



“Shriram Transport Finance Company Limited Q4 FY '20-21 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Shriram Transport Finance Company Limited Q4 FY '20-21 Earnings Conference Call. As a reminder, all participants' 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Umesh Revankar – Vice-Chairman and Managing Director. Thank you and over to you, Sir.

Umesh Revankar: Thank you. Good Morning friends and Good evening to those who have joined from Western part of the world. A warm Welcome to all of you who has joined this call. I hope all of you are healthy and safe in the confines of your home. Today, people who are joining with me are Parag Sharma, Sunder, and we have three more JMDs, we have five joint Managing Directors in our company, Mr. Sudarshan, Mr. Sridharan, and Mr. Nilesh. They are newly promoted, and they take care of certain geography and certain functions, and Sanjay who is our IR Head.

Let me first start with economic and industry update which directs our business. The Indian Government continued its unlock phase in January 2021 including the opening of educational institutions subject to respective State Government guidelines. However, new strain of COVID-19 virus gave rise to cases in certain parts of the India prompting several States to impose restrictions including night curfew, weekend lockdown, and restricted timing for shops, business, and people movement. It is expected that Indian Government's initiative of world's largest vaccination program in January 2021 started with healthcare workers and subsequently rolled out to various age groups and now it is open to all above 18 years, that will achieve large-scale immunity among the population and that should bring back the business into normal.

The Government announced several reform measures in Union Budget. The funding of national infrastructure pipeline was proposed to be increased for the purpose of enhancing CAPEX in both Central and State Government budget. It has announced that 11,000 kilometers of highway corridor and 8,500 kilometers of other roads would be awarded for the road building by March 2022. Economic road corridors of more than 6,500 kilometers were proposed at an outlay of 2,27,000 crores. A vehicle scrappage policy for commercial vehicle older than 15 years was announced with specific discounts and road tax rebates on such scrapping. Rs. 20,000 crores were proposed to setup for development finance institute for long-term infrastructure finance.

On the industrial front, 1.97 lakh crore is committed for a period of five years on PLI, i.e. production-linked incentive, scheme for supporting local manufacturing in the key sectors of automobile, electronics, medical, steel, telecom, and food products, white goods, and technical textiles. A mega investment textile park scheme was announced with promise of setting up seven textile parks over next three years. Support to MSME was doubled to 15,700 crores. Custom duty on several MSME manufactured items including steel screws, plastic ware, leather, handicrafts was increased to support local production.

In agriculture, Government announced enhanced target to Rs.16.5 lakh crores for the Financial Year 2022. Allocation to Rural Infrastructure Development Fund was increased to 40,000 crores against 30,000 crores earlier. This is expected to improve various rural infrastructure including roads, marketing infrastructure, cold storage, khadi industrial centers, education institutes, and custom duty on cotton and silk was increased to benefit farmers.

The RBI also made several positive statements and initiatives. RBI announced that incremental lending to NBFCs would be covered under TLTRO on-tap scheme, which will enable NBFCs to act as key enabler in extending last mile credit. Priority sector lending classification benefit for Banks, for on-lending to NBFCs was extended by another six months till September 30, 2021. NABARD was provided with special liquidity facility of Rs. 25,000 crores for the purpose of supporting agriculture and rural non-farm activity.

In manufacturing, industrial output was slightly negative with index of industrial production decreasing 1.6% in January and 3.6% in February due to slowdown in capital goods, consumer durables, and mining in certain States where COVID spread increased. However, manufacturers continued seeing increase in new orders as witnessed by PMI, the Purchasing Manufacturing Index, reading in February and March being 57.5 and 57.4, respectively signaling future growth.

The GST collection were consistently above 1 lakh crore mark and recorded 8%, 7%, and 27% increase in January, February, March on yearly basis. The food grain production was higher by 2% at 3,033 lakh tons in FY '21 on year-on-year basis reflecting strong rural economy and not really getting affected by COVID.

Now coming to auto industry, the commercial vehicle sales increased by 42% in Q4 to 2,10,000 units against 1,47,000 units in the previous year. Heavy commercial vehicles led the demand this time increased by 58% on QOQ basis reflecting a pent-up demand and also reflecting demand in the construction activity. LCVs witnessed slight contraction mainly due to the production and supply chain issue and waiting period, there are waiting period for the LCVs because the demand was higher. We continue to operate across all branches other than containment zone in certain pockets.

Now, I come to the quarter performance:

We clocked a disbursement of Rs. 14,973 crores including Rs. 606 crores towards new vehicle and Rs. 14,205 crores for used vehicle in Q4 FY '21 as compared to disbursement of Rs.10,868.56 crores in Q4 previous year. The AUM was Rs. 1,17,242 crores as of March compared to Rs. 1,09,749 crores in March 2020. The net interest income was Rs. 2151 crores in Q4 against Rs. 1961 crores in Q4 '20. The net interest margin was 6.8% against 6.85% in the previous year. The profit after tax was Rs. 754.93 crores compared to Rs. 223.38 crores in Q4 '20. The EPS stood at Rs. 30.65 against Rs. 9.59 in the previous year. The collection was consistently good in the last quarter recording 133.31% in Jan to March and 108.83% in the month of March.

