"Shriram Transport Finance Company Limited Q2 FY22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Shriram Transport Finance Limited Q2 FY22 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 '*' 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 the western part of the world. A warm welcome to all of you who have joined this call. I hope all of you are healthy and safe.

Today we have our JMDs, Joint Managing Directors, Mr. Sudarshan, Sridharan, Nilesh, Sunder and Parag along with me and Mr. Sanjay who is our IR Head.

Friends, let me first go through the economic updates, then let me come to the results:

Most of the states started unlocking almost fully, in the second quarter on the back of aggressive vaccination. As stated in the previous quarter goods transportation continues to have a good run and not hindered by any kind of lockdowns and with the good freight rates, they were able to run their business quite comfortably. There is also a pickup in passenger transportation which helped taxi and bus operators to repay their installments regularly. All this has helped in improved collections overall. The government has announced several policies to support the Indian economy in regaining the momentum. The most important is the MSP on various crops which was increased by 2% to 8% and that really helped the rural economy. RBI is continuing to come with a lot of positive statements and initiatives. RBI issued securitization of Standard Asset Directions, 2021 which will enable greater risk distribution and a greater liquidity to the originating lenders. Bank lending to NBFC for providing on lending to MSME which was permitted to be classified as priority sector was extended till March 31st, 2022. Aa result of all the above factors, we continue to expect Indian GDP growth to clock 9.5% for fiscal 2022 in line with the RBI estimates. In line with the same several economic indicators were positive in the past quarter. Manufacturing PMI rose from contraction in Q1 FY22 to expansion level to 55.3 in July 2021 and remained above crucial 50 mark being 52.3 and 53.7 in August and September respectively reflecting a pent-up demand. Reflecting this index IIP rose 11.5, 11.9 in July and August 2021 respectively. The GST collections which were low in June rose about Rs 1 lakh crores mark being at Rs 1.16 lakh crores, Rs 1.12 lakh crores and Rs 1.17 lakh crores respectively in the month of July, August and September.

Now coming to the auto industry:

Commercial vehicles sales was 166,251 unites in Q2 2022 against 133,524 units in Q2 2021, an increase of 24% and almost close to the 167,173 in Q2 FY20. The Medium and Heavy CV's grew much faster with 51,740 units against 23,921 units in Q2 FY21 and 40,158 units in Q2 FY20. The higher fleet utilization level were visible, greater amount of infrastructure, road construction and adding to that cement steel consumption, they were all positive indicators. In the new vehicle sales one particular differentiating item what we have witnessed this time is the demand for CNG vehicles. The CNG vehicle sales which were 25,729, 26,250 and 23,269 units for the last three years, being almost constant for around 25,000 units which rose to 31,529 units in 6 months in this year. That means significantly the new vehicle sales is moving towards CNG, and especially in the corridor where CNG is available that is in and around Delhi and now Mumbai-Delhi corridor where CNG availability is reasonably good. Majority of our staff have been vaccinated and we continue to operate with full strength across India.

Now, coming to quarter performance:

We clocked a disbursement of Rs 14,869 crores including Rs 493 crores towards new vehicle and Rs 14,317 crores towards used vehicle compared to the total disbursement of Rs 6,463 crores in the previous year. AUM was Rs 121,647 crores compared to Rs 113,346 crores in the previous year. Net interest income was Rs 2,193 crores in Q2 against Rs 2025 crores in Q2 last year. The net interest margin was 6.44% against 6.38% in the previous quarter and 6.66% in the previous year. The profit after tax was Rs 771 crores in Q2 compared to Rs 685 crores in the Q2 previous year and Rs 170 crores in the Q1 FY22. The earning per share stood at Rs 28.71 against Rs 27.79 in the previous year. The collections were consistently good in the month of July, August, September. It was 98.05%, 99.56% and 99.49% against the demand respectively. The gross stage three NPA stood at 7.82% compared to 6.5% in the previous year and 8.18% in Q1 FY22. Previous year we had the advantages of moratorium therefore the comparable would-be previous quarter where we have improved. The net stage NPA stood at 4.18% compared to the 3.69% of previous year and 4.74% in Q1 2022. The Board has decided on the dividend of Rs 8 per share. Our liquidity position now stands at Rs 17,228 crores against Rs 17,051 crores in the previous quarter. And Board has suggested to continue with higher liquidity.

