"Shriram Transport Finance Limited Q2-H1 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Shriram Transport Finance Q2 & H1 FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' then '0' on your touchtone phone.

I now hand the conference over to Mr. Umesh Revankar – Managing Director & CEO. Thank you and over to you, sir.

Umesh Revankar: Good morning to everyone in India, and good evening to the investors who have joined from US. I hope all of you have gone through the investor update which has already been sent. Let me, first, provide brief overview of our macroeconomic scenario and development on the ground, before I share the highlight of our performance.

It has been an eventful quarter with many developments at the macro as well as micro level. The pace of economic growth has picked up strongly, as visible in the GDP of 8.2% reported for the period April to June 2018, which represents probably the fastest growth in the last nine quarters. This has been driven by a mix of consumption as well as investment spending by the government. Of course, it also has been helped by the low base of the last year when industrial activity had slowed down in anticipation of GST implementation.

In the backdrop of increasing economic growth, the overall commercial vehicle industry witnessed volume growth of 27.5% in Q2 of FY19, while registering growth of 38% in April-September as compared to the same period last year. The medium and heavy commercial vehicle increased by 48% and LCV grew by 32% in April to September period compared to the same period last year. While there is some benefit from the low base of last year due to pre-buying in the March 2017, ahead of transition to BS-IV emission norms, the volume growth also reflects increasing economic activity, stronger replacement demand, build-out of infrastructure, as well as pickup in mining and construction from the earlier quarter.

The sustained infra spends by the government through schemes such as Bharatmala, Sagarmala and Smart Cities, improving demand from logistics sector and also improvement in intra and inter-city transportation is leading to rise in the demand for trucks. And also, as per the Indian Foundation of Transport Research & Training, the average truck utilization rate of all the transporters rose sharply in the September quarter. We are also witnessing a similar report from the individual transporters that they are able to have better kilometers run compared to the pre-GST time. The efficiency gain is around 25%, 30%.

Also, the increase in axle load limit announced in July for HCV has not really dampened the growth, as there is still strong demand for tipper, tractor trailers and trucks carrying voluminous goods.

Demand growth in rural market continues to outpace urban market. A near normal monsoon, marking three straight years of adequate monsoon, has led to steady availability of freight from the farm sector. Kharif sowing covered nearly 1,053 lakh hectares against 1,046 lakh hectares during corresponding period 2017, 2018, as per the data released by Agriculture Ministry on September 14th. Coupled with the improved MSP announced by the government, this is expected to result in improvement in farm income, and therefore, there will be a better consumption demand across the country.

In terms of macroeconomic environment, we believe the larger trend is favorable and the economy is gradually strengthening. Of course,it is clear that in the near-term there are challenges from rising fuel prices and increase in interest rates. The tightening of liquidity for the NBFC sector is also a challenge, but we believe this is short-lived for asset financing companies, and those who have business model which is a shorter lending tenure.

STFC is well funded and has followed prudent funding and provisioning norms. There is adequate liquidity in our balance sheet, and asset liability are well matched. We are confident of protecting margins and passing on any higher cost of funds. Given that our recent branch expansion was focused on rural and semi-urban market, we expect lending yield to sustain. And periodic refinancing that we undertake will not drastically alter the cost of funds. We currently do not foresee significant pressure on our NIMs. And we expect to remain largely stable, given the structure of lending and borrowing mechanism.

Recent developments have not had any material impact on our performance for July-September quarter. We are closely monitoring the development in the market. In case the current tightening of liquidity persists for more than 60 to 90 days, there will be a sub-growth, lesser growth, I should say, so disbursement could be lesser than what we have done in the first half of the year.

As a company, we did anticipate that we would need to further diversify our funding to finance our growth plan. At the beginning of FY19, we began preparation to increase proportion of retail funding by seeking an approval from the Board to raise Rs. 5,000 crores through NCD issue.

After the strong response in the first tranche for NCD issue, issued in August 2018, for the base issue of Rs. 1,000 crores we received the subscription of Rs. 3,650 crores. We also have launched our second tranche of Rs. 300 crores base, and it is already oversubscribed 2x and has crossed Rs. 600 crores. The issue is likely to close on 29th.

