Entirely it is hedged. However, in accounting, there is some treatment which needs to be done, which has impacted the interest for the current quarter.

Kashyap Jhaveri: The whole impact on the margins on quarter-on-quarter basis will be explained by this currency movement only? Or is there anything else?

S. Sunder: Yes. Apart from this, there is no other thing.

Kashyap Jhaveri: Okay and one last question on the moratorium side. So you have already given data as to what percentage of people are already paying you, which is 52%. But if you can help us with how many of our customers have paid, let us say, more than, 2 installments, 1 installment and 0 installment?

S. Sunder: We do not have that off-hand. Maybe you can connect with Sanjay after the call. He will be able to help you.

Kashyap Jhaveri: Just one clarification on the previous question where you said moratorium by value of Rs.10,000 Crores. This is additional moratorium versus May 30,2020?

S. Sunder: Pardon, can you repeat the question?

Kashyap Jhaveri: There was one question on moratorium, where you said the additional moratorium will be about Rs.10,000 Crores.

S. Sunder: Correct.

Kashyap Jhaveri: That is incremental moratorium versus May 31?

S. Sunder: Correct. That is the incremental moratorium. Even though we are giving, it is likely that because the vehicles have started plying, so we should be getting a substantial amount of collection in the next 3 months or so.

Kashyap Jhaveri: So on May 31, 2020 that amount was 48% of the total loans. That was only in the terms of number of customers?

S. Sunder: That is number of customers, 52% is number of customers.

Kashyap Jhaveri: In terms of value, what would...

S. Sunder: Value will be around 15% in the month of April and 30% in the month of May, which should substantially increase in the month of June.

Kashyap Jhaveri: So on May 31, 2020, 30% of our loan by value was under moratorium?

S. Sunder: No.

Kashyap Jhaveri: 70%.

S. Sunder: No. See, we had extended this moratorium to the entire set of customers. However, we have been in touch with the customers, and we have been advising them if they have surplus money with them, they can pay the company, so that they will save on the interest component and heeding to our request, around 25% of the customers paid in April and the 50%-odd paid in May. That is the number of customers that we are talking. Some people have paid part payments, some people have paid full payment and in absolute amount terms, around 15% of the pre-moratorium demand was paid in value terms in the month of April and pre-moratorium due for May, around 30% was collected in May.

Moderator: Thank you. The next question is from the line of Aakash Dattani from HDFC Securities. Please go ahead.

Aakash Dattani: Sir, I have a couple of questions. If I look at, say, the split of your AUM over the last few quarters, so two trends, if you could just elaborate on them. So it seems in absolute numbers continued to grow, although at a very slow pace, and tractors have dipped substantially, because we see some other players, HCVs have degrown and people are talking about stress in that segment. So could explain your views on the same?

Umesh Revankar: The tractors, we had around 3% to 3.5% of our total portfolio in tractor that has not grown faster. In fact, we would love to grow faster in the tractor segment and LCV, again, we are growing. In HCV, it is mostly because the ticket size being larger, it remains at a higher percentage in our total portfolio. The ticket size of HCV is 3 to 4 times of the tractor or LCVs. Overall, we have maintained, what you call, segment-wise growth in similar way. Only in LCV, because of the higher agricultural activity, LCV is growing and we intend to grow more in tractor also. Probably next year, we will see some growth.

Aakash Dattani: Okay. So another trend that is visible over the last few quarters is your increasing reliance on overseas borrowings. What would be the driver for this and what is your sort of strategy hereon?

Umesh Revankar: The foreign borrowings, earlier, it was for the minimum period of 5 years, it was relaxed to 3 years and NBFCs were not allowed to borrow from the overseas 3 years back, and it was allowed. So once it is allowed and also when the minimum term brought down from 5 to 3, we felt that that is a good opportunity for us to diversify our source because diversification is very important when you are quite large and so we felt that as a part of diversification, even if it is a little expensive, we need to be there in the international bond market. So that was the reason we went ahead and borrowed from the dollar bonds.