On growth outlook:

We still are confident of double-digit growth for the full year. The cost to income ratio was 20.73% in this quarter and we are likely to maintain our long-term average of 22-23% for the full year. The asset quality, we have been very selective in restructuring and have done Rs 239.62 crores restructuring in this quarter and Rs 369.05 crores was done in the previous quarter. We added four branches which now stands at 1,825 and in terms of employee strength, we continue to add more number of employees through a business associate method so that we can onboard the new employees by giving them fresh training. During the quarter company has

not considered any additional credit loss for the COVID. And so far, we have done Rs 2,852 crores of old provisioning. The long-term strategic initiative like digital roadmap, green financing, and creating deeper reach mentioned in the previous quarter by the JMDs, it is in good progress and any specific question would be answered by them.

Now I request that our CFO, Parag Sharma to take the call. Subsequently, Sundar also would join the call with the numbers. Thank you.

Parag Sharma: Hello everyone. On the liabilities front, we have focused more on bank borrowing and securitization during the quarter. Compared to last quarter the bank loans have gone up substantially which is Rs 5,400 crores for the quarter versus Rs 1,300 crores for the previous quarter. Securitization which was hampered last year around because of moratorium concerns, and all has picked up. This quarter we did Rs 4,200 crores versus Rs 1,600 crores in the previous quarter. The volumes we feel will continue to be at around Rs 4,000 to 5,000 crores every quarter for the next part of the year. When it comes to the cost of fund, it has come down by around 25 basis points for the quarter, that is on the overall liability the cost is down. We do have scope to reduce it further by around 15-20 basis points in the next quarter.

Liquidity as mentioned is high which is good enough for six months of liability repayment. We had a policy of three months liabilities to be in liquid cash, but it was enhanced last year around. We will look at diluting it by around December to March quarter. We will continue with slightly more liquidity for maybe one or two months and then gradually reduce it. The incremental cost of fund is at around 7.25%, so that also should have further improvement, we should be able to see in next quarter. On the ALM front we continue to have all buckets positive, cumulative also is positive and that has been the case in past. I think retail is still doing well and we should see further increase in our retail portion of the liabilities.

Broad breakup of liabilities:

The bank loans is close to around Rs 42,000 crores, Rs 41,967 crores, to be precise. The offshore borrowing including masala and ECB loans is around Rs 22,900 crores. Domestic capital market is Rs 23,000 crores and deposit is close to around Rs 20,000 crores. That is the broad list of liabilities.

I think that is it for my side. I will pass it on to Sundar now.

S. Sundar: The cost of income ratio for the quarter was 20.73% as against 19.11% in June quarter. Primarily the increase has been on account of royalty in the current quarter which was minimal at the previous quarter on account of the lower profits in the previous quarter. The employee count has been stable in the current quarter, and we have vaccinated more than 92% of the employees at least with one dose of COVID-19 vaccination. And we have done OTR-2

totaling to Rs 608 crores and in the OTR-1 we had done Rs 551 crores. The total OTR stands at Rs 1,159 crores as on 30th September which is less than 1% of the total AUM. And we are holding adequate provisioning in respect of these assets. The stage three was at 7.82% and the next stage three was 4.18% as on 30th September as against the gross stage three of 8.18% in June and next stage three of 4.74 in June. And the coverage ratio has been increased to 48.57% as against 44.16% in the previous quarter. And the stage one in the current quarter was 79.39% as against 77.29% in the previous quarter. There has been an improvement in the stage two also which is now at 12.79% as against 14.53% in the previous quarter. We have maintained a coverage rate of 3.28% in stage one assets and 9.66% in the stage two assets. On the PD for stage one was at 7.34% as against previous quarter of 7.35%. And for stage two the PD was 22.06% as against 22.17% in the previous quarter. The LGD remained at 45.10% as against 45.2% in the previous quarter. The COVID related provisioning was maintained at 2853 crores and no addition was there in the current quarter. And we are holding more than the RBI required provisioning which as per the Ind-AS we are holding Rs 9,258 crores as against IRAC norm of Rs 3,008 crores which translates into Rs 6,249 crores of excess portioning that we are carrying on the books. And the capital adequacy has been healthy. Thanks to the EQIS and the provisional offer to the promoters. Now it's stands at 21.06% in the Tier-1 and 2.15% in the Tier-2 totaling to 23.21%.