Before I get into numbers, I would like to update all of you about the important development with regard to corporate guarantee given by the company on June 30, 2015, in connection with non-convertible debenture of face value aggregating Rs. 650 crores issued by SVL Ltd. As we have informed to the stock exchange earlier this month, the said corporate guarantee has been terminated. Consequently, the contingent liability on the book with respect to redemption maturity of the said NCD stands terminated and has been removed from our books.

Now, let me briefly touch upon the headline numbers for the quarter. The AUM grew by 20.87% year-on-year. As on Q2, we are Rs. 1,04,379 crores against Rs. 86,356 crores. All of you are aware that we have adopted IndAS framework starting the Q1 of 2019. Comparable period number has been restated in compliance with IndAS.

The net interest income was higher by 24.63% to Rs. 2,055 crores, compared with Rs. 1,649 crores in the corresponding quarter last year. Net interest margin stood at 7.52% compared to 7.46% in Q2 of FY18, and 7.44% in Q1 of 2019.

In spite of rising bond yield, we expect our net interest margin to remain stable, and this gives us opportunity to maintain profit growth beyond AUM growth.

PAT is up by 22.59% year-on-year to Rs. 609 crores, against Rs. 497 crores in the previous year. Earnings per share at Rs. 26.86, compared to Rs. 21.91 in Q2 of FY18.

In the light of sustained performance, Board of Directors have proposed an interim dividend of Rs. 5 per share.

Collection efficiencies are strong and asset quality has improved with GNPA of 8.77% and net NPA of 2.75% in Q2 FY19.

We should be able to bring down overall credit cost, which is around 2.5, to around 2 in the next 1 to 1.5 years.

Our total number of branches now stands at 1,301 numbers, and rural centers at 864 numbers. The total number of employees stands at 26,156 as on 30th September. We have a good branch network and we also have been focusing in the North and East in the last two years to augment our network.

To close, it has been a pleasing quarter. Typically, the monsoon related challenges would be there in Q2. In spite of that, this quarter has been quite good for us. We also witnessed unfortunate floods in Kerala and some slowdown in mining and construction activity. However, the second half of the year is normally seasonally stronger due to festive season and also the harvest period in November and December.

There would be pickup in construction and mining activity, and also infrastructure activity. So we expect the healthy number of CVs to be sold, new CVs to be sold. With comfortable ALM and liquidity we should be able to grow in this quarter and in Q4 also.

However, we expect to sustain our AUM growth of 15% to 20% over the next few years, as we have given the guidance in the beginning of the year.

At the same time, we expect our gross NPA to come down in next few quarters as credit cost begin to track longer-term levels.

With that, I come to end of my opening remarks. I also have with me Mr. Sunder, Mr. Parag and Sanjay to answer specific questions. Now, I request moderator to open the floor for question-and-answer.

Moderator: Thank you very much, sir. Ladies & gentlemen, we will now begin with the question-and-answer session. Our first question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: My question on the rising fuel cost and the operating cost of transporter, do you see the effect of the cash flows of the transporter ultimately stretching the ability to repay EMI to Shriram Transport, and that ultimately create pressure on asset quality also? Or that scenario is still far away?

Umesh Revankar: The fuel price has started increasing from around beginning of the year, so it is already six to nine months. The customers are able to manage it because there is a gain in the productivity, the vehicle which was running around 250 kilometers, now running around 325 to 330 kilometers per day. So, that is one. And since there is a better economic activity, the vehicle idling is less. So there is almost a full-time activity for each of the trucks on the road. So, as of now, we do not really see big challenge. However, the truckers have been protesting here and there, and representing to the ministry on their challenges of fuel price increase. In fact, I believe, that the ministry responded by giving the higher axel weight ratio only to give some comfort to the transporters. Because if they are able to carry more load, it will offset the cost to that extent. So I think, as of now, things are reasonably good. We have to see whether the higher interest cost has any bearing, maybe next two quarters would be very important to see that.

Manish Ostwal: Secondly, sir, in your initial remarks you made a comment, if this liquidity condition persists we may see some slowdown in our growth. Our guidance is 15% to 20% AUM growth. So in a scenario where the liquidity persists, what kind of stable growth one could expect from Shriram Transport?

Umesh Revankar: See, we have grown around 21%, 22% in the first two quarters. So even if you slowdown in Q3, we would be still able to grow more than 15% for the year. So I don't really see a challenge. But how long this liquidity is tightened, that is to be seen. So we expect it to last for maybe another, maximum another month, after that things should become normal. But for us, we have multiple options. We also raised money through ECB recently, $350 million we have raised, and another $400 million we can still raise. And the assignment or the securitization route is still available to us. But we have to really wait and see the overall scenario. But 15%, what is the base growth, that is possible. And what guidance we gave in the beginning of the year was 18% to 20%. So we still feel 18% to 20% is something which is achievable.

