



“Shriram Transport Finance Limited Q2 FY-21 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Shriram Transport Finance Limited Q2 FY-21 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. 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 friends and good evening to those who joined from Western part of the world. A warm welcome to all of you who joined this call. I hope all of you are healthy and safe. Joining with me today Mr. Parag Sharma, CFO; Sunder., Executive Director, Sanjay who is our IR Head.

I'll start with the economic update and environmental update, then we'll go into results. The government started unlocking from July 2020, with successive unlocks each month. Under the Ministry of Home Affairs and National Disaster Management Authority guidelines lockdown measures were continued only in containment zone, curfew was imposed only at night from 10 PM to 5 AM in all areas. State borders were reopened, interstate and intrastate travel were permitted. Shops were permitted to allow more than five persons at a time. Most of the activities were allowed in non-containment zones except entertainment, recreation, gathering and education institutions. In August, the night curfews were removed and in September metro rail services were allowed and social gathering with some limitations were allowed.

The government continued its reform measures to ensure the Indian economy pickup pre lockdown phase. The government helped rural economy through various packages, in August, 8.5 crores farmers were paid around Rs 17,000 crores under PM Kisan Yojana. The Parliament passed three agriculture related bills which included several reforms, including unrestricted sale of farm produce, enabling contact farming and removal of stocking limits on traders for large number of commodities. These bills are expected to boost agricultural productivity and increase transport of farm produce both at the interstate and intrastate level. The private corporate sector participation would bring in fresh capital for cold storage and entire supply chain part of it, which shall give boost to rural infrastructure and income ultimately. The agriculture sector posted a growth of 4.3% in Q1 FY21, despite overall negative GDP growth in the said quarter.

In manufacturing, the pace of contraction in Index of Industrial Production (IIP) moderated compared to previous months, being a (-)10.4 and (-)8 in July and August respectively. However, optimism was witnessed reflecting the restart, on account of which several numbers turned positive. The manufacturing Purchasing Managers Index (PMI) reading in August and September rose above the expansion mark of 50 being 52 in August, 56.8 in September, which

was highest since January 2012. The GST collection for the month of September 2020 saw a positive Y-on-Y growth of 4% to Rs 95,480 crores. The recent amendment in labor laws is expected to help manufacturing enterprise to scale up their productivity. The government also announced tax incentive scheme amounting to Rs 5600 crores to central government employees to buy specified goods in lieu of LTC till March 2021. It also provided state governments an interest free 50 year capital expenditure worth Rs 12,000 crores further it increased it's own FY21 capex target by Rs 25,000 crores on road, defense and urban infrastructure. The RBI took a forward looking approach in its announcements and policies under revised priority sector lending guidelines. It announced higher PSL weightage to incremental loans, disbursed in low credit flow districts. The targets for lending to small farmers were increased and new categories of renewable energy plants used in agriculture were included in PSL criteria.

The food grain production for Kharif crop is estimated to be higher by 0.8% at 1445 lakh tonnes till September 2020 due to increase in 4.6% in overall areas sown. The overall agricultural activity looks quite vibrant in India and especially since 58% of the population, their livelihood is dependent on agri and allied activities. It is also among top 15 leading exporters of agriculture produce across the world.

Now, I come to auto industry, their commercial vehicle sales fell by around 20% to around 1,33,524 units in Q2 FY21 on year-on-year basis, a smaller contraction compared to 85% fall witnessed in Q1. LCV had a smaller fall of for 3.5% whereas M& HCV had higher fall of 40%. Overall commercial vehicle industry is expected to contract by around 27% as per the estimates for year 2021. The small road and individual truck operators which form major portion of the truck operators, they're able to restart their business and conduct their operation in stable manner on account of their focus on essential items transportation. The CVs have multiple applications like transportation of agri produce both perishable and nonperishable, poultry, fisheries, FMCG, consumer durables, industrial goods, both raw material and finished goods, mining activity, infra and construction, all of these activities have begun the operation we are able to witness that in the month of September most of them were able to operate, earn and even make the payment. The only segment that is still not fully operational is passenger transportation, that is basically city transportation, travel tourism and staff transportation and school transportation, these are all very minor portion in our overall book, which is around 3%. We have identified these for restructuring. However, we expect the total restructuring by December would be around 2.5%.

Now, I come to the business operations of Shriram. On the operation front all our branches continued to operate peacefully. We did add 26 branches in the month of September which were kept pending due to lockdown. So the total number of branches now stands at 1784. The Urban branches are 223, semi-urban are 585 and rural are 976. The rural definition we have gone by RBI definition which is less than 1 lakh population and the semi-urban is between 1 to

10 lakhs. So around 12% of all branches fall in the urban areas, rest everything is either in semi-urban and rural, which has a strong agri connect in the economy.