With this we hand it over for Q&A.

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

Rikin Shah: I have four questions. First, I just wanted to get a sense of how the vehicle capacity utilization of trucks for our customers is moving in this quarter versus last and versus the March quarter? The reason why I ask is that the new AUM is still down 8% sequentially and has been declining quarter after quarter. Just want to get a sense on when do we expect the new truck sales to kind of start picking up over AUM?

Second question was on the freight rates and the fuel cost. Of course, the gap has been narrowing between the two, but we do hear that the freight rates despite of increase since the COVID second wave has not kept up pace with the fuel. So, wanted to get a sense of what kind of freight rate movements you are seeing in your customer segment, and should we expect more freight rate increase in the coming months?

The third question is on the asset quality part. The provision coverage has been consistently increasing on the stage three. Just wanted to get a sense that given our stage three ratio has not really moved much. Is there a particular kind of target coverage level that you intend to kind of operate it and subsequently bring down?

And lastly, it's just a clarification question for Parag sir. Did I hear correctly that the incremental cost of funds was 7.25%? That's it. Thank you.

Parag Sharma: The incremental cost is right, 7.25%.

Umesh Revankar: On the utilization level, see the rate utilizations have improved from the previous quarter. If you are comparing with January to March quarter, the utilization level came down in the month of April and May because of the sudden increase in COVID and this time the COVID travelled to the rural area. So, there were challenges because many of the drivers they hail from the rural belt and from backward areas and because of that the driver availability was a challenge for large fleet operators. For individual operators there was no challenge at all. The utilization level for individual operators was quite good. So therefore, we had a consistently good collection. And as far as the vehicle sales are concerned, we believe the vehicle demand will go up significantly in the next couple of quarters. But our estimation is that the overall vehicle sales would be around 20% more than the previous year. It may reach the FY20 level but not go beyond FY20 level. But still there is a scope for that kind of a growth. And as I was telling you that many of the customers are shifting to CNG. Not only new CNG, they are also fitting the CNG kit for their existing vehicle. CNG cost is Rs. 50, that is around 50% of diesel cost and thereby they bring down the operational cost by nearly 50%. It all depends upon the CNG availability. Right now, the CNG availability is good in the corridor of Ahmedabad to Delhi. But now last couple of months, there has been new CNG availability in Baroda to Mumbai. Therefore, Mumbai to Delhi corridor almost CNG is available at shorter distance. Similarly, it is now available till Kanpur in UP and likely that they are completing the Delhi-Kolkata corridor. Then from Mumbai they are extending towards Bangalore now up to Pune and beyond Pune CNG is available. It's only the availability that will create the demand for CNG vehicle. So, I feel ultimately people would move towards CNG or even the LNG because the LNG is more efficient than CNG as far as the carrying is concerned. Because LNG, they can carry double the size. In the same tank double the quantity can be carried. So, LNG availability is a challenge in India especially LNG stations. I think maybe next two to three years many new vehicles would move towards CNG and LNG. And even the existing vehicles people would try to replace it. So, you will have a solution apart from 20% ethanol mix which government is trying. Now already 10% mix has been tried. So, environment friendly fuel would be used for the vehicles and also it will be cheaper. So, the diesel cost going up is also another way of moving people towards the alternative fuels. So, I feel the overall demand for the vehicle would go up as infrastructure projects are going on steam very fast. The other most important thing is coal. Last three years you would have noticed that coal production in India was almost stalled. And with the government taking new initiatives and allowing privatization of coal, a lot of coal producing areas are getting demand. This time because of the extended monsoon most of the coal producing areas were inundated with water they could not really produce. And now there is an urgency especially in the Chhattisgarh, Jharkhand, Orissa, there

is a big push for coal production. So, I expect that will lead to more utilization or more demand for vehicles. So overall, I feel the vehicle demand will go up significantly in the next one year.

As far as the asset quality is concerned, the Board and the management, we have decided to bring it down, the state three to below 7% by March, stage three. Not gross. Net we want to bring it below 4%.

Moderator: Our next question is from the line of Sudhanshu Mishra from Systematix. Please go ahead.