Parag Sharma: I think 2, 3 more opportunities also came up. One was reaching out to multi-let institutions. So we had borrowings from 3 of them, IFC, Proparco and OEB. That was apart from dollar bond graded and also some ECA transactions, these were export credit agencies from different countries, where we had the opportunity to borrow from them also. We will continue our dialogue with multi-lets and other agencies apart from dollar bond, which will be 1 or 2 in a year, but the other development institutions will definitely be engaged for our kind of customers, what we deal with, which are fulfilling their norms of social objectives or ESG norms. So wherever there is an opportunity to reach out to multi-lets, we will keep our options open.

Aakash Dattani: Okay. Sir, you mentioned two other organizations after the IFC, I did not quite hear those actually. So if you could please repeat them?

Parag Sharma: One was Proparco and other was OEB.

Aakash Dattani: Okay. Sir you mentioned also that you will borrow from export credit agencies. So how would that exactly work?

Parag Sharma: So if you are doing a particular asset class of a particular country, the agencies look at growth of their companies, export that come to India, and they fund. So that has been a feature with many of the agencies. One transaction, which we did was with an Italian manufacturer for their assets in the country and incremental borrowing also can be there from them based on volumes what we do for Piaggio and other Italian.

Aakash Dattani: That is it from my end. Thank you so much.

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

Umang Shah: Just a continuation on overseas borrowing, what is the headroom that we have on borrowing in FY2021?

Parag Sharma: In fact, RBI permitted limit is $750 million for a financial year. For every financial year, you can borrow $750 million. The entire limit is available for the current year. But in the past, what we have seen is, if you are able to exhaust this $750 million, this is automatic, I mean you can always approach RBI for further limits and based on RBI's permission being granted, you can actually then borrow more. But $750 million is a limit what RBI has fixed for any corporate.

Umang Shah: All right. Sir, my next question is, if you could just share your outlook in terms of regions where we have opened up our branches, some initial feedback from customers or the kind of inquiries that we are seeing because in general, the view is that the demand for used vehicles may remain a bit resilient compared to other vehicle segments. What would be your view on the same or some initial feedback?

Umesh Revankar: You are right. In fact, all the demand or inquiries today are coming from the rural market and the rural market people normally prefer secondhand vehicles. Therefore, the inquiry levels are high. Even we have seen, what you would call, vehicle exchange that has happened recently, buying-selling activity. Most of the buyers are from the rural market. So there is a good demand from the rural market and we also feel that harvest being highest in the last harvesting period and the state governments and central governments have purchased most of the food grains, and they released only part amount. The other part of the amount to be released yet so once the government releases the full amount, people would have reasonably more cash and their ability to buy and own the assets would be much better. So the tendency will be more towards used vehicle and rural market will be the first to start buying the vehicles. Post September, once the infra activity starts I think the urban market also will start improving.

Umang Shah: Sir, lastly, we have built up a good buffer in terms of our Stage 1, Stage 2 provision cover. We are already at 3.1% of our non-Stage 3 assets. Would you have any outlook on how the credit cost may look like in FY2021? I know it may be a bit early, but any early assessment that you would have done on your portfolio?

Umesh Revankar: See, we have already factored it in our ECL calculation. So it is already moved from average of 2% to 2.43% in the last quarter itself. Further increase, we do not really foresee much, but if the COVID-19 continues to remain and activities remain a little subdued, it may go maximum up to 3%. It is what we feel. Then it will come down again because if you see in the past cycle also, it has gone up nearly to 3% and come back to 2%. So we should be able to maintain in the long run average of 2% credit cost, even though temporarily, it may go up from present level to maybe up to 3%, but we are confident of containing it at around 3%.

Umang Shah: Great. Sir last data point, what quantum of loans were securitized in 4Q?

Umesh Revankar: Rs.2369 Crores.