Manish Ostwal: And last small data point. What is the marginal cost of funds during this quarter versus last quarter, sir, Q1 FY19?

Umesh Revankar: But Q-on-Q is almost same. First quarter to second quarter is almost same. And Q3 is just beginning. So right now October, we are witnessing 100 basis points, which are more incremental borrowing.

Manish Ostwal: And how much we passed on to our customers?

Umesh Revankar: We have already passed on the entire thing.

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

Ankit Choudhary: First thing on NIM part, what led to the NIM expansion quarter-on-quarter of 8 basis points?

Umesh Revankar: It is basically because we did not really see costs going up in the liability side. And the yield side we were able to maintain it. And if you see Q-on-Q, our new vehicle lending got reduced to some extent. That also helped.

Ankit Choudhary: Okay. Second thing was on this other OPEX. So what led to the 62% growth in other OPEX quarter-on-quarter?

S. Sunder: Anyway, we will send you the figures through Mr. Sanjay Mundra.

Ankit Choudhary: Okay, third thing was on this AUM part. So if we see, due to this IndAS we have restated the 2Q FY18 AUM number also by almost Rs. 1,100 crores. So, could you please explain the accounting over here? So how did the total FY18 AUM change because of the IndAS?

S. Sunder: See, the Ind AS requires the income reversal. In I-GAAP we generally reverse the income on NP asset. However, in IndAS we are not required to reverse the income and make a provision on that, ECL provision. And consequently, whatever was the income reverse after I-GAAP has been re-reversed, increasing the AUM by that Rs. 1,000-odd crores.

Ankit Choudhary: And lastly, on the Stage-1, Stage-2 provision, that has increased by 15 basis points quarter-on-quarter. So are we seeing any pain in the earning bucket?

S. Sunder: No. In Stage-3, if you see, compared to June quarter it is marginally lower in the current quarter. And we expect to maintain the same ECL, maybe it will be more or less flat, I would say, going forward also. We do not see any pressure on that front.

Ankit Choudhary: I understand on the gross stage 3 part, but I am talking about the Stage-1 and Stage-2. So over there the ECL provision has increased by almost 15 basis points. So are we seeing any stress in the earning bucket, 30 DPD, 60 DPD?

S. Sunder: See, what happens, since we are in a segment wherein it is purely retail driven and small transport operators, slippages of one or two months keep happening, they skip for one month and again come back in the subsequent month. So this quarter, we saw certain movement between the Stage-1 and Stage-2, which we are confident that it will again come back to Stage-1. So we do not see much of a pressure on that.

Umesh Revankar: It is typically during the monsoon season, wherever there is excess rain there would be some fall in revenue for the customer.

Moderator: Thank you. Next question is from the line of Sunil Tirumalai from Crédit Suisse. Please go ahead.

Sunil Tirumalai: This is Sunil Tirumalai from Crédit Suisse. Sir, my first question is on the same slide, on slide #8. Can you just remind us how to reconcile between GS3 staying flat YoY, QoQ versus the GNPA number going up? Is it to do with your securitization book?

S. Sunder: Yes, exactly. So, even though there was increase of around Rs. 300 crores on the non-securitized portfolio, the securitized portfolio performed better and was instrumental in bringing down the Stage-3 number down. So we can use the exact number through Mr. Mundra.

Sunil Tirumalai: Okay. And again, slide #14, the adjustments seem to be quite away from the previous quarter's trend. I just wanted to understand for adoption of EIR for amortization of expenses, financial liabilities, that is a fairly large positive number, whereas the ECL number is a negative number. I am just trying to understand why for this quarter the trend is like this.

S. Sunder: The current year, as MD was mentioning in the previous question that we have raised Rs. 2,400 crores of ECB in the current quarter. So there was certain upfront fees payable on that borrowing, which, in I-GAAP we were booking upfront, and hence we had to reverse it in IndAS. So we got a huge benefit compared to the previous quarter. And as far as the ECL is concerned, we had migrated to 90 days in March. So there was a huge movement from 120 days to 90 days in IGAAP. Whereas when it came to June, we were more or less stable, and then there was a benefit in June, and hence we were not required to really...