Sudhanshu Mishra: I just want to understand how many vehicles have we enhanced in this particular quarter, and new vehicles and used vehicles? And if I look at the disbursements run rate, they are pretty much at 2018 run rate right now which was a stellar year for us. So, is that the normalized run rate that we should model for the balance of FY22 as well as FY23? And also, the approximate number of vehicle contracts put up every quarter? If you can throw some light on these fronts?

Umesh Revankar: The quantum of disbursement we have given you. Numbers we don't have immediately. You can reach Sanjay for the number of contracts, but you can take an average used vehicle ticket size is around 4 to 5 lakhs and new vehicle is around 7 to 8 lakhs, so that is a rough estimation I can give you.

Sudhanshu Mishra: And run rate you said is it going to be similar?

Umesh Revankar: Disbursement run rate will be almost similar for the next two quarters. Normally second half we, 60%, 40:60, so in that ratio the second half should be higher disbursement.

Sudhanshu Mishra: And FY23?

Umesh Revankar: FY23 we expect much bigger disbursement mainly because all the economic indicators project that FY23 is going to be large. And back on a 9.5% growth this year, if we are able to grow at around 8% to 9% next year, then the demand for the vehicles will be good. See here, I would like to mention the Pratishakti Yojana which PM has announced, that is going to have a huge impact on the demand for the vehicles. One, they are trying to bring various transport corridors in various locations nearer to the manufacturing area, so that the manufacturing and the transportation goes seamlessly for export and import. So that is one big plan. So, with that the impetus for logistics growth in India will be high. And the second part is if you look at last quarter there was Rs 100 billion export by India and Indian agricultural export grew by 21.8%. So that is a very big thing. I feel from hinterland agricultural produce goes to international level through export, that is going to create a large movement of goods. And we feel that FY23 can be a good growth momentum for the goods movement.

Sudhanshu Mishra: If I can just squeeze in one last question, what would be the percentage of repeat customers for our new vehicles and percentage of repeat customers for our old vehicles?

Umesh Revankar: See, repeat customers for new vehicle, most of the new vehicles are our existing used vehicle customers. We normally don't go to any counter, or we don't have arrangement with any manufacturing company for a new vehicle financing. So, you can say that almost 100% of our new vehicle customers, when I say 100%, near to 100% will be our existing used vehicle customer. And used vehicle customers, the repeat customers would be around 60%.

Moderator: The next question is from the line of Prashanth Sridhar from SBI Mutual Fund. Please go ahead.

Prashanth Sridhar: In terms of capacity utilization how far you would say we are from FY18 or FY17 levels before the cycle turned and when do you expect the cycle to turn positive again going forward?

Umesh Revankar: The base here FY18 is a good indicator because that's the time when we increased the carrying capacity by 15%. That means all the existing vehicles could carry 15% more weight. And therefore, there was an excess carrying capacity built and the economic slowdown also added to the challenge. We are still continuing with some kind of an excess capacity in certain pockets, not all pockets, in certain segments. But overall, I feel the growth is coming back and where people need to change to new vehicle because of some of the contracts insist that more than three years old cannot be used for transportation, there people are going for a newer vehicle. But rest everywhere the carrying capacity is adequate right now. So, if the economic growth continues to do well, like RBI estimation of 9.5, I believe next year there will be a huge demand for new vehicles. At present, I feel the carrying capacity is adequate and the utilization levels are good. It is not underutilized now. They are able to use most of the existing capacity.

Prashanth Sridhar: That's helpful. If you could just give us some idea on the reposition trends in this and last quarter versus what used to be done before? And just one other question, on the new RBI securitization guidelines, the profit from direct assignment is not included now in the network calculation. Does that affect the capital adequacy product and to what extent? That’s it from my side.

S. Sundar: As far as the assignment guidelines are concerned, anyway it will not have any material impact on the capital adequacy. So, our assigned portfolio is hardly anything compared to the overall securitization that we do. It should not have any impact on the capital adequacy.

Umesh Revankar: On the reposition, surprisingly reposition is low. Maybe because the utilization are high. See, reposition happens only when the utilization levels are low. And we did not see any increase in reposition. You will recall last year at the same time, there was an anticipation that moment the moratorium is lifted over, lot of vehicles would be repossessed and sold by the financial entities including banks, that was the assessment made. In fact, reposition has come down in the last four quarters. I don't really see a big jump in reposition anyway for that matter.