The Stage-III NPAs stood at 7.06% as compared to 8.36% in the previous year. Overall credit cost now in this quarter was 2.2% and as on March 31st 2.48%, which is much lesser than the guidance given. In the beginning of the year, we gave a guidance of 2.7% to 2.8%. Our liquidity position stands at Rs. 17,121 crores as compared to Rs. 13,429 crores in January 2021.

Coming to the COVID impact in the last couple of months, it has now spread to hinterland in certain pockets, especially in the heartland. That also has impacted our staff and relatives resulting in lower productivity in the month of April and likely to be impacted in the month of May. However, other than the strict locked down areas, containment zone, the movement of goods is seen as normal. There are issues in certain locations in certain States for the transporters on getting return load, which we are addressing by giving a solution on mobile to the customer and we are seeing utilization levels of around 20 to 22 days per month. There is some idling in certain locations wherever the family member or the individual owner himself is infected with virus, otherwise, we do not really see large scale idling anywhere.

The movement of the used vehicle prices and even the used machinery prices is reasonably strong and moving upwards. With the COVID spread even the new vehicle sales have come down in April and likely to be lower for couple of quarters and that should help the used vehicle prices to remain strong and demand seems to be quite good, even though transactions are less because many of the State RTOs are not functioning fully and because of that buying-selling transactions are not getting recorded and we are not able to complete our lending transaction. The credit rating, which was in the last COVID situation, which was changed to negative outlook, now has been upgraded to stable.

The cost-to-income remained stable in the current year vis-à-vis previous year, but we expect a marginal increase to around 24% because we have started hiring from last September so there will be increased staff in the next couple of years and we would be adding at least another 300 branches in the next couple of years. Registration of assets which was allowed to the NBFCs, we initially made arrangement and we approved restructuring of around Rs. 2,200 crores but finally we ended with only Rs. 590 crores restructuring. Only the staff transportation and school buses, they have taken the restructuring, and some are public transporting individuals.

On technology, we are continuously working on building a strong, versatile, mobile platform wherein all production services are available to customers and to our frontline team. We are also trying to work on giving return load to our customers and also making the load available on the platform so that his activity can move easily. There is not much update on the merger now. We are still evaluating all possibilities and we would like this COVID situation to improve to give any definite clarity on the merger. I hope you have received investor update, which is also available on our website as well as published on the stock exchange.

Now, I have some update from my CFO – Mr. Parag Sharma, now I would like Parag to join the call.

Parag Sharma:

Hello everyone, I wanted to give an update regarding liquidity position and also the borrowing from various sources. We have well-diversified liability profile and during the quarter and also for the year, we are able to tap all sources. The term loans what we borrowed was close to around Rs. 4,000 crores, Rs. 3,900 crores to be precise, and for the full year, we had more than 10,000 crores of term loan borrowing. Dollar bond which we borrowed for the financial year first time in January of US\$ 500 million we tapped it in the month of March and the total borrowing for the full year under Dollar bond was Rs. 5,000 crores in INR terms, US\$ 725 million in Dollar terms.

The capital market, which was slightly closed, or liquidity constraints were there during the first half of the year opened up subsequently and that also we have tapped up to the extent of Rs. 3,700 crores in the quarter and for the full year at Rs. 5,000 crores.

Securitization continues because of the demand continues because of priority sector benefit and this also came up largely in the second half of the year; for the full year we did securitization to the extent of Rs. 13,000 and the last quarter was Rs. 4,600 crores. Retail deposits we have I think will be the only company which has reduced rates from April onwards by around 10 to 15 basis point that also continues to be very strong and for the quarter, we had mobilized Rs. 2,300 odd crores in retail deposits.

As you are aware, we also did a rights issue in the month of July-August for Rs. 1,500 crores. This was the overall borrowing for the year and all the sources are around 20%-25%, be it term loans, be it securitization or the external commercial borrowing.

Retail deposit is a growing proportion which has now crossed 15% of liability and we do expect that to further go up. We also indicated that the cost would come down, the interest cost for the company will come down and it has come down for the quarter by around 20 basis points, it is less than 9% now. We do expect for maybe one more quarter, it can slightly improve, however, since we are carrying excess liquidity buffer now, we did large mobilization in the month of March from the Dollar bonds also from domestic bonds which is slightly higher which is pulling up overall cost.

The capital market sources continue to be supportive now and in the month of April also we have done domestic bond raise. I think one more thing to highlight was the final dividend we have declared of Rs. 6 at the overall dividend paying 180% and the payout ratio will be closer to around 18 odd percent.

I think with this I go back to Mr. Revankar for any further comments to be made by other participants.

Umesh Revankar:

Mr. Sunder will add few general points.