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

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

Vivek Ramakrishnan: Thank you for the call. To start on an optimistic note, it is good that 65% of the customers are on road. I have also learnt the art of grouping many questions in the two questions list. So first, I will ask on liquidity. You had said about the number of customers who are paying, like 52% was a number, but let us say, you were to receive Rs.100, how much are you actually receiving in terms of amount? And the related question is on the liability side now. In terms of FD, because your SLR book is the same, does it mean that the FD is still at around Rs.11000 Crores which we saw as at March end? Or has the FD amount decreased or increased?

Umesh Revankar: Now fixed deposit is around Rs.11,000 Crores and 15% of it is the SLR. So the first question, I did not get fully. Okay, 52% of the customers, on the value terms, it would be around 30%.

Vivek Ramakrishnan Okay. So if you have to receive Rs.100, you are receiving Rs.30, would that be a rough...

Umesh Revankar: Yes, Rs.30 to Rs.40, around that, yes.

Vivek Ramakrishnan: Okay. Excellent, Sir. The second question is around capital and the most often used statement is that never raised a good crisis. Your capital adequacy actually already looking quite strong at 18%, but yet you are raising more capital. Alternatively, there are also plans of merger with SCUF, which is sitting on excess capital. Is there any chance that you would look at that or strategically look at a strategic investor like you have done in the past, including maybe even conversion into a small finance bank or a bank?

Umesh Revankar: See, none of those bigger plans are discussed now because we want just to go through or sail through this phase. So all other plans are in pause and we never had a banking ambition. So we have not discussed anything as far as banking is concerned.

Vivek Ramakrishnan: Okay, Sir. But the capital raise is something you will go through with?

Umesh Revankar: Capital raise, we have not discussed this in this board meeting. It was not a part of the agenda.

Vivek Ramakrishnan: Okay thanks a lot Sir and good luck and I hope that utilization improves.

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

Saurabh Dhole: A couple of questions. Firstly, under the ECL methodology, I wanted to understand this a little better. When you do not have a precedent for such an event and there is no past history of a portfolio performance under such circumstances, how do you then arrive at the PD and LGD assumptions that you have used for this quarter?

S. Sunder: See, there are certain models given by the rating agencies that we have factored and there are other international reports also which we could get access to. So those have aided in our decision making. Plus at the ground level also, we saw the customer behavior even in spite of the moratorium, how many people are paying and pre-moratorium, what was their stand. So all those factors are built-in in the logic for increasing the PD and LGD.

Saurabh Dhole: Okay. Sir, secondly, so you said that in the first round of moratorium, about Rs.10,000 Crores was the moratorium by value, right?

S. Sunder: Yes.

Saurabh Dhole: So when you say that incrementally, Rs.10,000 Crores gets added in the second round, are there any borrowers who are coming out of the first moratorium who have not decided to pursue or go for the second round?

S. Sunder: See, some people have communicated that they are not interested in the moratorium. Even many people who have taken the option of the moratorium, in fact see, we did not have the concept of opt-in and opt-out, which other companies and banks are giving. We had moratorium given to almost all the customers. However, we are again in touch with the customers, borrowers, and then we have been advising them that in their interest, if they have got surplus funds, it is better to part those funds and repay the borrowings, so that they save on the interest cost and taking into account all those things, as we said, around 52% of the customers have paid in May, and we are hopeful that this percentage will further improve and similar trend will be witnessed in the next quarter also. So even though the Rs.10,000 Crores moratorium has been given, we expect that many of them will not be exercising it.

Saurabh Dhole: But that time period by which they had to inform you whether they want to go for the second round or not is already passed, right, because it starts on June 1, 2020?

S. Sunder: See, even if they avail also, they will repay the installment anyway, the account be on an IRR concept. So even if they pay, it gets to the creditors account and they save on the interest. So ultimately, they will not lose anything.