Because we have Shriram Automall where they have an arrangement for parking of repossessed vehicles. We do not see any increase in any repossessed vehicles at all.

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

Vivek Ramakrishnan: The first question was regarding an earlier question, something about freight rates and diesel cost and the movement. That wasn't answered, so you could answer that it will be helpful.

Umesh Revankar: See, freight rates have been moving up on par with diesel price. What happens in the freight rate is, all the perishable goods, vegetables, etc., the increase in fuel price gets passed on to the end consumer immediately. That's why you see that the vegetables price increasing immediately when the fuel price increases. Because even if 2% of the vehicles do not ply, the perishable goods remain where it is and therefore people end up paying. Either a farmer or a producer will end up paying or the consumer ends up paying. It has no impact on the transporters per se. On the manufacturing goods typically, the contract will include escalation clause for every increase in the diesel price. It can be weekly, or it can be monthly. But nowadays escalation clause are mostly weekly. Therefore, there will be a temporary challenge for the transporter but over the period it gets adjusted. So, transporter per se do not take the burden of the increase. It is either consumer or manufacturer producer who takes the burden of the increase in the fuel price. However, there are smart operators who would like to use this opportunity. When the freight rate is fixed at diesel price, a cleverer person can use CNG vehicles and make more profit. That is the clever businessman. And there are people who are fitting CNG kits. So, the people who are clever and businesspeople, they make use of this to make higher profits.

Vivek Ramakrishnan: I will ask my questions; they are both interlinked. You had said that you are going to reduce GNPA significantly, stage three assets. Do you expect cumulative collection efficiency to go over 100% over the next few quarters to enable you to do that? That's question number one. And linked to that is your liquidity policy but any chance tied to the collection efficiency numbers, or how do you calibrate it? That's it for my side

Umesh Revankar: See, normally collections in the second half is better than the first half mainly because the agri output comes festive period agri output all will help people to earn more. So, even if there are some small outstanding earlier that gets paid in the second half. And last year also, if you remember our number January to March our collection was more than 100%. So, normally we tend to have more than 100% collection in the second half of the year. So, we expect the collection to really improve.

S. Sundar: The second question is liquidity. I think it’s more correlation to collection though that can have some bearing but more to do with the overall liquidity in the system and any concerns on the

sector, nothing directly linked. It was a tough scenario last year around when we decided to increase the liquidity buffers from three months to six months. We are continuing with that. Though things have eased out a lot, we will look at diluting it, as I mentioned in the earlier comment but maybe towards the Q4.

Moderator: Our next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Just one question which I had. If I heard you right, during your opening remarks you suggested that we are looking at a double-digit kind of a growth in AUM in this year. Let's say if I were to try to juxtapose that with the comment that you just made, that collections are indeed better in the second half of the fiscal year, which is to suggest that the runoff that you typically see, which I must admit has been largely very-very stable for you, would we hire in the second half? So, to that extent, would it be fair to assume that disbursements in the second half of the fiscal year will be materially higher? Because I was just looking up, typically our disbursements in the first half and the second half of the fiscal year have in the past been in that range of, let's say either 50-50 or 45-50. Can this year be what you suggested sometime back 40-60 kind of a split between H1 and H2 disbursements? And maybe a related question here, 15000 crores of disbursement is what we have been seeing in Q4, in Q2 of this fiscal year and probably the highest ever level of disbursements that we have been clocking. In the past year you have always suggested that this growth in disbursement can be achieved through deeper penetration and increase in number of branches. So, where is it going to come from? Is it volumes or is it actually price increases that you are looking for which will help sustain better disbursement momentum in the second half of the fiscal year?