The disbursements were quite good I should say compared to Q1, because September our disbursement were on par with the pre COVID level. So, total disbursement were Rs 6463 crores for the Q2 and 90% of the disbursement were in the rural and semi-urban areas. Coming to the key performance numbers, the AUM was Rs 1,13,345 crores against Rs 1,08,000 crores, which is increased by 4.5% on year-on-year basis. The net interest income was Rs 2,021 crores as compared to Rs 2,056 crores in Q2. Profit after tax at Rs 684 crores compared to Rs 765 crores. However, when we take the previous year's figure there was a tax advantage that is a reduction in tax by the government. So, we could add the Q1 and Q2 advantage into Q2 of last year. So, I should say that PAT numbers were on par with last year's second quarter number, the EPS was Rs 27.79 as compared to Rs 32.86. The net interest margin expanded by 24 bps on Q-on-Q basis to 6.66% from 6.42% of Q1. The ROA improved to 2.2% to from 1.06% on Q-on-Q basis and year-on-year basis it was 2.67% last year in the second quarter. ROE is 14.24% against 7.09% on Q-on-Q basis. The credit cost improved in this quarter to 2.12% from 3.52% on Q-on-Q basis and 2.31% on year-on-year basis. Overall collection improved in Q2 with total number of customers paying either full or part EMI being 78% in August and 95% in the month of September. On NPA classification, the Honorable Supreme Court in a public interest litigation, vide an interim order dated September 3, 2020 had directed that accounts which were not declared NPA till 31st August shall not be declared NPA till further orders. So gross NPA, net NPA as on 30th September stood at 6.42% and 3.64% respectively, as against 8.8% and 6.15% as of 30th September 2019. However, such homes have been classified as stage three and provisioning has been made accordingly.

If the company had classified borrower account as NPA under 31st August 2020, the gross NPA and net NPA would have been 7.26% and 4.51% respectively. Our liquidity position stands at Rs 10,891.47 crores as on October 28 as compared to Rs 9686 crores as on August 12, 2020. I hope you have already received investor update. Now, I request Parag to give update on liability side, followed by Sunder on accounting part.

Parag Sharma:

Parag here. I'll be covering liquidity and the fund position. So for the quarter our total fund mobilized by the company is Rs 7,200 crores out of which Rs 1,500 crores is by way of term loans and Rs 4,000 crores by way of securitization and assignment. The rest will be some capital market instruments and retail deposits. Thanks to the liquidity and the several schemes announced by Reserve Bank of India and government initiatives, overall funding support has been good. Be it partial credit guarantee, TLTRO or special liquidity window infused through institutions. Overall funds mobilized under Partial Credit Guarantee Scheme has been in excess of Rs 2,000 crores coming from around four banks and SIDBI liquidity facility we mobilized Rs 350 crores and under TLTRO mobilization has been slightly lower at around Rs 200 crores only.

When it comes to the cost of fund the incremental borrowing rate is around 8.75%. But, since we are largely dependent upon long term funding sources, the blended cost as of September 30, will be in excess of 9% and will be around 9.2%. With collections improving now, that is adding to further liquidity buffer and disbursement will pick up and at that point of time, we'll be looking at further borrowing. On ALM front, we have been very comfortable we don't rely on short term sources and all buckets up to one year have been always positive and continue to be the case even in September. We have activated our branch network team now for retail deposit mobilization and that has picked up pace. We are now getting around Rs 215 crores net accretion to our deposits, from our deposit front. And that is likely to go up we do target to touch retail deposits of 20% of our liabilities over a period of time. Currently, we'll be at around 13%. With incremental borrowing costs coming down, we do expect that by March 2021, overall costs will come down around 25 basis points. That is all from my side on the liquidity front. I'll give it to Sunder for the update.

S. Sunder:

Good morning. Couple of data points which I thought it's relevant to add to what Mr. Revankar and Parag have already spoken. One is on the interest income, there is an upfront booking of income on one particular assignment amounting to Rs 68 crores, which was not there in the previous quarters, previous quarters it was more of a deferred income of Rs 4 crores and the operating expenses it has gone up compared to the previous quarter by around Rs 100 crores primarily because of the incentive being provided for the staff based on the performance which was not there in the June quarter. And also, due to opening up of all the branches to the extent it has gone up. However, the cost to income ratio continues to be lower at 21.7% compared to 23% in the previous year. And as Mr. Revankar already have briefed on the gross stage three being reduced to 6.42% thanks to that Supreme Court decision interim order. However, even if you remove that and see the gross stage three has improved compared to the previous quarter of 7.98% it has come down to 7.26%.

On the PD LGD numbers on stage one, the PD that we are currently recognizing is 7.48% as compared to 7.5% in the previous quarter. And on stage two the PD is 23.19% compared to 23.8% in the Q1 and the LGD that has been applied factoring all the COVID related things are 39.45% compared to 39.22% in Q1 and the company also is currently ascertaining the impact on the difference between the compound interest and the simple interest, which has been announced by the government on Friday. And we feel that there'll be no impact on the financial as the same will be fully reimbursed by the government. And coming back to the Supreme Court interim order. We have taken an additional hit of 300 crores in spite of that not being classified as an NPA however, we have considered that as a stage three and taken a hit of 300 crores. And these are the few points that I thought was relevant.

Umesh Revankar:

Yes. Now we will take the questions.