Umesh Revankar: So let us understand our customers. First of all, we have to understand our customers. If a customer is buying a vehicle for making his livelihood, he also is making an investment into the vehicle, and he would like to earn on the investment. If somebody is taking a vehicle worth Rs.5 lakhs, he invests Rs.1.5 lakhs and borrows Rs.3.5 lakhs, and he would like to repay in three years and at the end of 3 years, his expectation that vehicle value from Rs.5

lakhs would have come down to between Rs.3 lakhs to Rs.3.5 lakhs. So he would sell it. That means on his investment of Rs.1.5 lakhs, after repaying the loan, after making his livelihood, he will make a profit of Rs.1.5 lakhs. That vehicle value is Rs.3 lakhs, his investment is Rs.1.5 lakhs. That is how the calculation is made by each and everyone who comes into this business. Sometimes he may earn a little more or sometimes he may earn a little less if the maintenance is more or resale value is less. Instead of selling the vehicle for Rs.3 lakhs, he may sell it for Rs.2.5 lakhs and again, that Rs.2.5 lakhs, he will reinvest into the business. Every three, four years, they keep buying, and they reinvest into the business. While reinvesting in the business, he may buy two vehicles or he may buy one vehicle, which is of higher value. That is how the individual operators come into the business, make his livelihood and repay the loan. So his interest would be always to repay the loan as early as possible, not delay as much as possible. Delaying and keeping the cash with him is not going to help him at all because paying it fast and realizing the value of the vehicle is the interest on which he comes into the business and since we know our customer well, we keep advising him whenever you have money, keep paying, whether it is the part or full. So that is the encouragement we give. Ultimately, he wants to clear the loan as early as possible. That is the fundamental of our customers.

Saurabh Dhole: Right, Sir. Got it. Sir one last question. Would you know what was the ultimate write-off of the portfolio which was made because of delinquencies arising out of demonetization?

Umesh Revankar: Demonetization, we do not have numbers right now. Sanjay will give you the numbers.

Saurabh Dhole: Any rough number would also do?

Umesh Revankar: See. If you look at our credit cost, our credit costs had gone up by around 50 basis points around that time and that is the estimation I can give you.

Saurabh Dhole: Okay Sir. Thank you.

Moderator: Thank you. The next question is from the line of Rajeev Agrawal from DoorDarshi Advisors. Please go ahead.

Rajeev Agrawal: Hi thanks for taking my question. My first question is you mentioned that company has extended moratorium to eligible borrowers. Now what does company define as eligible borrowers?

S. Sunder: See, it has been given to almost everyone but for certain chronic defaulters or willful defaulters. So we have identified certain customers and we have removed those customers from it. Other than that, we have extended it to almost everyone.

Rajeev Agrawal: And so what percentage would that be approximately?

S. Sunder: Around 95%, 96% should be the customers to whom we would have given.

Rajeev Agrawal: Would you be able to give a sense of what is the LTV of the portfolio, especially by the category that you give out...

Umesh Revankar: LTV is, see, we were lending at 70% LTV till 2018. Post 2018 October, our LTV we reduced to 65%. So we have a portfolio which is between 70% to 65%.

Rajeev Agrawal: 70% to 65% and this is across all the used as well as the new or...

Umesh Revankar: It is mostly for used. New, the LTV will be around 75% to 80%, it will be higher.

Rajeev Agrawal: Okay. Got it. And what percentage of our customers actually are able to utilize their vehicles now? So would you have the utilization rate at this point for our customers in May? And how has it changed in June?

Umesh Revankar: See, to start with, it was around 30% of the customers who started operating the vehicle even in the month of April. May, it has increased to 50% and by the end of May and beginning of June, 70% of our customers are able to use the vehicle. The only interstate vehicles are not being able to operate fully because long distance vehicles, there are some challenges, one is, they are not sure about the wayside facilities in case of emergency requirement. Therefore, there is some reluctance, and also the industrial activities are not fully started and therefore, not many freight also is available. The other segment, which is hit badly, is passenger transportation, especially the taxi segment, which is around 3% of our total portfolio, Ola, Uber taxis and city taxis, there has been challenges. But other passenger transportations like rural area local transportation that has operated. Green zone has been allowed to operate. So there, the operations have started. Nongreen zones, there are some restrictions. From June 8, 2020, from this Monday, I understand that they have allowed Ola and Uber to operate in many of the cities. Mumbai, it is not fully operational, but still 30% to 40% of the vehicles are running now in the city for passenger transportation. I feel by June end, all vehicles should become operational as the activity picks up.