S. Sunder: Good Morning everyone. As updated in the last previous quarter, the ex-gratia amount of Rs.231.28 crores which was claimed from the company to the Government that we have received in the quarter ended March, so that has been credited to our financials and based on the Supreme Court order in the last week of March wherein other than the borrowers who were covered in the previous order, so they needed to be compensated and that we have taken a hit in our financials, the amount comes to Rs. 36.54 crores. In the previous call, we had updated that the nil collection customers were close to 9,600 borrowers and the exposure was Rs. 112 crores, that has come down to 4,482 borrowers as on the March 31st and the exposure has come down to Rs. 58.22 crores and the company has fully provided for the entire exposure of Rs. 58.22 crores in our financials and one more update on the ECLGS we have extended it to 79,943 borrowers amounting to Rs. 720 crores and as Mr. Revankar had updated in his remarks, the restructured one-time restructuring extended to Rs. 590 crores worth of portfolio.

On the provisioning front, the Stage-III have been stable compared to the previous quarter, it is 7.06% as against 7.11% in the December quarter and the next Stage-III is at 4.22% as against 4.31% in the previous quarter, and the coverage ratio continues to be in the range of 42% and the Stage-I assets were 81.04% as against 80.78% in the previous quarter. Stage-II was at 11.90% as against 12.11% in the previous quarter and we will maintain a coverage ratio of 3.25% on Stage-I assets and 9.7% on the Stage-II assets.

The probability of default for Stage-I was 7.38% and for Stage-II it was 22.24% and the loss given default was 43.49% as against 43.08% in the previous quarter and we continue to make COVID-related provisions in the current quarter also which was Rs. 84 crores and the cumulative provision which we have been making quarter-on-quarter from March 2020 quarter, it stands now at Rs. 2,591.48 crores. As regard the provisions that we are holding, as per the RBI requirement IRAC norms, we are supposed to hold Rs. 2,798 crores as against that we are holding Rs. 7,939 crores as of the Ind-AS and hence there is an excess provision of Rs. 5,140 crores compared to the regulatory requirement.

The capital adequacy is stable at 19.94% in Tier-1 and 2.56% in the Tier-2 totaling to 22.50%. Cost to income has been stable compared to the previous quarter. We have taken a one-time hit of close to Rs. 22 crores which the Board had decided to pay to all the employees of the company as a token of appreciation for their efforts during the COVID pandemic and apart from this I do not have anything further to add, I hand over back to Mr. Revankar.

Umesh Revankar: Now we will open for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rikin Shah from Credit Suisse. Please go ahead.

Rikin Shah: Good Morning Sir and thank you for the opportunity. I have two questions, first one is on the disbursements, of course there were strong QOQ and YOY, that would be helpful if you could give a sense on how the disbursements were in terms of number of contracts or volumes? The

second question is on the tech platform that you are building which is enabling your customers to get some return load, maybe if you could elaborate a bit more on it, how are you doing it and what kind of improvements we have seen after ruling this out to our customers that will be helpful?

Umesh Revankar:

First question, Mr. Sanjay will be in touch with you giving you the details on numbers, and on second question, we have been working for some time on various load placement companies and the initiative like you would have heard company like Blackbuck and all. There are many such platforms, but they are all local geographies, some are in Bangalore, some are in Hyderabad, some are in Chennai, they are all small and they have not really scaled up all India, so we are now trying to get them onboard and put them in our mobile application so that our customer can reach out to those customers and look at what are the loads available to them so that is what we are trying to do. It is exercise, also I had invested in a startup called Freight Tiger so everyone is trying to do a bit on that so there is no all India scalable model or platform right now, but we are trying to do our best to see that customer is benefited.

Moderator:

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

Kashyap Jhaveri:

Thank you very much Sir for the opportunity and congratulations on really good set of numbers, I have got two questions, one in your presentation where you have highlighted the collection for Quarter-3 and Quarter-4 at about 97.48% and 103.31%, what would be this number excluding the overdues on both numerator as well as denominator?

Parag Sharma:

This number you can take it from Sanjay post the call.

Kashyap Jhaveri:

Sure, and second question is in terms of your initial commentary about for the new organization structure where now we have appointed regional heads under the JMD designation, how does that function, are they responsible for every function in their geographies or are they responsible only for growth and recovery would be still separate, how does it work?

Umesh Revankar:

They are responsible for all the activities and they also look at new possibilities and new initiatives including digital initiatives, so they were in the system for more than 25 years. They were handling certain geographies, now we have given them larger geographies and also we have given them that freedom to operate on all functions plus the new initiatives on what we can do, so that is what we are looking at including this load placement or the fuel credit which we have given or the tire credit, all those things which we would like to get deeper into each of the markets and make it available for everyone, so even on digitization whatever best we can do to give a seamless experience to the customer that also has been worked so basically all the three people were with us for more than 25 years and they are part of the company and they understand the business very much.