- Moderator:** Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Sanket Chheda from B&K. Please go ahead.
- Sanket Chheda:** My question is on collection efficiency number that you just spelt out that 95%, so is it 95% by number of EMIs or it is just against the billed amount and whatever you have received what I mean to say is some customers may have paid more than one EMI and hence the actual nonpaying pool could be higher. How to read this number?
- S. Sunder:** It is purely billed versus collection. So the collections will include the previous areas opening areas also. But that's how we used to look at the numbers even before the pre COVID level.
- Sanket Chheda:** Yes, so can you provide me the number in terms of the customers who have not paid a single EMI for the first six months and then September also. So how much that will account for as a percentage of our AUM?
- S. Sunder:** During the six month moratorium, as you are aware that we had offered close to 90% more than 90% of the entire customer base and out of which around 4.5% of the customers had not paid even a single installment during that moratorium period, which contributes to around 1% of the AUM. However, some of them have started paying in the month of September and October. But during moratorium, if you simply go by the six-month moratorium period 4.5% of the customers had not paid.
- Sanket Chheda:** Okay, so right now also the pool remains about 4.5% there is no EMI?
- S. Sunder:** Some people have made in September or October out of that 4.5% some people.
- Sanket Chheda:** Okay. So it is even reduced from 4.5%. And sir on growth front where we see ourselves for FY21 in terms of disbursements, they're currently just below 50% pertaining coming two quarters, how do we see growth momentum?
- Umesh Revankar:** The disbursement should be at the previous year's level say around Rs 12,000 to 13,000 crores per quarter should be the disbursement for next two quarters, that should result in AUM growth of around 5% to 6%. So, it will be almost on par with the last year's growth and this growth also includes the postponement of the EMI because when there is extended moratorium, because of moratorium when it gets extended, the AUM does not come down. So, to the extent there is a growth that is coming out of postponement, so overall it will be 5% to 6%.
- Sanket Chheda:** Okay. And lastly sir, do you see the need of any elevated provisioning in Q3, Q4 or we feel that whatever we have provided so far is adequate?

- Umesh Revankar:** It's quite adequate because we have provided a little more even when we take that Supreme Court order into consideration there also where it has moved to stage three even though we have not classified that as NPA, we have already provided. So, I don't think we need to provide anything more.
- Sanket Chheda:** Okay, sir so our stage two assets have always been on quite a higher side and against that the non-paying pool which you mentioned seems quite low so, if I am not wrong in FY20 annual report you have stage two set for about 11%. We don't disclose in 1Q, so where it stands now stage two assets?
- S. Sunder:** Stage two as on September 30th is 11.65% if you go strictly based on the Supreme Court order. The breakup I'll give stage one is 81.93% of the asset. Stage two is 11.65% and stage three is 6.42%. Supposing if we don't consider the Supreme Court order, the stage one will be 81.58%, stage two will be 11.15% and stage three will be 7.26%.
- Moderator:** Thank you. The next question is from the line of Alpesh from Motilal Oswal Financial Services. Please go ahead.
- Alpesh:** Sir, just one clarification note number 10 regarding this hedge accounting, so it has no impact on the reported margins right and this quarter has the mark to market gain of Rs 27 crores, which has been routed through OCI?
- S. Sunder:** Correct. The hedge accounting does not have an impact in the P&L it is routed through the OCI, so across quarters also you will not find that movement because of this hedging instrument.
- Alpesh:** And it has no impact on the reported margins which has gone up by around 25 bps?
- S. Sunder:** Correct. No, it has got no impact.
- Alpesh:** Okay, that's first. Secondly, now what's your view on the liquidity because for a long time, we have been carrying excess liquidity on the balance sheet. So, now do you plan to reduce it to 5%- 6% normalized level or you plan to keep it at around to 12% only, of the borrowings?
- Umesh Revankar:** Security we will be keeping at higher level till March because that's what Board has suggested us. So we'll be a little cautious and as things pan out, then we will reduce excess liquidity.
- Alpesh:** Okay and how about the securitization this securitization plus assignment around 23% do you plan to increase it to whatever 27%, 28% in the coming quarters?
- Umesh Revankar:** No, we have not look at increasing that, that was largely to do with the Partial Credit Guarantee schemes and on all, because of which there was more mobilization. The priority

sector benefit is available for regular lending term, lending by the banks also it should move to a regular term loans rather than securitization when it comes to fresh borrowing from public sector banks.

Alpesh: Okay. And the last question, does the QIP plan still stands because the asset quality has panned out much better than the expectations so, we were expecting a QIP in the second half of the year, so does this still stand or we may look at in the future?

Umesh Revankar: QIP we may not be rushing into it anytime now, because we also would like to see the sign of growth in the economy. So if the growth expectation is very high, and if the GDP growth comes back positively fast, then we will look at the further increase in equity, otherwise we will not be rushing into it.

Alpesh: Okay. And if possible, there is a statement in the presentation you have given the month wise collections from the number of customers, is it possible can you give the same number in terms of the value or the amount that you have received on a month wise basis, in terms of collection efficiency?

Sanjay Mundra: Yes, that we have already shared if you recollect, in the month of August it was 59%, in the month of July it was 53% and June, it was around 50% in value terms.

Alpesh: So that number you are mentioning right now is around 95% but it would include the one or two, two EMIs may have been paid by the same customer?

Sanjay Mundra: But it will be very, very less people. So approximately if you look at volume wise it will be almost similar lines, so volume and value wise it will be similar in the month of September.

Alpesh: Okay, so 95% people have already started paying?

Sanjay Mundra: Yes.

Moderator: We take the next question from the line of Oon Jin Chng from HPS Investment Partners. Please go ahead.