Rajeev Agrawal: Got it. Given that the rural economy is doing so well, I could not understand why your tractor portfolio has not picked up. Can you explain that again, please?

Umesh Revankar: See, tractor portfolio, when we are talking about growth in portfolio, it is about the full year performance and the agricultural activity has picked up maybe in the last seven, eight months. So we are witnessing demand coming from the tractor. But as a portfolio, it will not make a big difference because out of 100, 3% is our tractor portfolio, and it is remaining around 3%, maybe plus and minus 10 or 20 basis points because the ticket size being small. We finance only used tractor, not new tractor. Therefore, the ticket size is only Rs.1.5 lakhs per tractor. Therefore, we had to do lot many numbers of tractors to increase their percentage in the overall portfolio.

Rajeev Agrawal: All right. So when I see incremental, it has come down from 3.1% in Q3 to 2.9% in Q4...

Umesh Revankar: I agree. It will do well. It will definitely do well.

Rajeev Agrawal: Is there any sort of structural reason why it has not grown? Or it is just a one-off? There is no specific reason for it.

Umesh Revankar: There is no reason as such. But I feel if we had focused on new tractors, probably ticket size would have been larger, and we would have grown. But we have remained on used tractor only. We have not gone into new tractors. That could be the reason.

Rajeev Agrawal: Okay. Got it. And then can you talk a little bit about your incremental cost of borrowing? And also if you can break it down by public deposits, securitization and bank volume? How is the cost of borrowing moving across those three segments and overall?

Umesh Revankar: On public deposits, we have activated all our branches now. Earlier, branches were not sourcing deposits and we hope that public deposit will grow in the current financial year and rest of it, Parag will answer.

Parag Sharma: For deposit also, we have reduced our rate. So retail deposit also rates have been reduced by around 30 to 40 basis points and when it comes to borrowing from different sources, banks have also reduced their lending rates. So incremental cost is between 8.5% to 9% when it comes to five-year borrowing what we have done, which used to be around 9.25% to 9.5%. So there is some savings there. When it comes to securitization, the volumes have been low. Because now on-lending is permitted as priority sector shortfall can be fulfilled by banks by doing on-lending. So banks will take that as a preferred route rather than doing securitization and that will be equivalent to the regular term loans what banks used to offer.

So securitization because of credit enhancement and will be lower, it used to be at a slightly lower rate. On-lending will be a regular term lending rate, which will be between 8.5% to 9%.

Rajeev Agrawal: Got it. Public deposit is less than 8% for you?

Parag Sharma: Yes, it starts from 7.6%.

Rajeev Agrawal: Sir, just one clarification I had was, given that you have a good brand image, why would not you want to raise more money through public deposits and keep the rate a little high? Anyway, many of them, we have seen they are struggling raising money. So why would not you just want to raise more money through public deposits?

Umesh Revankar: Yes. As I said in the beginning, that is the plan. We did have separate outfit and it was outsourced activity, deposit. It was not done internally at the branch level. Now we have trained all the branches; especially during the COVID time, we have trained the branches on deposit product and we have relaunched it in all the branches as we open all branches and we expect the deposit to gather momentum and you are right, we should be focusing on our deposit and as far as cost of deposit and distribution costs, earlier it used to be a little higher compared to the wholesale product rates. So now the rates are better because banks have lowered the rate, so we can also lower the rate. Now it is very competitive. So next one year, we should be able to see good progress in our deposit portfolio.

Rajeev Agrawal: Got it, my last question is, if you can just break down the assets between Stage 1 and Stage 2? How much Stage 1 and how much Stage 2?

S. Sunder: As on March, the Stage 1 percentage is 80.43%, Stage 2 is 11.21%, and Stage 3 is 8.36%.

Rajeev Agrawal: Okay. Thanks a lot.