- Kashyap Jhaveri:** Just a clarification on that, does this eventually fit into any succession planning at Shriram Transport, or the nomenclature is just as such?
- Umesh Revankar:** Yes, it is a succession plan including Mr. Parag and Mr. Sunder, and these three gentlemen, so five JMDs now.
- Moderator:** Thank you. The next question is from the line of Abhiram Iyer from Deutsche CIB Center. Please go ahead.
- Abhiram Iyer:** First I want to congratulate the company for a good set of results, there are two questions that I have, the first thing is I want to understand what the company's plan for the cash balance is, is the company looking to deploy the entire cash that they have accumulated in this quarter or are they looking for some buybacks of debt in that regard? The second question I have is in terms of what has been collection efficiency for the month of April, any tentative preliminary figures for this month?
- Umesh Revankar:** The excess liquidity in fact it was a planned one. Last year itself the Board has directed us to have liquidity up to three times of lending, and therefore, the higher liquidity is maintained, and we do not have any plans to buyback any debt or anything and we feel that there is a pent-up demand coming quickly. Post the vaccination, I feel the pent-up demand will start coming in the month of June and we should be quite busy post that and that is what we feel. As far as April collection is concerned, as on 27th April, it is a 91.26% and may not improve much towards the month end because the containment zones have increased but that itself is reasonably good I should say.
- Moderator:** Thank you. The next question is from the line of Shweta Daptardar from Prabhudas Lilladher. Please go ahead.
- Shweta Daptardar:** Thank you for the opportunity and congratulations on good set of numbers. Sir, I had couple of questions, first one is if you can walk us through the GNPA movement with respect to additions, write-offs, and recoveries?
- Parag Sharma:** You can take it offline from Sanjay.
- Shweta Daptardar:** Sir, secondly what different we are doing in terms of asset quality, you already mentioned on collection efficiency which have been improving, but if I compare our asset quality per se with competition, we have been only improving our GNPA's quarter-on-quarter although marginally and we have maintained at 7% ballpark levels, so what is that you are doing differently which I believe your competition should also emulate to arrest and maintain this kind of stability and asset quality if you could just throw some light?
- Umesh Revankar:** The business models are different for different companies. As far as we are concerned, we source business directly from our employee, our relationship executive, who does direct touch based

onboarding of the customer, then he remains in touch with the customer and all our customers are earn and pay, they do not have stable cash flow otherwise, so they earn and they pay and if there are challenges in earning then his payment gets delayed or maybe part payment comes so the highly touch based model with good support to the customer given especially a fuel credit, tire credit, and if there any engine repair that credit, so we are accessible to the customer all the time and anytime he needs any help in getting further credit, we are giving him. We are not encouraging him to borrow from the market because the alternative available to my customer if I do not give him credit, borrowing at much high cost borrowing from the market that will fail his business so which we are trying to help the customer by being in touch with him, so that is really helping us in this difficult times and our people even in the COVID times, they were in touch with the customer, physical contact but wherever physical contact was not possible, they were in touch with on mobile and helped them in doing digital transactions, so every customer today we are trying to see whether we can onboard him on a digital platform so that his business can run smoothly whether he is making the payment to us or we give him any further credit to run his business smoothly.

Moderator: Thank you. The next question is from the line of Praful Kumar from Dymon Asia. Please go ahead.

Praful Kumar: Good Morning Sir, thanks for the opportunity and wish safety for all employees and people logged in here, so just two observations, one you mentioned that this time virus spread has gone to hinterland which was not the case last time when it happened and the customers are more earn and pay kind of customers, do you envisage that given the fact that momentum of cases in India is yet to peak out, the impact to be much more severe than last year?

Umesh Revankar: There is a totally different perspective. Last year there was a total lockdown. Even village-to-village, district-to-district movement was curtailed in the first 30 days then there was unlocking over the period. That created a big challenge for non-essential goods movement, essentials were moving, but restricted permission from the police and authorities, but this time around there is no such restriction for goods movement whether it is essential or non-essential, so highways are free so therefore I feel the economic impact would be much lower even though the virus infection to the population and as a percentage to our employees and our customers that could have some challenge and as long as the mortality is controlled or within certain small numbers, we should be able to do quite well.

Praful Kumar: That is good to know, and Sir second question would be on number of employee as you said that the model is lot more into being very close to the customer, in the last three-four quarters I have the number of employees has gone down by 15% from 28,000 to 25,000, what is the reason of such sharp drop in number of employees?

Umesh Revankar: We stopped the hiring in the last couple of years, and therefore, wherever there were people left, we did not add people. We were little careful on our cost and then also we focused on increasing the productivity, so the entire focus has come on making the digital transaction which will

increase the productivity of both employee and the customer, so that is helping us a lot, but we have started recruiting now from October onwards we have started recruiting. We have recruited more than 800 people and we also take them as apprentice in the first six months so they will not come on the rolls directly, so number of people will be added in the next two years, we should go back to 28,000 in the next couple of years as we are also going to add few branches.

Praful Kumar: Thank you Sir, one last small question, what is the size of this tire credit and fuel credit in terms of overall size of the book, how large are these ancillary funding books for you?

Umesh Revankar: These are all very short term in nature, fuel credit is average 15 days to 20 days and tire credit are basically six months, so the amount will not be as significant, it is Rs. 2,700 crores including insurance premium. We help the customer to buy insurance through installments, so that also included. Insurance is one year, and tire is six months, fuel credit is 15 days, so it will not become large portion, so 2,700 it will be around maximum it will be 2% to 3%.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from White Oak Capital. Please go ahead.

Anand Bhavnani: Thank you for the opportunity, Sir just wish to understand your talks on the merger in the opening remarks alluded that we are waiting for things to stabilize, can you give us two or three things that you are monitoring to kind of then take a call on the merger, can you elaborate a bit more on your thought process so that we can better have a sense of when and in what form and shape can this happen?