Sunil Tirumalai: Yes, but September 2018 is what I am talking about. I mean, both June and September are after your March transition to 90 DPD and...

S. Sunder: Correct. And in September, compared to June, there was a movement between the Stage-1 to Stage-2 of around Rs. 300 crores. There was an increase in Stage-1 because of increase in the business of around Rs. 900 crores. And in Stage-1 to Stage-2 there was a movement of Rs. 3,300 crores. So, combination of these two factors have contributed in an additional increase in the ECL provision of Rs. 258 crores.

Sunil Tirumalai: Okay. So the ECB that you mentioned, when was it booked?

S. Sunder: It was in the first week of August.

Sunil Tirumalai: Okay, got it. And finally, looking at your funding mix. So you used to have almost no CPs earlier, for the last couple of quarters, you have been having it. What is the thinking around that? I mean, I noticed Umesh sir mention that you are also trying to ramp up your retail deposit program. So how do you see this slide #15, the pie chart, going forward, how would it change?

Umesh Revankar: The CP is Rs. 2,500 crores, totally we have. And we also have assets, which is very small, short in nature. We have been doing tyre financing, now we started fuel financing, which are less than 6 months repayment. Fuel is one month, and as far as new tyre is concerned, it is four months, average four to five months. And we also have other lending, short-term lending repayment of six months. So, these assets together are around Rs. 2,000 crores. To match that we have raised the CP. So the CP is only to match our short tenure assets, which we feel that it is better to be funded by a CP rather than a long-term. So that was the, what we call, rationale behind getting into CP. And it is CP, therefore, nearly it is one year now.

Sunil Tirumalai: Sir, on the business mix, you have business loans and other working capital kind of loans, so these have been growing. I just wanted to understand if you can give some color on how the yields, NIMs, the spreads in this business and the OPEX in this business would be, so that we can get a sense of how the impact on ROA, ROE will be? Thank you.

Umesh Revankar: Yield is around 17. We have not tracked the OPEX separately, because the same team and same customers are being lent, we are not really acquiring new customers for that. Our existing customer, if they have additional business, we have been lending, that is also against the property. So, even though the business cash flow is seen for repayment capability, additional collateral is taken from the customer. Typically, it is a commercial property. So that is how it is being done. So we do not have separate track for OPEX. Maybe next quarter we can give some additional numbers to you on the performance of business loan.

Moderator: Thank you. Next question is from the line of Karthik Chellappa from Buena Vista. Please go ahead.

Karthik Chellappa: My first question is, if we look at our new CV like you rightly put, we have seen very good acceleration in AUM growth in the last three or four quarters. But why have we not seen a similar level of pickup in the used CV growth, that tends to hover still around 15%, 16%? Why do you think that's the case? And with how many quarters of lag or so do you expect that segment to pickup?

Umesh Revankar: See, use is only dependent on the reach. More the reach we create, we can increased the used volume. So, whatever the number of branches we are adding, to the extent it will grow. So, 15% is something natural growth, because ticket size being small we cannot have a faster growth in the used vehicle. The ticket size being Rs. 3 lakhs to Rs. 5 lakhs, that is the main criteria for growing steady at 15%. New vehicle ticket size being large, and suddenly if the sale increases and our customer tends to move to new vehicle, then we start funding new vehicle. So new vehicle can grow at 30% - 40%, but at the same time it can also degrow. So the used vehicle will always keep growing, it will not degrow below around 13%, 14%. So there is always a difference between new and used.

Karthik Chellappa: Because our branch count itself has grown by about 25%-odd in the last one year. We have added like 300 new branches. So I am just trying to get a sense of, let's say, within a six or nine month lag can we expect this expansion of reach to translate into better used growth?

Umesh Revankar: No. Used will grow at around 15% only. It cannot grow beyond that because ticket size being small. So, whatever reach we create, it will only add. If you remain in same geography, in fact, we do not grow much. So that is how it is. And used vehicle also takes longer time to complete each transaction, it takes around 15 to 20 days to complete the transaction, unlike new, which is instant across the dealer point you complete the transaction.

S. Mundra: Karthik, I just wanted to add one more point. If you look at the used vehicle right now in the market is the vehicle which has been sold till 2015. I think when the high ticket size, which has started selling post 2017, 2018 is going to come in our segment in the used vehicle market post 2020, where the ticket size increase will be huge. So that is where you will start witnessing the big jump in the used vehicle portfolio.