Moderator: Thank you. The next question is from the line of Vibha Batra from FairConnect. Please go ahead.

Vibha Batra: My question is on this Emergency Credit Line Guarantee Scheme. What is your view? And are you planning to avail that?

Umesh Revankar: That is three months, very short. So I do not think we will be able to avail that, that even if we avail it, we do not have product with the short period.

Vibha Batra: No. The scheme is for your borrowers, sorry I put it wrongly. So basically, you can extend working capital loan to the extent of 20% on loan?

Umesh Revankar: You are talking about MSME loan, Rs.3 lakh Crores?

Vibha Batra: Yes.

Umesh Revankar: Yes. That we are applying and we are looking at the fine print and guidelines and already, we have approached SIDBI for that and also put through some bank. We should be able to avail. We have some application already in the pipeline. We should be able to have something on that.

Vibha Batra: And what percentage of your borrowers would be eligible for this scheme?

Umesh Revankar: Around 20% to 30% of the customer would be eligible for working capital.

Vibha Batra: Okay. Should not it be higher because as long as that loan is in the name of company, so most of your loans will be in individual's names?

Umesh Revankar: Individuals, yes.

Vibha Batra: Okay. I had a particular question, maybe that your team may have applied, that in terms of recovery, because your loans are all secured against vehicles that working capital is unsecured and it is a four-year tenure loan with one-year moratorium on principal. It looks like that it will give some relief to the borrowers. At the same time, recovery, whatever you get through the sale of vehicles, if it goes to repo and other things, it should possibly be yours and not delegate it to government. But there is a lot of confusion on priority of claims, so any thoughts on that?

Umesh Revankar: The repossession is hardly 1% of our portfolio. We have not applied our mind on how it will think because when only 1% of our portfolio is repossessed, how to share it with government is something which is too early to decide or discuss.

Vibha Batra: Sure. Your stage three coverage, you have not really changed, it is 34%. So does that mean that from harder assets, your assumption on recoveries remain the same despite this very challenging time?

S. Sunder: See, every year, we reassess the LGD and PD numbers in the month of March and this time, when we were doing it, we generally take this exercise in January and February and when we had assessed, in fact, it had a positive impact in both PD as well as LGD. However, taking into account the COVID-19 situation, we again reassessed, and there was a marginal increase in spite of COVID. So whatever 10% to 15% was increased because of the COVID, some component was offset by the positive trend that happened till February.

Vibha Batra: Okay. But the situation is quite unprecedented. So I think what you get out of models, they may not be very relevant and the judgments that you have on the ground, which has been your strength, I think that needs to be mapped.

S. Sunder: What you say is correct. However, we are confident that whatever we are providing is more than adequate at the current point of time.

Vibha Batra: Okay. Thank you, all the best.

Moderator: Thank you. The next question is from the line of Love Sharma from Lombard Odier. Please go ahead.

Love Sharma: Thank you for this call. I just wanted to have a quick follow-up on some of the questions. Can you elaborate within some of the AUM segments that you have, specifically the passenger vehicle segment, you elaborated about the taxis being about 3%? The remaining is buses, I would believe and if you can give a sense of what kind of capacity utilization you see there? First question. Secondly, I think, can you give a broad sense of where do you see pain points within the asset portfolio? You also have some of these working capital or short-term loans to some of your customers and like you mentioned, the interstate vehicles are still struggling. So is that something which you expect to persist given the slowdown in the economy? Or do you expect it to recover almost fully, let us say, from June or July onwards?