Umesh Revankar: There are two significant developments in the last maybe six months from the RBI, one is the scale based approach of the RBI, and the second one is the NBFC, the discussion paper on NBFC converting into that, so we are just waiting for clarity on both these from the RBI there at even if RBI itself it is at a discussion level and they are seeking the opinion, so once we have some clarity on that, then probably we will look at whether the merger makes sense and also our main purpose of merger was to build a strategy and synergy among all the group companies. If we have a synergy, if we are able to bring down our cost of operation or bring down our borrowing cost or improve our efficiency, improve our productivity, and give better returns to the shareholder, then only we will look at a merger so that is the total thought process in the group.

Anand Bhavnani: Sir, do you have an inclination towards the merger, or you are neutral, or you do not wish to do a merger, so what is your bias, there are obviously synergies given the lines of business similar, so is it safe to say then natural course of action is to go towards the merger?

Umesh Revankar: Right now I cannot comment, there are so many moving factors here. Initially we thought merger would make good sense because we can give better returns to the shareholder, but with other developments being there we would like to wait and watch, and otherwise both the companies have enough scope to grow within their existing business lines, so we are not in a hurry.

Anand Bhavnani: Sir, my second question on our dividend policy, is just trying to understand a bit better, did the rights issue early on in the year we kind of raised money and then at the end of the year we have kind of payout ratio like 18%, so do you do not see any growth opportunities while you kind of you know feel the need for such a higher payout ratio given you have raised just money about seven-eight months back, so can you kind of reconcile the two actuals, one was to raise money through rights issue and second is to pay out a very relatively higher payout ratio among the financial services company in this particular year?

Umesh Revankar: There is no link between raising equity and higher payout ratio. We feel that any company which is doing well has to give a good payout to the shareholder because shareholder is not only looking at appreciation, but he also looks at dividend so that is one part. As far as the rights issue is concerned, during the first COVID wave, we wanted to have additional support because the rating agencies and lenders, they also wanted to know company's ability to raise the equity at that kind of situation because when everything is fluid, the rating agencies and the lending institutions, they would like to see the confidence of the shareholders, so that is the reason we went into the market and raised rights and it was a call our shareholders participated very enthusiastically I should say and that really helped us to uplift the mood of the lenders and the rating agency and that is reflected in rating agency now going back on their negative watch and putting us as stable.

Anand Bhavnani: Thank you and Sir my last question you alluded to one of the questions by the participant that the eight Joint Managing Directors is a part of the succession plan that has now been put in play, are there any further actions which we should see as the succession plan is carried forward or is it done at this point in time, so can you give us some more color on subsequent planning and what more could we expect?

Umesh Revankar: Succession plan is something which we start working on, we are now started working on so there are five JMDs now, they are all looking at various functions and geography. The Board will take a call at the right time, so we are also looking at overall group perspective, probably I would like to inform you that, Shriram Ownership Trust is a body from where the people are allocated, the human resources are relocated to the various companies and they have been, we need to look at all these executives who have been there with us for long time and give them right opportunity at the right time, so that is the outlook and the senior team also will have to put more energy in building new businesses, new opportunities, and therefore, there will be some reallocation at appropriate time. Right now it is in the process and it may take a while for doing the right allocation of the human resources, so I can only say that it is in the process and the next couple of years, we can see that there will be new set of executives emerging in the group not only in the Shriram Transport, in the Group at various companies level.

Moderator: Thank you. The next question is from the line of Piran Engineer from Motilal Oswal. Please go ahead.

- Piran Engineer:** Sir, congrats on the quarter, most of my questions are answered but I just have some clarification, so firstly a question on the liquidity buffer which has almost doubled QOQ, did you say that you are going to keep it at three month of lending at all times?
- Umesh Revankar:** No, till September, the Board has directed us last year that we should build a buffer up to three times, so till September we will be keeping higher liquidity and as business volume goes up and environment become better then probably we will relax a little.
- Piran Engineer:** But given that collection efficiency has remained at close to 100% for the last half a year, what really are the doubts now or is it because of the second wave?
- Umesh Revankar:** No, there is no doubt, yes second wave is definitely something we are watching very carefully, but we feel because in our Board we have eminent bankers, retired Managing Directors from the Central Bank of India and SBI and they also give us that kind of a guidance, they feel that having a liquidity buffer would always help us and at the right time, we will use that excess liquidity for the purpose of improving our profitability and shareholder's benefit.
- Piran Engineer:** Sir, if you could just remind me in the first half of the year, had we given moratorium to NPL customers also or was it just standard customers, because your competitors have taken different approaches, so I just wanted to if you remind me what approach we had taken?
- Parag Sharma:** We had given only to the performing customers.
- Piran Engineer:** Okay, only performing as of Feb 2020?
- Umesh Revankar:** Yeah, right.
- Piran Engineer:** Sir, this last question from my end, what percentage of our customers would have two loans from us like a regular truck loan as well as tire loan or any of the other add-on loans that we did?
- Umesh Revankar:** If you look at least 60% of the customer will have some loan, especially insurance. Whenever his insurance comes for renewal, he takes it from us on installment basis rather than on paying cash and buying in the market, that is one. The tire and the fuel are new, when I say new they are for long, but it is not really widespread. The utilization levels are not really high because we feel that fuel requirement for anyone will be very high, so we need to make his experience better. We are also talking to the fuel companies. We have tie-up with all three fuel companies, BPCL, HPCL, and IOC. Now our reach is all India, earlier we had initially tied-up with only HPCL then we added BPCL, then last few months back we added IOC, so since we have now reached across the country, we can now increase it to much higher level and on tire, we have a tie-up with MRF and then CEAT. As we have a tie-up with other companies, we will be able to reach to many more, so these are all work in progress and we expect, we want all our customers to take some additional product from us, so that the loyalty factor improves.