Umesh Revankar: Mostly what happens is, collections in the second half are better and whatever the small outstanding remains in the first half that gets paid in the second half, therefore, the collection goes up. So, it will not increasingly reduce your AUM because there may not be a big link between reduction and AUM because of the collection. But having said that, disbursement as you rightly put it, the ticket size have gone up, the vehicle prices have increased significantly because of the BS6. The average increase in the price is around 15%. One is BS6. And second, steel prices also has increased by around 50% over the previous year. And therefore, the component size gone up and vehicle prices are going up. So, we expect the increased vehicle price also will have a bearing on the used vehicle prices. So, on an average, used vehicle prices have gone up by around 15% to 20% because of the weight. And the increase in price has been especially used vehicle in LCDs. The prices have steeply increased by around 25% to 30%. In heavy vehicle the increase has been a little less 10% to 15%. So, that will help us because even though we will be very conservative in our lending up to only 70% of the LTV because of the vehicle price going up the ticket size also will go up to that extent. So, additional around 3% to 4% AUM will grow because of the ticket size going up. And as we have seen in the last year, the fourth quarter our disbursement was almost Rs 16,000 crores last year. So, we should be able to reach to that level in the third quarter itself if the environment is very positive and if the

COVID wave three doesn't disturb the economic activity. So, we feel that disbursement would be, of course I can't take first quarter into consideration, but we had a good first quarter. So, it should be 40:60 is what I believe. But as you right put it, normally it is 45:55 for us.

Abhijit Tibrewal: A last question, do we have any updates that we can share on the merger? And the reason I ask is, from time to time we keep hearing that at least from a thought process we are clear that we want to do this merger and then maybe we are kind of trying to work on the modalities which will be involved in the merger. If you could maybe share some updates if you have any?

Umesh Revankar: As you have rightly put it, we have been debating on the merger. See, both the entities are doing well. They have a good growth opportunity. They have a niche presence. So, we continue to run business the way we had been running, but there are opportunities. Like, if one plus one it is above two or if it is three or four, then that synergy should help all the stakeholders. That is the argument. So, we are only looking at what are the synergies we have if we come together. Whether we can give a better deal to all the stakeholders, employees, customers. If yes, then we will look for the merger. So, that's how the discussion is going on. And maybe we will try to come to some conclusion at the earliest on the same.

Moderator: The next question is from the line of Umang Shah from Kotak Mutual Fund. Please go ahead.

Umang Shah: Yes. First question is on the asset quality, so clearly our performance is probably far superior in what we have seen from there in the past few years despite the COVID impact and the outlook also remains fairly benign. So, in that case, should we see a material drop in our credit cost in the second half?

Umesh Revankar: The credit cost should only improve. If you observe the number for the quarter the credit cost was 1.91 and for the first quarter, it was around 4%. So, it is around 3% for half year. We expect the credit cost to below last year's level. Last year it was 2.48% by the year end. So, we expect it to be below that by the year end.

Umang Shah: Second thing was, I just want it to reconcile the restructured loan number. Did I hear correctly when Sundar sir mentioned that OTR-2 number was Rs 608 crores and OTR-1 was Rs 550 crores, so total is about Rs 1000 crores, is that correct?

Umesh Revankar: You are right.

Umang Shah: But our presentation mentions outstanding total restructured was Rs 608 crores.

S. Sundar: That is only for the OTR-2. We have not mentioned OTR-1 in the presentation. OTR-1 is Rs 551 crores, both together is Rs 1,000 crores odd.

Umang Shah: And would this be classified under stage two or stage one?

S. Sundar: It has been classified as stage two and the necessary provisions pertaining to stage two has been applied.

Umang Shah: Last data keeping question, if you could just share the disbursements breakup, sorry I missed it in the opening remarks?

Sanjay Mundra: The new vehicle is Rs 4,933.9 million. Used vehicle is Rs 143,170.6 million and other is Rs 584 million. The total is 148,688.5 million.

Moderator: The next question is from the line of Piyush from Serendip. Please go ahead.

Piyush: The credit outcomes over the last 12 months have been really exceptional for Shriram. Just like to understand a little bit as to how this has happened because ever since the NPA norms went from 180 to 90 days, we had a tough time adjusting. But the last 12 months have been pretty exceptional. So, just wanted some understanding of what's actually happened on the ground that these outcomes have been so much better.