Oon Jin Chng: Quick question for me just to understand, I see that you have taken additional provisioning for the COVID-19, your numbers are pretty strong especially the collection is improving as you mentioned. So can you give a little bit of color in terms of the rationale or the thinking why did you increase the provisioning in this period and if I heard you correctly, you don't see additional provisioning required in the coming quarters, is that correct?

Umesh Revankar: Yes, we don't really anticipate further provisioning requirement. This additional provision we have done as abundant caution and we feel that we are all fully provided for our business as of

now, because unless there are some changes in the COVID situation, we don't really anticipate further provisioning. Meanwhile, I would like to also inform that Board has recommended interim dividend, Rs 6 per share because since we have come back to the business as usual, and we expect a normal disbursement and collection in the next couple of quarters. Thank you.

Oon Jin Chng: Noted. And just on that note, you meant just if I heard correctly. The disbursement in the Q2 was about Rs 680+ crores, is that correct?

Umesh Revankar: Rs 6486 crores, it is around 50% of what it was last year.

Oon Jin Chng: Rs 6400 crores and the normalized level is 12,000 to 13,000?

Umesh Revankar: Yes, you're right.

Oon Jin Chng: And you are expecting to achieve this in the coming quarter?

Umesh Revankar: Yes, we expect it to come and we have enough liquidity and we also have a good pipeline for raising resources.

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

Rikin Shah: Just some data keeping questions. Number one, you did mention the stage two and stage one percentage of loans, can I also get the coverage on the stage one and stage two. Second, I also wanted to confirm what was the stage two PD now and what it was earlier?

S. Sunder: Stage two PD was, immediate quarter you're saying previous quarter?

Rikin Shah: Yes. Current quarter and earlier.

S. Sunder: Okay, current quarter was 23.19% and in Q1, it was 23.80% and coming to the provisioning. So we have a coverage of 39.71% on the stage three assets and on stage one asset we have coverage of 3.18%. And in stage two assets we have a coverage of 9.88%.

Rikin Shah: Okay, got it. And just one more question, what would be the incremental cost of borrowing by different instruments?

Parag Sharma: See, we have done two large borrowing one is securitization which is at around 8.75 and the term loans because it is still from public sector banks largely the rate has been between 8.5% to 9%. Retail borrowing rates have been low, we have brought down the rates there, so over three year rate will be 8%, it will be less than 8%, 7.75% there.

- Moderator:** Thank you. The next question is from the line of Umang Shah from HSBC Securities. Please go ahead.
- Umang Shah:** I just wanted to check on one thing. So as you clearly mentioned that incremental COVID-19 related provisions may not be required and we are already holding about 4% non-stage three provision. So in Q3 and Q4 should we assume that the overall credit cost normalizes to pre COVID level or we might see a little higher elevated level of write offs compared to last year?
- Umesh Revankar:** Last quarter our credit cost was 2.12% and against 2.31% last year. First quarter, it was 3.51%, cumulatively, if you see first half it is 2.81% and we expect it to further come down in the next two quarters if both the quarters hold good, and if there is no further any COVID related challenges. So, credit cost should be a much better than earlier guidance which we had given. So, we had given a guidance of less than three and it should become much better. That's what I should say. We don't, otherwise we can't comment beyond this at this stage now.
- Umang Shah:** Sure, that's helpful. My second question is on the OPEX part, so in the opening comments we mentioned that, there was some bit of a one timer in the employee costs. Now, I also noticed that the headcount actually this quarter has gone down by a couple of thousand employees. So, if you could just split how much of this is non-recurring in nature and going forward, how should we look at OPEX or simplistically a 21%, 22% cost to income ratio is, should be a more sustainable number?
- Umesh Revankar:** See next couple of quarters we would be adding 100 branches because conversion of some of the rural centers which has reached a particular level of efficiency, we need to convert that into branches. So, we would be adding around 1000 people, you're right that number of count has come down to around by 2,500 numbers and we need to strengthen the branches. So we would be adding 1,000 but overall cost of how much is.
- S. Sunder:** See it is around 240 crores, so of course we will continue to be there even see when I say one time it is not actually one time compared to June quarter, June quarter we had a total freeze on incentives and hence, it was a onetime benefit I would say in June rather than a onetime hit in this current quarter. This is a normalized position that we are coming back into and we are confident that this cost income ratio will hover around 22% to 23%.
- Umang Shah:** Okay, sure. And last data point question, what would be the overall sanctions and disbursements under the ECLG scheme for us?
- Umesh Revankar:** So, overall cumulative disbursement as of October it will be Rs 570 crores.
- Umang Shah:** Okay, and sir what would be the sanction?

Umesh Revankar: Sanction is Rs 2800 crores, but many of the customers are not really seeking it in the sense they do not really require it. So, and the people who would be opting for restructuring they will not be giving it so, we may add another Rs 100 crores by December 31st.

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

Vivek: Good morning sir this is Vivek. I had two questions and one bookkeeping question. One question is to Umesh, in terms of reposition and price on secondhand trucks, given the economic activity we expect that to be firm, because your loss given default is still pretty much the same. Let me just ask the questions in sequence, in securitization, the question is to Parag, given the fact that the cash flows were uncertain during the pandemic, did you have any innovative structures with the interest and in terms of the old pools, how have you managed it, has the tenor been pushed outward, and the last question is on ALM, I on slide numbers #19. The first month outflows are high compared to the rest of the period is that one off repayment that is there, and has it been refinanced out. Thank you.