- Piran Engineer:** Sir, lastly one of our competitors on the recent con call mentioned that with the second wave some of their employees are also feeling a bit hesitant to go on the field and be out there, are we also experiencing such stuff with our employees or maybe even our customers, I know it is too early days, but still if you could give some commentary that will be helpful?
- Umesh Revankar:** Per se I do not think our employees are hesitating, but we are cautioning them. We want them to avoid physical contact as much as possible because since they are sourcing our customer directly they know their mobile number, they know their family members number or the area in which they work, so our people know our customer and the guarantor of the customer well, so we do not have to really go physically to meet so that is what we are trying to say, so by increasing the digital play we can increase the productivity without really losing the support or physically going and meeting the customers, so we want to change the way we are working so that the physical contacts come down as much as possible and most of the transaction become contactless, it is only to help both customer and to employee and I do not see any hesitancy, I have not got any feedback on hesitancy from my employees.
- Moderator:** Thank you. The next question is from the line of Avinash Singh from Mashreq Capital. Please go ahead.
- Avinash Singh:** Thank you Sir for taking my question and congratulations on a good set of numbers. I could see that there is lot of traction the company is gaining from their rural side of the business as compared to the urban, so Sir can you provide any commentary related to the same why there is a good traction on the rural side as compared to the urban side of the market?
- Umesh Revankar:** Increasingly we have been expanding in semi-urban, rural area in the last six-seven years if you look at our growth has been mostly in this belt and we feel that in the core city, we may not have the customer of our choice because individual operator who makes earnings for himself and also who is a farmer or SME manufacturer, these kind of customers are mostly there in the hinterland, so it is a conscious decision from us to move away from the large city and to be in the smaller towns and rural area.
- Avinash Singh:** Is it also to say that rural customers are more disciplined as compared to the urban customers, have you seen any statistics related to the same?
- Umesh Revankar:** No, what we feel is that rural customers more than discipline it is easy to reach them, they do not go beyond their geographical limits, so we can easily reach out to them and meet them, so approach is much easier than in the urban areas because urban areas people move houses and people also move places very fast, so it becomes a little challenging at certain times, so in the rural you do not have that kind of issues or challenges.
- Avinash Singh:** How many branches you are planning to add in FY '22?

- Umesh Revankar:** FY'22 we will add another 150 branches, we have that 800 rural centers which as and when we are able to scale it, we will add it to the branch.
- Avinash Singh:** Sir, just one follow-up question, just wanted to get the numbers on the NPLs like how much is the write-off, how much is the ECL, and how much is slippages and other numbers, if you can provide those numbers?
- S. Sunder:** Total credit cost is Rs. 724 crores in the current quarter out of which write-off is Rs. 531 crores and this ECL provision is Rs. 193 crores.
- Avinash Singh:** How much is the freight truck slippages?
- S. Sunder:** That Sanjay will provide the details.
- Moderator:** Thank you. The next question is from the line of Aditya Jain from Citigroup. Please go ahead.
- Aditya Jain:** Just a clarification on the lower NIM QOQ, so is the reported NIM considered the interest reversal of Rs. 36.5 crores or is the lower QOQ driven by more liquidity?
- S. Sunder:** This Rs. 36 crores reversal also has contributed plus since we are carrying excess liquidity that also has an impact on the lower NIMs.
- Aditya Jain:** In the restructuring amount, is there scope to have more closing in the coming quarters, so you have mentioned in the presentation but out of the total which was initiated till December fairly less amount has been done, so are you expecting anything close to the original amount to get restructured or will we stay much lower?
- S. Sunder:** This amount will be the final amount, there will be no further one-time restructuring option available because the Rs. 590 crores is the final one, it will not increase.
- Aditya Jain:** Lastly, Stage-II continues to be quite low, are there any temporary factors helping it, or does it look like this will be the likely stable number from here?
- S. Sunder:** This should be the likely stable number for going forward also.
- Moderator:** Thank you. The next question is from the line of Shubhramshu Mishra from Systematix. Please go ahead.
- Shubhramshu Mishra:** Most of my questions have been answered, if there can be some guidance given for how do we look at the growth especially in terms of disbursements, this can be split into new and used for FY '22 and how do we look at AuM growth in FY '22?
- Umesh Revankar:** The AUM growth would be anywhere between, it will be in double digit, 10% to 12% is what we are giving a broad guideline. Since the second wave has hit April and likely to hit May, the

new vehicle sales will come down significantly, so we expected new vehicle to have a strong demand, but since it is likely to be postponed for some time, the pent-up demand will come in the second half, so I feel the post vaccination when people are becoming confident about the businesses scenario, new vehicle demand will go up, so our disbursement would remain broadly in the range of our third quarter disbursement wherein our disbursement was around 300 crores for new vehicle and around Rs. 12,000 crores for used vehicle, so that should be the range is what I feel in the first two quarters. After that probably it may improve, especially new vehicle would improve.