Umesh Revankar: Let us understand the business model. Our customers are individual operators and owner operators. They are not dependent on driver or outside labor. One of the family member drives the vehicle, So, during the COVID period they were able to operate without depending on any outside labor or driver. That was the biggest positive for our customer base. And most of them are in last mile reach or essentially transportation. The demand for essentials remained throughout strong and therefore their business model did not get hampered. So, they were able to operate. And the third, we did not allow our staff to remain at home and make the call from home for collection. Immediately after the initial lockdown was over, we opened all the offices and asked our staff to join for their duty. Even though we maintained the COVID protocol, social distancing, masking, etc., we did try to reach out to the customer depending upon their convenience. We did not try to barge into their homes, but we always are in touch with customers and customers also responded by doing the business in this opportune time. And they were able to earn well, and our executives were able to reach them and collect wherever required. And also, the digital initiatives which we had taken four years back after the demonetization that also has helped. More than 50% of our customers today they are comfortable doing a digital transaction. So, all these factors have really helped us. And we have been very consistent in our collections.

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

Anand Bhavnani: Just wanted to understand our securitization quantum in the context of high liquidity that we are maintaining. So, on one hand we have very high liquidity, on the other hand we have done securitization this quarter and then you are projecting it for the next two quarters. So, if you can reconcile these two contradicting things and how do you think about the balance?

Parag Sharma: I think we will not link only securitization to liquidity overall fund mobilization. I think we mentioned that we will bring down liquidity. Securitization is a fast run off portfolio also. Though we have done around Rs 4,200 crores of securitization but securitization outstanding per se has not gone up. So, it's a fast run off tool. So, we should not link that to liquidity. It's bank borrowing also which has contributed to larger liquidity. We will look at rationalizing overall liquidity as I mentioned from December onwards. So, irrespective of Rs 4,000 to Rs 5000 crores of securitization this liquidity buffers will not go up because it runs off very fast.

Anand Bhavnani: And given that currency system wide credit growth, are you seeing a better chance for yourself when you do securitization because lot of banks would be keen to increase their exposure, loan growth? Are you seeing terms and rates being better than let's say pre COVID for you when it comes to securitization?

S. Sundar: Securitization what we do is largely for priority sector shortfall of banks. So, the rates will definitely be far better than any other borrowing what we do. So as long as there is a priority sector demand, I think rates will continue to be the cheapest when it comes to this particular source of fund.

Anand Bhavnani: My question was slightly different, vis-à-vis pre-COVID are you getting better rates?

S. Sundar: I think it will be similar rates, not substantially different. Last year around we were not able to get better rates. It is I think back to the pre-COVID levels now.

Anand Bhavnani: Can you contrast, if you were to fund through securitization, how is the cost of funding, approximately how much it is lower as compared to direct bank funding?

S. Sundar: It will be around 100 basis points lower.

Anand Bhavnani: Lastly overall when it comes the merge, the thought process is there but in terms of timeline, is there an actual time like whether by next year this has to happen. Is there that kind of a thought process, can you give some color on that?

Umesh Revankar: We are yet to draw our plan. We have not finalized any scheme so far. Once we finalize the scheme then we need to take with respect to Board approval. Then the process will start. So, nothing is in finalization at this stage now.

Anand Bhavnani: But there's no thinking that this has to happen by let's say 2023, 2024 or 2025. Is there a thought process around the timeline?

Umesh Revankar: We need to decide on the advantages and benefits to all the stakeholders, then only we will draw the scheme. That is still in the process.

Moderator: The next question is from the line of Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise: Could you just give some details on the vintage of the book on the used side? And if any perceptible change you have seen in last couple of years or three years?

Umesh Revankar: Vintage-wise it is actually becoming younger and younger. The fleet started becoming young. Our portfolio are also becoming young. Because after the initial NJT recommendation of 10-year that this green tribunal in Delhi, we started lending up to only 10 years old vehicle. Earlier we used to lend up to 12 years. So, the fleet have become younger, so on an average now the fleet average age should be around six to seven years versus eight to nine years in the previous year. So that should be the average vintage.

Sameer Bhise: And any material gap between the PV and the CV side?

Umesh Revankar: There will be. PV will be much younger because normally the personal vehicle passenger vehicles would be much younger and also, we have more new vehicle components. So, on an average the passenger vehicle will be definitely four to five years whereas the goods would be little older.

Sameer Bhise: And secondly, any sense on operating costs as we go ahead given that growth is expected to be strong. So, that's my last question.

Umesh Revankar: Operating costs will remain almost same. Last two quarters, it was actually better than the average. Now our average cost to income is say around 22-23. And it has been around 20 now. But I think we will be on the long-term average.

Moderator: The next question is from the line of Krishnendu Saha from Quantum AMC. Please go ahead.