Umesh Revankar: Yes. The passenger segment, the taxi segment in the red zone areas are still not operational. So that is some area where we feel it will take some time. But however, now the government has announced, so they have announced that only two passengers can travel and the pool taxis are not allowed and that will create, as economy starts picking up and all the offices start working, people may prefer more of, what I should say, individual transportation rather than the public transportation. So therefore, I feel that portion will start improving in the month of June, maybe towards the second half of June. Other passenger vehicles are factory buses or rather the company buses or the school buses. Schools are opening from July. So we feel that the school buses, even though there is not much of a payment issue with the school buses that will again start improving and as far as the staff transportation, we, ourselves, Shriram, ourselves, are using around 14 buses every day for transporting our staff instead of using the mass transportation, which of course now metros are not working. But even we would like to continue the use of buses for our employee transportation for the sake of hygiene and many of them will follow. So that will create a bigger demand for passenger transportation. In the rural area, green zone, there is no challenge as far as the passenger transportation is concerned. I do not think there will be any challenges there. The other pain points would be interstate, long distance truck movement. That is yet to pick up for the fullest extent. But I think as all manufacturing and factories start opening up with more than 50% staff, then automatically, the demand for the trucks would improve. One advantage our customers would have is, they are not dependent on drivers. Most of them drive themselves or their own friends or relatives. So the shortage of drivers, which is one of the reasons for many of them not operating, is not the reason for our customers not operating. So they should be in advantageous position as far as the operation is concerned. So I think by June end, we should see every one of them start operating. And once they operate, we are confident of the collection being good.

Love Sharma: I understand. So on the intercity vehicles who ply interstate trucks, what would be their proportion of the total AUM?

Umesh Revankar: That will be for us around 10% of total portfolio.

Love Sharma: Of the total portfolio. Understand. And how about the working capital loans, etc., business loans, if you can throw some light there? What do you see?

Umesh Revankar: Yes. The working capital loans are basically given for running of a vehicle, if somebody wants to replace tire or fuel credit, so they are all actually have security. They are not unsecured in that sense because it is given for operation of a vehicle. So only the business loan, business loan is also secured by mortgage of property. So none of the business loan is without any mortgage. So overall, all our portfolios are secured, and unsecured portion is negligible.

Love Sharma: Understand. Just last question, in terms of the collections you are seeing currently from your business loan, working capital loan customers and also these interstate vehicles, could you give some granular details? How much of collections have you seen so far from these customers?

Umesh Revankar: See, basically, the customers who are able to run their business on essentials and perishable goods, they were quite comfortable. They could easily pay both in April and May. Others where you have some credit period for getting money, even though you get some advance, balance amount is paid after credit time of 15 days to 30, 45 days that takes a longer time.

So I understand that many of these manufacturers or shippers, there are some delay in payment because they are not fully operational. Their offices are not working fully. So therefore, the long distance transportation has certain challenges. But I think once the activity picks up, once all employees start coming, all these will be addressed. So I think by June 15, 2020, we should see a fair amount of good activity and by June end, we should see that all bottleneck go away.

Love Sharma: Understood. Just one more, I think, on the liquidity side. You mentioned Rs.4,000 Crores of debt, which is due in the second and third quarter going forward. Does that include any expectation of moratorium, which you have requested from the banks? Or is it the total liability?

Parag Sharma: This is total liability.

Love Sharma: Okay. You mentioned there are eight, nine banks who have sort of given the consent for moratorium. Could you elaborate what kind of amount would that lead to?

Parag Sharma: No, I do not foresee a reason why others will not agree. It is a matter of time. I think everyone will agree. All banks will agree. In value terms, it will be around Rs.2,000 Crores, which is falling due, where we should be able to get moratorium.

Love Sharma: Okay. So Rs.2,000 Crores for the next quarter?

Parag Sharma: Correct.

Love Sharma: Okay. Got it. Thank you. That is it from my side.

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

Umesh Revankar: Thank you. As we discussed, we are in one of the difficult phase, of what I should say, economy and plus overall on health and activity wise. We hope that now onwards things start looking better as country has already opened up in most of the location other than containment zone and restrictions are removed and shops are allowed to open. I think the activity will come back soon. But most of the activities would be resumed in full operation by August and September. The monsoon being predicted normal, we should see a good demand coming back for credit and also improvement in collection in August and September. So we are confident and hopeful that next quarter, that is the July to September quarter would be a strong quarter. But March to June may be a little slow and weak quarter, but we have made enough provisions and enough precautions to manage the current quarter. Thank you very much. See you again.

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