Karthik Chellappa: Got it. Sir, my second question is on slide #8. Can I have the breakup of the Stage-1 and Stage-2 percentage of loans as well as DPD?

S. Sunder: You can be in touch with Sanjay. He will send it separately to you.

Moderator: Thank you very much. Next question is from the line of Siva Kumar from Unifi Capital. Please go ahead.

SivaKumar K: Sir, we see that sequentially the Stage-1 and Stage-2 loans have increased by almost 5%. Was it entirely due to the Kerala floods? And can you quantify as to how much is being contributed due to that event?

Umesh Revankar: It is a combination. During monsoon, normally there will be a certain area where the rains are more than normal, where business slows down, transaction slows down. And of course, Kerala, we had some districts, four to five districts where we had a bigger impact. Kerala, our portfolio is around 3% of the total portfolio. So, certain districts were impacted and the movement of around, how much?

S. Sunder: We have provided slightly higher for the four districts of the Kerala region and it is not significant, it is part of the ECL.

SivaKumar K: Okay. So the credit cost of Rs. 683 crores, which we got to see in Q2, does it have any ad-hoc provision which you have created for Kerala?

S. Sunder: Yes. It is containing certain ad-hoc provision pertaining to Kerala.

SivaKumar K: Can you quantify that, sir, so we can actually forecast for the coming quarters?

S. Sunder: Around Rs. 60 crores was a hit that we have taken in the current 683 crores ad-hoc provision.

SivaKumar K: Sir, and coming to the credit cost going forward, we have seen that certain states in the South and West have declared, substantial talukas in their state as drought hit. So do you think that this will lead to a bump up in the credit costs in the coming quarters?

Umesh Revankar: See, it is central Maharashtra, central MP and central UP, this belt. South, I don't think. Only deficiency was there in Rayalaseema belt of Andhra Pradesh. Otherwise, South has been relatively good. And our volume in this area is relatively small. So I do not really expect a big challenge for us.

SivaKumar K: Okay. In terms of AUM growth you are sticking to 15% to 20% guidance, right, for the full year?

Umesh Revankar: Yes, full year.

Moderator: Thank you. Next question is from the line of Amyn Pirani with Deutsche Bank. Please go ahead.

Amyn Pirani: Sir, I had two questions. So my first question was, you mentioned that despite the fuel price hikes, it was not impacting activity because there is activity on the ground, there is productivity. But for your passenger vehicle portfolio, which is also around 23%, 24% of your book, are you seeing a similar trend there? Or there could be some impact, at least the OEMs are even talking about an impact on volume growth there?

Umesh Revankar: If you look at the urban portfolio, we do see little slowdown, but not in the semi-urban & rural. Semi-urban & rural since the consumption and the cash flow with customer is better, the utilization levels have gone up and there is no problem. But only in the urban area, we are witnessing certain challenges, especially where this aggregator model is working, Ola and Uber. We do witness certain weakness because their earnings are not really increasing because they have not increased the tariff. So maybe it is matter of time, both Ola and Uber will increase the tariff. If they increase the tariff, I think it will be addressed. So last three months we observed this trend, but it is not because of the increase in diesel, rather it is because they have not increased the tariff.

Amyn Pirani: Okay. And in your passenger vehicle portfolio, would it be fair to say that almost a very large part of it will be commercial usage? Or is there personal kind of a buyer also here?

Umesh Revankar: No. It is mostly commercial. Very small personal will be there, that also to our existing customer.

Amyn Pirani: Okay. And sir you also mentioned that there is, at least the bigger NBFCs, you have been mentioning that there is no impact on liquidity and the ability to grow in the second half as well. But at the same time, would it be fair to say that there will be market share gain opportunity if the smaller NBFCs have a liquidity problem? And how would you look at that, would you try to increase your market share in that scenario or will you try to remain on the cautious side?

Umesh Revankar: See, if there is an opportunity to grow, we would love to see, depending upon which geographies the growth comes from, because we will be very comfortable in certain geography, not all geographies. So that's one factor. And second is, when I say the liquidity should be available to us also there, the incremental liquidity, if it is available to us then we would be able to take advantage of it. And on similar business model, not our other business model. We don't want to get into other business model, just because there is opportunity.