Umesh Revankar: Coming to repossession, we have not really witnessed any increase in repossession. So resale values as of now the LCV, resale value of LCVs are higher than the pre-COVID level, but heavy vehicle transactions are not seen, neither they are buying or selling or nor there is a repossessing. So, it is too difficult to make a judgment on the same, but my feedback from the people is that, the resale values are stable it has not really decreased. So, maybe this quarter should be a right time to understand the resale values because as the model changes from one year to another year, then only we will know the resale value further drops or not. So, as of now, there is not much of risk of resale value coming down. Parag?

Parag Sharma: The securitization front, most of the lenders agreed for providing moratorium to the customer. So, it is timely interest and ultimate principle for the tenure did get extend for that period. Most of the securitization in this period, as I mentioned was under the Partial Credit Guarantee Scheme. So, lenders were well aware of the cash flows and the moratorium offered. The second question was around ALM. Yes, there will be first work at larger outflows because of some WCDL, working capital demand loans taken for the cash flow facility and that would have one month largely because of that.

Moderator: Thank you. The next question is from the line of Piyush from Serendib. Please go ahead.

Piyush: Just wanted to understand a little better the 5% non-collecting, non-paying customers do they largely belong to the 3% group that needs to get restructured. So, if you exclude that 3% would this 95% almost be the same as pre COVID levels?

- Umesh Revankar:** Yes, most of these people who are not able to pay they are in that segment only, which I briefly mentioned that taxi aggregators, school buses, staff transportation that is the major chunk of the people who are not able to pay because their businesses are not operational yet. There are coming under restructuring plan. So we will be giving some smaller EMI to them for next three to six months, then extending the tenor we may give them a restructuring option.
- Moderator:** Thank you. The next question is from the line of Nishant Shah from Macquarie. Please go ahead.
- Nishant Shah:** Just wanted to understand this correctly, I'm sorry for the repeated question. 95% collection efficiency what is this number adjusted for all the arrears of advanced EMIs which were collected. You said it's roughly the same, is that right?
- Sanjay Mundra:** See what we have taken is that the monthly demand whatever is there, against that in value terms we have collected 95% of the money. So if 100 is the due for the month, we have been able to collect 95 that might include the arrears for the earlier months also. And in terms of number of customers, roughly around less than 5% has not paid in last seven months or so any money.
- Nishant Shah:** Fair enough. But could you quantify what would be the collection efficiency just for arrears because what might happen is 5% of your customers are paying two months EMIs because their business is back to complete normalcy or probably same, it kind of masks the pain which is there in the part paying customers or something like that?
- Sanjay Mundra:** See, we don't have that if you look at we have mainly the owner drivers, small truck owner, first time user, even the environment is not that where the people will pay more than one EMI at a shot. So there could be one, maximum 1% or 2% who have paid more than one EMI otherwise most will be either part or full EMI.
- Moderator:** Thank you. The next question is from the line of Sumanta Khan from ICICI Prudential Pension Fund. Please go ahead.
- Sumanta Khan:** My question is on the liability side, we talked about how you have raised funds quarter mostly it has been reported and combined. So, when do you think you'll be able to because if you have to grow the book from here onwards from here you have to come back to the market to enter the market. So by when do you see a better environment where you can raise money on a sustainable long term basis??
- Parag Sharma:** Two, three things there, one is securitization, the normal volumes as of now we have been looking at only the several schemes announced, the regular securitization should start now, because earlier the lenders were worried about the moratorium being offered to the customers and cash flow being uneven. So that will pick up, when it comes to the capital market. I will

not be commenting on the market per se, because there were liquidity concerns initially with some of the funds and the AUM also were not growing, now that has picked up pace, that is liquidity is good, we had some concerns reaching out to larger capital market investors, which has been addressed now and we have started in a smaller way now by raising NCDs that should again, come back to normal levels within a month or so. We have done some transactions now, the market linked debentures and that should put to rest any concerns regarding whatever concerns investors had. So that volume should come back to normalcy. We have around 20% of our liabilities from capital market, and we don't expect that to come down. So, that should continue to be at 20% level. So it has been slow, but it is picking up and it should be coming back to normalcy now.

Moderator: Thank you. The next question is from the line of Udit Kariwala from Ambit Capital. Please go ahead.

Udit Kariwala: Sir my question was, if I heard you correct, that there are around less than 5% of customers who haven't paid in the last seven months, and the total exposures for these customers is around 1% but if I corroborate this with the 95% collection efficiency number and expectation of around 2.5% to 3% of restructuring. So if these customers only represent 1% of the total exposure, what is the remaining 2%, 2.5% and then why does the collection efficiencies 95 and not higher if this is at 1%, so that is my question.

S. Sunder: Less than 5% of the people who are not paid even a single installment was during the moratorium period March to August. And some of the customers had started paying in the month of September and also in October. The October collections also continues to be robust. It is in similar pattern of the September and we expect to close this month close to 95%, 96% of the demand. And coming back to your question as regards the restructuring out of this 4%, 4.5% who had not paid even a single installment after considering certain people who have started paying the balance maybe around 2% or 2.5% people will opt for restructuring. And what was final question?