Shubhramshu Mishra: Is it okay if we can analyze this or it will be slightly more than what we are looking at, more than third quarter run rate for the entire year?

Umesh Revankar: Third quarter number I feel that should be the number for first two quarters this year around and then probably improve in the third and fourth quarter.

Shubhramshu Mishra: Sir, my last question would be around OPEX Sir, we are the lowest cost vehicle financier in the NBFC space versus most of our competitors so what is the secret sauce behind it, how are we more successful with such a large book and large workforce of almost 25,000 people, how do we manage to maintain the cost of these levels and how do we guide for this in FY '22?

Umesh Revankar: As of now we do not have any outsourcing of any business, any activity, therefore we are able to manage everything in-house at much lower cost and we also take freshers, fresh graduates, and train them and that also reduces the cost. If you take from the market then the cost is high and also the productivity level will be almost same, so since we take people fresh graduates, start them as apprentice and slowly graduate them so we are able to manage at a very cheap cost, a very low cost plus I should say that not giving any sourcing fee or outsourcing any other activity is helping us to manage at low cost.

Shubhramshu Mishra: Right Sir, guidance for FY '22 for OPEX or any kind of OPEX in nature?

Umesh Revankar: There will be marginal increase in cost-to-income ratio, which is 22% now, it may go to 23% or 24% at the max because we are hiring a greater number of people and that is the only reason for increase in OPEX because otherwise it will not go more than 24% cost-to-income ratio.

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

Umang Shah: Thanks for the opportunity and congratulations on a good quarter Sir. Sir we had exited FY '21 on a very strong note both on growth and in terms of provisions clearly we are very well provided now, also if you can give the credit cost in FY '22?

Umesh Revankar: Credit cost in FY '22 is little early to say but still I feel we should be able to maintain at 2% level broadly, but we have to give higher provision because whatever we needed to make

provision for the older portfolio, the last year's portfolio which is done, before last year that is as on last March but for the fresh portfolio what we have built, we would like to wait for one or two months. We also would like to do a stress test and try to understand whether we need to give any further provisioning, so it depends upon that, maybe we would be able to tell exactly in the end of first quarter.

Umang Shah: Sir, the COVID related provisions would be a part of our ECL provisions right, so it would be sitting across either Stage-I, II, III provisions?

S. Sunder: Correct.

Umang Shah: Sir, my last clarification which I want, the Board has approved equity raising of about Rs. 4,000 crores and our Tier-1 ratio is very strong at about 20%, so is it just an enabling approval or do we intend to raise equity in FY '22?

Umesh Revankar: This we are just enabling that is all for any opportunities or any requirement at that time.

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

Nishant Shah: Sir, congrats on a good set of numbers, you have been speaking about adding branches, adding staff, I also see you have based a lot of borrowings towards the end of the quarter, how should we think about growth for the coming year, like any kind of growth guidance that you can give like for the last two years we have been had like single digit kind of AUM growth, do we return to the kind of mid or high teens this year, FY '22, any comments around that would be good?

Umesh Revankar: We see a lot of pent-up demand, now it is postponed a little. Pent-up demand mostly from the infra related and the mining related because after 50 years, the Government also has come out with new mining act and which is opened up for the private, so that should really be at boosting the economy in certain States which is dependent on mining and infra activities across all over India is going on full scale and the real estate activity also has improved. All the cities have witnessed good sale of units and I feel therefore the demand for commercial vehicles, it may get postponed a little because of the current second wave, but the pent-up demand is there and scrappage policy will definitely add further demand for newer vehicles, it may not create demand for new vehicles directly, but people will upgrade from more than 15 years old vehicle to five-six years old vehicle over that period and that will result in new vehicles ultimately, so I feel next three years the demand for commercial vehicle and construction equipment would be reasonably strong, so we feel a double digit growth is something a possibility or is definitely possible, so we are looking at 10% to 12% growth CAGR for next three years.

Nishant Shah: Just one more question, incrementally for the bonds that you would have raised during say the month of March or April, what has been the yield, what has been the coupon that you are paying and what percentage of your overall external borrowings mature this year in FY '22 so that they would be replaced at the lower cost?