Moderator: Thank you. Next question is from the line of Rahil Shah from AMBIT Capital. Please go ahead.

Rahil Shah: Just one question. Can share the disbursement number?

S. Mundra: The disbursement for the quarter was Rs. 13,803 crores, out of which new vehicle was Rs. 1,691 crores, used was Rs. 11,508 crores and other business loan put together was around Rs. 600 crores. So total was Rs. 13,803 crores.

Moderator: Thank you. Next question is from the line of Abhishek Sinha from Deutsche Bank. Please go ahead.

Abhishek Sinha: Most of my questions have been answered, just on liquidity part. If you can share the numbers based on the different tenures, in terms of what is LM surplus percentage, is RBI allows you to go to minus (-15%) so would it be possible to share what we have across different tenures, especially in the one month?

Parag Sharma: In ALM all our buckets will be positive, in fact as mentioned, we do not have reliance on commercial paper, and commercial paper is only to the extent of the business what we do. There is no negative per se. And excess liquidity, we will have committed lines from banks that will take care of around 1.5 months of any liability requirement. So there are no mismatches, and commercial paper is only to the extent of the business need.

Abhishek Sinha: But sir, any number to share on that, if possible?

Parag Sharma: The committed lines will be around Rs. 2,000-odd crores, which will be good enough to take care of one month liability. And excess liquidity over and above that will be to tune of another Rs. 1,000-odd crores.

Abhishek Sinha: And one question on the GNPA. Effectively on slide #8, so the difference between gross Phase III and GNP is quite large. So is it primarily because of the securitized portfolio or is there something else to it?

S. Sunder: It is primarily because of the securitized portfolio.

Moderator: Thank you. Next question is from the line of Madhuchanda Dey from MC Research. Please go ahead.

Madhuchanda Dey: My question is, ever since this liquidity crisis has erupted in the market, have you seen any change in the competitive intensity in the ground?

Umesh Revankar: See, competitive intensity in our business, used vehicle financing, was not really great. So we did not see much of challenges there. But in the new vehicle space, I understand, things haveslowed down a little. And that is what the dealers people do say to us, we do not have the numbers of October sales and financing by others. But our new vehicle financing in the October, we have slowed down.

Madhuchanda Dey: Your activity in new vehicle financing market has slowed down?

Umesh Revankar: Yes, yes.

Madhuchanda Dey: I mean, I just wanted to understand this point. You have a very well diversified liability profile, but even then you mentioned that should liquidity tightness persist, you may slow down your disbursement in the second half. Is it because you do not want to take additional pressure on margin or is it because availability of liquidity could be an issue?

Umesh Revankar: Both would be there because, see, where we can pass on comfortably to the customer there we would like to do the business. And if you have to compromise on margins we would not like to do it. That is one point. And second, the availability itself is not very clear because right now the availability of liquidity is with bank only, not with mutual fund or the insurance companies, which have significantly slowed down. So, bank lending has not really scaled up to the NBFC. So that we need to wait and watch how they will respond.

Madhuchanda Dey: So the main point is, you do not want to compromise margin and grow your books, is that the correct understanding?

Umesh Revankar: That is the right answer, yes.

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

Umang Shah: I wanted one data point, what is the quantum of securitization we have done this quarter?

Parag Sharma: We have done Rs. 1,480-odd crores of securitization.

Umang Shah: So roughly for the first half about Rs. 5,500 crores?

Parag Sharma: Rs. 6,800 crores.

Umang Shah: So one quarter was about Rs. 4,400 crores, right?

Umesh Revankar: Yes, the second quarter was a little less.

Umang Shah: Okay. So for the first half, about Rs. 6,000 crores?

Umesh Revankar: Yes.

Umang Shah: Sir, my second question was, from our AUM mix perspective quarter-on-quarter not much has changed, but clearly yields have expanded on a sequential basis, which is supporting our margin expansion as well. So, is this pertaining to the cost of fund increase that we have already passed on before this whole liquidity thing happened?

Umesh Revankar: No, it is basically because if we look at Q-on-Q, the new vehicle funding we reduced in Q2. So that has helped us in better margins. So, the new vehicle we did 1,935 in the first quarter and second quarter it's 1,691. So the used vehicle component has gone up, which is higher yield. Therefore, we got that advantage.

Moderator: Thank you. The next question is from the line of Shweta Daptardar from Prabhudas Lilladher. Please go ahead.