Udit Kariwala: Sir my question was that if the collection efficiency is improved even further in September and October, then it was mentioned that the total exposure for these people is around 1%. So why would 3% go to restructuring that is my question, if this exposure is 1% why would 3% go to restructuring and the second part to it is, if this is 1% then why is your collection efficiency only 95 and not higher?

S. Sunder: There are customers who have started paying, however, since their segment of business is still affected because of COVID pertaining to those sectors who are related to either school operators, school bus operators, or staff bus operators or Ola, Uber those people had sought request for restructuring even though they are able to pay some components, they may not be fully able to pay and hence we are considering a onetime restructuring option to those

customers also. So that, in the next three to six months they will be able to service only the principal, only the interest costs and some component of principal and it will be staggered for the next one or two years for those customers. And hence, you can't correlate this one percent with the 2.5%, 3% of restructuring that we are talking. And coming to the 95% of the demand in pre COVID levels also, we used to have 97%, 98% collections coming in as compared to the demand in certain months. So similar trends are there, it's nothing alarming and we feel that in the next couple of quarters, we should go towards the 100% collection on the demand.

Udit Kariwala: Okay, and sir one last extension to this question is that, the provisioning in this quarter is around Rs 410 odd crores if I'm not wrong, while Rs 300 crores is assuming that the Supreme Court directive, would not have been there. The remaining Rs 110 crores if you could give some color around that is it an additional provisioning from what management is taking or where is it coming from?

S. Sunder: Yes, it is additional provision that we are considering bases the COVID scenario.

Udit Kariwala: Okay, and incrementally now you're saying from here on it should be the normal flow and not COVID related provisioning which you will add?

S. Sunder: Yes, as things stand today. Yes, that is what is our belief.

Moderator: Thank you. The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Sir if you could share during the month of September, what percentage of customers by value had made full EMI payment and part EMI payments?

S. Sunder: We don't have the numbers. You can touch base with Mr. Mundra, he will be able to help you.

Rohan Mandora: Sure sir. Sir second question that I had was that, since 90% of the customers who are under moratorium, so if they were making some payments during the moratorium period, those receivables were they adjusted against the principal or was it considered as a normally EMI payment, how was the accounting treatment done for those customers EMI at that point of time?

S. Sunder: It was considered as prepayment of the principal, it was apportioned towards the principal component.

Rohan Mandora: Okay, that's helpful. And sir just, given the fact that the press release that had come out from TFTRT, at the end of September, they have broadly indicated in the MHCV segment. The feedback that they're getting at around 60% of the collections would have, 60% of the truck operators would have made payments of the September EMI whereas, we are reporting a very

good number. So, if you could comment like what led to such strong collection numbers vis-à-vis the feedback that you were getting from the market?

Umesh Revankar:

See, basically understand that many of this large fleet operators, they operate in a long distance. So like Mumbai – Guwahati, Mumbai – Delhi, et cetera. The long distance transportation is still not normal, it has not come to the pre COVID level, but within the state transportation has come to a normalcy and we lend to only the small route customers, 90% of my customer would be running between Mumbai to Nagpur, Mumbai to Nashik, Mumbai to Kolhapur. So they don't go because most of them are used vehicle, they don't go beyond the state. So, our customers are now operational, fully operational, but some of the long distance transportation where they are dependent on driver or even they are dependent on the overall economy that is not fully the same like if you look at the port activity it is not the same. So therefore, there is some anomaly between what the TFT RT which is from Pune which they are reporting numbers and the customers what we have, because they normally represent the large fleet operators and our customers who are unorganized they don't get reported or they don't get or what we call same mileage like the large fleet operators. So, therefore, there is always a difference. So, all our customers I can say that they operate in a smaller distance, and therefore, there is enough business and they are mostly into day-to-day essential transportation like perishable, nonperishable, agri, and FMCG. These are running quite well and normal.

Rohan Mandora:

Sure sir. And if I may be able to fit in one last question, sir on behavioral aspect of the customers that we are lending to in a pre COVID environment, whatever savings that they would have had. So typically, where to they deploy those is it towards purchases of new consumption products or do they actually make some financial savings, some color of that would be helpful. What is your observation in terms of the customer profile that we are having?

Umesh Revankar:

Our customers normally not into savings, because whatever they make extra earning they would either convert that into prepayment or they convert that into maybe some physical asset, the saving habit is not really large among our set of customers. So that we don't really expect them to save in a financial instrument, it could be in some physical asset like gold, or maybe land or maybe additional vehicle, they may go for an second vehicle something like that.

Moderator:

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

Kashyap Jhaveri:

Just two questions. One, I want to reconcile this number of non-paying customers. If I recollect, after the Q1 call in August, that number was what about 19% odd and this is now about 5% right?

S. Sunder:

I didn't get you, what was the 19%?