- Umesh Revankar:** The ECB which we raised towards the end of March; the coupon rate was 4.2%.
- Parag Sharma:** The domestic bonds what we have raised is one large chunk, Rs. 3,000 odd crores for 10 year at 8%, rest of the bonds have been slightly lower, but duration also has been two or three years. When it comes to maturity, I do not think they are maturing as of now, the earliest maturity is next year so nothing is maturing in the current financial year.
- Nishant Shah:** I meant maturing from the back, not from the new bonds raised?
- Parag Sharma:** I am talking about the existing bond maturing in the current financial year.
- Nishant Shah:** And the ECB you mentioned 4.5% what would be the India landed cost like including the hedging cost?
- Parag Sharma:** What we did was 4.4% in January and March, the effective yield was 4.2%, the landed cost is around 9%.
- Moderator:** Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.
- Nischint Chawathe:** If you look at the some of the larger NBFCs and HFCs, their incremental cost seems to have clearly bottomed out, what is your experience and what is your guidance in terms of the way your weighted average funding cost will move over the next couple of months?
- Parag Sharma:** Nischint if you remember our cost was slightly higher previously and also some of the sources were not tapped during the domestic capital market were not tapped by us, so we are getting some benefit out of it, so we do expect for next quarter also the incremental cost of borrowing to come down slightly maybe 10 to 15 basis points it should come down but as we mentioned in the opening comments itself, the cost of excess liquidity what we are carrying, we may not be able to get full benefit of it, there would be a drag of excess liquidity what is there. Having said that there is a large liquidity what we garnered in the month of March itself, that is why the overall liquidity buffer is Rs. 17,000 odd crores but it can marginally come down on next quarter and subsequent quarter, but we will try to still maintain at the December level, this was around Rs. 13,000 plus, so we will try to maintain it slightly at higher level but not at the current level because this was only because of excess borrowing in the month of March.
- Nischint Chawathe:** Sir, if your weighted average cost of funding is coming down and your liquidity is going down as well, then probably the benefit of lower yield should get reflected in the margins right unless you are kind of changing rates on the asset side?
- Parag Sharma:** Correct, so there should be benefit.
- Nischint Chawathe:** Was there any impact of the RBI directive on this reversal of interest on interest?

- S. Sunder:** We have taken a hit of Rs. 36 crores in the quarter ended March.
- Nischint Chawathe:** Sure, and that goes in the interest income line or?
- S. Sunder:** It comes in the interest income line.
- Moderator:** Thank you. The next question is from the line of Ritika from Ocean Dial. Please go ahead.
- Ritika:** Sir, just one data point, you mentioned that the collection efficiency in April was 91% if I heard it correctly, what is it generally if not for COVID, what has been the experience generally in the month of April?
- Umesh Revankar:** I cannot specifically say for April, which is difficult to say, but normally our collection efficiency every month will be around 96% to 97%.
- Moderator:** Thank you. The next question is from the line of Joan Lim from Maybank Asset Management, Singapore. Please go ahead.
- Joan Lim:** I just wanted to ask about the current situation, given that I know you mentioned that there is a lot of pent-up demand and I think you have plans to expand given the pent-up demand and all that, but what is the worst case scenario I mean let us say the infections do rise so much that there is another lockdown, does your company has any contingency plan on that and the last time that this thing happened last year actually a lot of us were asking about in the case if you cannot, if there is no, if the collection rate is very low then how much cash you have on-hand to allow you to continue operations without having to rely too much on current collections, could you give us a sense on how long can the company survive if your collection rate is going to be impacted as bad as the previous lockdown last year?
- Umesh Revankar:** If you look at the previous lockdown, it was a nationwide lockdown and first two months before unlocking it took time, but the current phase there is no lockdown all India, so goods movement is reasonably free from any kind of obstacles, so we do not think of the challenges in collection, however, if it is the worst case scenario then collection drops instead of maybe 97% to around 90%, there will be to that extent shortfall will be there around 10%, maybe 10% shortfall in a month which we should be able to recover in the subsequent month, but as it is we do not really anticipate such and the liquidity buffer as I said in the beginning, we have a three months disbursement liquidity, so the worst case scenario even the disbursement will go slow, so definitely the liquidity levels will be very high that will continue to remain high because disbursement will be lesser and we will have more cash, so I do not really see any challenges on liquidity in any short period.
- Parag Sharma:** I think the way the liquidity is, one is the disbursement side if you look at, other way to look at is managing liabilities and with no collections happening also liabilities can easily be met till

August end, so liabilities are fully covered in spite of no collection from here, but collections are good, so we do not foresee that challenge.

Joan Lim: So just to clarify does not mean that you have enough cash to be operating for three months in a worst case scenario or longer than that, that is low collection but also of low disbursements, the amount of money that you have on hand for your OPEX?

Parag Sharma: OPEX and liability can be managed till August end with the current liquidity what we have in case we have zero collection, but if we are getting collection which is 90+ now, we can easily sail through for the entire year that is what we are saying without borrowing anything.

Moderator: Thank you. Ladies and Gentlemen that was the last questions. I now hand the conference over to Mr. Umesh Revankar for closing comments.

Umesh Revankar: Thank you. We feel that with vaccination drive and everyone getting vaccinated, even with one jab by May end, we should be able to sail through very comfortably. When I say one jab, I am talking about my employees and customers, if that set of group were able to get one and complete the second jab by June-July, we should be easily able to run the business as efficiently as last quarter and this year we should be able to really see growth is what I believe strongly because pent-up demand is visible which got postponed and it is possible to catch-up, so with this we would like to meet very optimistically in the next quarter call. Thank you very much for joining.

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