Shweta Daptardar: Sir, just one question, at what YTM are we selling the securitization portfolios? And will the credit estimate move up if we are cherry-picking the portfolio? Also, if there is any default in the portfolio purchase by the banks, then do the banks have recourse to them?

Parag Sharma: As per RBI defined norms itself, there will be credit enhancement in securitization. So, in case there is a delay or default that get adjusted towards the first loss and second loss provided as credit enhancement. As far the securitization yield goes, it will be, if you are doing private-sector assets, it will be roughly around 8.25% to 8.5%. And if it is non-priority, it will go at bond yields which will be close to around 9%. So, that is the transaction cost. And all securitization deals are representative of overall portfolio. And there is some cherry picking done for seasoning, there will be some criteria stipulated as per the norms.

Moderator: Thank you. The next question is from Vikas Kasturi, an individual investor. Please go ahead.

Vikas Kasturi: Sir, my question regarding the vehicle scrapping policy, which the government plans to implement. It is still waiting for approvals and other things. So my question is, how much of your portfolio would be impacted if that comes into play from April of 2020?

Umesh Revankar: See, from 2020, 20 years old vehicle is what the proposal is. None of our portfolio will be that old because we fund only up to 10 years. So I don't think there will be any impact because of that. But there could be a positive impact because as the very old vehicle go out, people who are in the business of movement of goods they would come for younger vehicle. When they purchase younger vehicle, then we may have some business. So, we may get a positive impact of that.

Moderator: Thank you. Next question is from the line of Alpesh Mehta from Motilal Oswal. Please go ahead.

Alpesh Mehta: Just one thing, if I add the gross Stage-1, Stage-2 and gross Stage-3 numbers versus the AUM that you have reported, there is still a difference of almost Rs. 1,000 crores, so what is that regarding?

S. Sunder: See, AUM consists of only truck and other lending portfolio. There are other portfolio investments, which are also subjected to ECL.

Alpesh Mehta: And secondly, again, sorry to come back on the gross NPL and the gross Stage-3 point again. But if see the difference in 2Q FY18 was Rs. 3,500 crores and right now it is around Rs. 1,500 crores. So if you can help me reconcile this numbers that will be useful?

S. Sunder: Okay. You can visit Sanjay after this call and he will help you in reconciling that.

Moderator: Thank you. Next question is from Priyank Sanghavi from 5Y. Please go ahead.

Priyank Sanghavi: My question is regarding balance sheet on slide #11, the derivative financial instruments, what are these? And basically it increased from Rs. 148 crores to Rs. 2,900 crores. So can you explain what is this and what is the reason for the increase?

S. Sunder: As we mentioned earlier, we had raised Rs. 2,400 crores of ECB in the current quarter to hedge the currency fluctuation, those transaction are created as a derivative financial transaction and are required to be reported in IndAS, under Ind AS and that is forming part of that.

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

Nischint Chawathe: Most of my questions are answered. Just two things. What are the increase in marginal cost of funding post September 20?

Parag Sharma: See, as of now, one is the sources, funds are very limited; so one is securitization which is continuing and there the rates have gone up by roughly around 75 to 100 basis points. Apart from that, the commercial paper, which is the only other instrument which is there, there also, the costs have slightly moved up by around same, 75 to 100 basis points. Apart from that we have not done any bond placements. We have not raised bank loans that has to be seen. I think, there will be overall cost up by around 100 basis points.

Nischint Chawathe: So bank loans also the spread over MCLR, they are charging, possibly go around 100 basis points?

Umesh Revankar: Yes.

Moderator: As there are no further questions, I now hand the conference over to Mr. Revankar for closing comments, over to you.

Umesh Revankar: Thank you. As I said in the earlier, this quarter, normally is very fluctuating quarter because of monsoon and other vagaries of nature, but still we have come out with good set of numbers. Next quarter is of some challenge because of the liquidity, but we are very confident of managing because we have very strong balance sheet and also better ALM position. So maybe next time when we meet, we'll have a clarity on the second half because as of now the first month is slow, October is slow, but we believe November everything should become better. And November, December, we should be able to catch up and our number should be as good as the second quarter. So thank you. We shall, again, meet. Thank you.

Moderator: Thank you very much, Mr. Revankar. Ladies and gentlemen, on behalf of Shriram Transport Finance, that concludes today's conference call. Thank you for joining us. And you may now disconnect your lines.