- Kashyap Jhaveri:** The non-paying, the customers who have paid zero EMI, no EMIs that number was about 19% right?
- S. Sunder:** No, we had not given any numbers at that point of time. We were saying that in April the total number of customers who had paid was 25% and gradually it has increased month-on-month and it reached the peak of 78% in August.
- Kashyap Jhaveri:** Okay. And second question was on provisions. You highlighted that versus earlier assumption about or earlier guidance about less than 3% this number would be lower, but just to in a bit, do we still continue to expect that even as we go forward towards Q4 there might still be right back from the provisions that we have done until now or that assumption now is no longer there in the credit cost number?
- S. Sunder:** As things stands we expect that there will be no further COVID related provision, but things are dynamic and then fluid outside and hence we are not really able to confirm whether Q3 and Q4 will not have any COVID related provision. Having said that, supposing if there is an improvement further in the credit quality of the assets, then there may be a potential right back but whatever COVID related provision of Rs 2200 crores that we are holding as on September 30th that we will continue to hold till 31st March that is for sure.
- Moderator:** Thank you. The next question is from the line of Aswin Kumar Balasubramanian from HSBC Asset Management. Please go ahead.
- Aswin Balasubramanian:** I just wanted to, this is touchup on the previous participant as well. The difference which you've taken due to the Supreme Court judgment comes to about 0.8% in gross stage three assets now, this would be basically the stage two assets as of March 2020 which have not paid any EMI is that the right way to look at it?
- S. Sunder:** No, see the right way to look at it is, post moratorium that is 31st August, who have not paid so Supreme Court have said that those cases you should not consider as NPA, you should have a standstill for those cases also. So those are the 0.8% of the cases.
- Aswin Balasubramanian:** Right. So these would have been stage two as of February 28th?
- S. Sunder:** Yes, correct. Suppose if it had been moratorium then those cases would have been stage two.
- Aswin Balasubramanian:** Yes. So, if I just look back at your annual report, that number as of March 2020 was about Rs 12,000 crores. So, and out of that only about Rs 1,000 crores wouldn't have paid any EMI after that, right?
- S. Sunder:** Correct, that is fair to assume yes.

Aswin Balasubramanian: Okay. Is this the kind of normal roll forward rates, rollback rates that you see in stage two assets or is this, was the normal or like back and run normal?

S. Sunder: This should be like 11 to 12, 13% will be the normal going forward also.

Aswin Balasubramanian: Okay, got it. And, secondly if I look at your notes to accounts, there is this number of about Rs 5,000 odd crores but it's mentioned that the moratorium is extended as of September 30, 2020. So, but you mentioned the number of about 1% or something right the value so, just trying to reconcile those two numbers?

S. Sunder: So, that is as per the RBI requirement wherein they had said that, that this is a disclosure norm that they had asked all the NBFCs and banks to do. Whatever was the moratorium extended to non-standard assets, all that whatever is outstanding as on 30th September is at 5,000 number. It will not be really easy for you to interpret this and reconcile this and that number, that we can have it post this call maybe you can just touch base with Mr. Mundra, he will be able to help you out.

Aswin Balasubramanian: Sure. Thanks a lot about that. One last question in terms of the disbursements of about Rs 6400 odd crores, like what would be the nature of these disbursement in terms of new and used then let's say between HCV, LCV and also like between the pre owned finance and fresh resale and so on?

Umesh Revankar: No, new vehicle advances say around Rs 150 crores and rest of it is used vehicle and the working capital loan would be around Rs 600 crores out of it. Rest everything is for used vehicles.

Aswin Balasubramanian: And this used vehicle would also have that element of refinance or is it like purely new purchase sale transaction. So, it should be that?

Umesh Revankar: Refinancing may not be large, mostly purchasing because our business is basically financing used vehicle which is being purchased, the existing customer after repaying going for a refinance would be much lower.

Aswin Balasubramanian: And this would be primarily LCV side, the used?

Umesh Revankar: The demand right now is across all but, yes LCV's and tractors are little higher in this quarter.

Moderator: Thank you. The next question is from the line of Aditya Jain from Citigroup. Please go ahead.

Aditya Jain: Just wanted to confirm, the entire size of exposure to the three relatively safe segments that school buses and staff transportation. The entire size of this exposure is about 3% and this is what we are calling the potential restructuring requirement?

- Umesh Revankar:** Yes, you are right. So those people who feel that they need support, we made an assessment because there are some cab aggregators who are able to pay even during the last three, four months other than April and May people have started paying some cab aggregators, some Ola, Uber operators are able to pay, but some of them said they're not able to pay and some of them are paying part. So people who are paying in part and people who are not able to pay there we have offered them.
- Aditya Jain:** Got it okay. So, the ones which will need out of this in 3%. So, it is possible to share the size of AUM to these segment and the entire even including those which are not struggling to pay.
- Umesh Revankar:** We will give the detail, Mr. Mundra will be able to give you detail.
- Aditya Jain:** And a small clarification so the denominator in the collection it includes the entire customer base including NPA, or excluding NPA?
- S. Sunder:** Demand will be for all the customers including NPA, we don't exclude that.
- Aditya Jain:** Okay. So the collections you mentioned pre-COVID would have been 95, 97?
- S. Sunder:** That again the denominator would include NPA.
- Moderator:** Thank you. The next question is from the line of Piran Engineer from Motilal Oswal Financial Services. Please go ahead.
- Piran Engineer:** I just have a couple of clarifications. Firstly, when you mentioned you're targeting Rs 250 crores of net deposit accretion that's on a monthly basis right?
- Umesh Revankar:** Yes, it's the monthly basis net accretion.
- Piran Engineer:** Okay, fair enough. And most of these are retail or what is the percentage?
- Umesh Revankar:** Entirely retail we don't have strong corporate deposit ICD market, ICD portfolio, so all our deposit would be retail only and average three years.
- Piran Engineer:** Okay. Sir my second question is that, and this is sort of similar to a question asked previously or stage two as of Feb 29 was 11.5 and even today it is around 11.5. So if customers were given Moratorium and very few have not paid most of them would have paid at least one or two EMIs, ideally they should have come out of stage two and into stage one. But that has not happened. So what exactly are we missing here. Because the stage one people could not have slipped into stage two if they were in Moratorium. So, how do we reconcile this data that it has been flat?

- S. Sunder:** We will get it done through Mr. Mundra, you can just contract him, he will help you out in this.
- Moderator:** Thank you. The next question is from the line of Swarn Agarwal from Max Life Insurance. Please go ahead.
- Swarn Agarwal:** I have few questions. The first one is what was the collection efficiency in September excluding prepayment. Second is, on your passenger vehicle book can you give a broad share for taxis, non-taxis and buses and third is some flavor on collection efficiency of passenger vehicle vis-à-vis MCV vis-à-vis HCV vis-à-vis tractors?
- Umesh Revankar:** See the breakup is like that totally we have around 20% of our portfolio in passenger and out of that 11% is the private passenger that is for private purpose and 9% is for public transportation out of this 9% the cab aggregator is around 2% including taxes Ola, Uber and taxis are included. Then this another 2% is staff transportation and your school operators and rest is rural transportation, the rural passenger transportation that will be the rest of it. And other question was?
- S. Sunder:** Collections: It will not be significant, so that will not change that collection percentage per se.
- Swarn Agarwal:** Okay and collection efficiency of passenger vehicle versus CV versus tractors?
- Umesh Revankar:** See if you look at the behavior wise, the LCV customers have been paying throughout because their business never stopped MHCV they have some challenge because the inter district was also not allowed in the month of April and May, but they have started paying as far as heavy vehicle is concerned. The another segment that were in challenge was people who are in infrastructure and mining, because most of the government payments got delayed in the month of May, June, but they all have started paying from August onwards, from July the payments have been reasonably smooth. Some of them were able to pay part, some of them were able to pay full. So that the segment which never got much impacted where tractor and LCV, others got impacted but it got recovered from July onwards.
- Swarn Agarwal:** Any broad numbers which you can share in terms of collection efficiency or passenger vehicle?
- Umesh Revankar:** Right now we don't have, we'll arrange the numbers through Mr. Sanjay.
- Moderator:** Thank you. The next question is from the line of Kinder Wue from Value Partner. Please go ahead.

- Kinder Wue:** So wondering, wanted to check one thing is related to our S&P credit rating, right, because they still put us under like the credit watch negative status so wondering by when do you expect the rating to stabilize a bit and have your conversation with them?
- S. Sunder:** S&P and even Fitch has been slightly negative on the Indian economy and that was one of the reasons why we have been put on negative watch and because moratorium was also announced that further added to their concern. Now that moratorium period is over and collections are back to normalcy, we will be in touch, we'll be in discussion with them to look at removing this negative outlook, we'll be actively engaging with them now. And not only the September result, but also the October performance continues to be promising. Disbursement coming back to normalcy, within a month or so we should be looking at them to review their decision on the negative watch.
- Kinder Wue:** And see so expect the time would be like December, like probably next quarter. Right?
- S. Sunder:** According to us, it should be immediate now because we have come out of moratorium and September numbers are there with them now. But, they would like to see consistency of collections continuing for one or two more months. We do expect it to have their decision to be immediate. but according to me, realistically it will be around December time.
- Sanjay Mundra:** Operator, can we have a last question?
- Moderator:** Sure sir. Ladies and gentlemen, we take the last question from the line of Jehan Bhadha from Nirmal Bang. Please go ahead.
- Jehan Bhadha:** My question is on net interest margin, which is down around 60 basis points year-on-year. So what is the reason and what is the outlook going forward. Thank you.
- S. Sunder:** It is primarily because the negative carry as we are holding more than Rs 10,000 crores of funds in the last couple of quarters, that is a big drag.
- Jehan Bhadha:** Okay. So that should come back to a previous levels, right?
- S. Sunder:** Maybe it will take a couple of quarters at least maybe next financial year it may.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Umesh Revankar for closing comments.
- Umesh Revankar:** Thank you. I've been opening remarks I missed out that, we have declared a dividend at Rs 6 per share. The Board felt that the business has come back to normalcy and the shareholders need to be rewarded and last year interim it was 5 but since there is no dividend tax at companies level, we have made it Rs 6 per share and as far as the business is concerned, we



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October 30, 2020*

are quite hopeful that business will be as usual, we should be able to disburse at the same level as last year and may improve further as the COVID situation improves across the country and we also expect the collections to improve further because not many new vehicles are added, the demand for existing fleet will be much better and utilization level will go up significantly. And that will give a better revenue to our customers. So, overall, we feel that the situation is under control and improving and in the next couple of quarters we should come out with much better results. And also, hopefully we need not make further provision, COVID related provisioning. So, friends, we'll meet again next quarter to discuss our numbers. Thank you.

Moderator:

Thank you very much, sir. Ladies and gentlemen on behalf of Shriram Transport Finance, that concludes this conference. We thank you all for joining us and you may now disconnect your line.