Krishnendu Saha: Just a couple of understandings, for the first time I see the rural book has more than 50% of the AUM. How does it apply for the age of the spreads of the business going ahead we should be able to maintain? And how is the ECLGS book of Rs 7.2 billion which we had given how is that behaving? These are the first two questions, then I have another question later.

Umesh Revankar: Rural portfolio have been consistently doing well and increasingly most of our new branches, if you observe in the last three years most of the branches have come into rural area, which is, we had the rural center, that got converted into rural branches. Typically, we merge two or three rural centers into one branch and increase our branch network. So, the portfolio in the rural is consistently going up. And since the agri output has been strong in the last three years, there is a bigger demand. And also because of this road network. The road network into rural areas, Pradhan Mantri Road plan that has made the road reach to most of the villages. That is creating a demand in the deep rural pockets, and we continue to grow there. We feel that growth opportunity is much-much bigger there and we will continue to grow, and we have 809

rural branches, rural centers now. That will, over the period get converted and we will have better network in the rural. And we will keep adding more rural centers going forward.

Krishnendu Saha: How does it compare to the yields or the spreads?

Umesh Revankar: Yield would be better in rural. It gives us 1%-2% more yield in the rural, even though ticket size is small. And the operating cost could be a little higher because of that. So, on an average it amounts to almost the same. But there is a scope for us to further increase the yield if required. So, that is the advantage. As far as the ECLGS is concerned, it has been stable. We did not see much adverse challenges there.

Krishnendu Saha: One observation also, I am just trying to understand, at the end of Q4 we had 2.12 million customers. Today we have 2.1 million customers. Our disbursement has grown, our AUM has grown. Sir, how do I understand these numbers? How should I reconcile these numbers, can you help me please?

Umesh Revankar: The ticket size have gone up. The number of customers have not gone up, but the ticket size has gone up. And the recent prices of the vehicles and also new vehicle prices as I was explaining you, around 75% increase in the price of the new vehicles because of the BS-6 and the steel price, that contributed to the higher tickets.

Krishnendu Saha: But wouldn't our number of customers, if the economy picks up, with the number of customers who would be there, which will be again in the next presentation, will that number increase drastically, or you see it at the same level?

Umesh Revankar: It will increase now because as we are adding more the new branches automatically number of customers will improve. And maybe next six months, you will see, we also have other plans to add more number of customers. We are trying to bring over some new products to add more customers. So, you will see that number of customers will increase in the next six months.

Krishnendu Saha: Last question from my side, the gearing, which is at still 4.3-4.4x, how do we look at that going ahead?

S. Sundar: We always want to keep it below 5. So, I don't think there would be substantial increase in gearing. As of now liquidity will be utilized for increase in business volume, so gearing may not go up.

Krishnendu Saha: One more if I can squeeze in. Working capital loan would it come back to that 2%-2.5%, low right now. So, will that again inch up or we will still below 2 for the coming years ahead?

Umesh Revankar: As the economy opens up, opportunities there will definitely the working capital requirement will go up. As of now, we are controlling it because one of the reasons is we wanted to see

how the COVID impact is panning out. And once we are able to overcome that, we should be able to fulfill our requirement of working capital be made.

Moderator: The next question is from the line of Sanket Chheda from B&K. Please go ahead.

Sanket Chheda: My first question was just reconfirming the exit GNPA guidance that you gave. We are currently at 7.8%, you are saying we will exit at 7%. Is that right?

Umesh Revankar: We are targeting at below 7% by March.

Sanket Chheda: The other thing was again on liquidity. Now it's pretty counter intuitive that had reached (+) 100% collection, I believe in the last month of last quarter, and then this quarter all the three months were relatively closer to 100% only and going ahead also we are guiding that collections are likely to be above 100%. Then what is making us keep the liquidity buffer so higher. Its alarmingly higher around 16% to 18% as our peers have already started reducing on it meaningfully per se from 1% one-quarter that level. So, that is second. And third, again on the merger and related things that you said, So, that one plus one will be equal to two or three, that seems pretty, or maybe somewhat not convincing as much. Can you just highlight 2-3 very good reasons which can be achieved by way of this merger?

Umesh Revankar: See, as far as the liquidity is concerned, if you look at the expectation of the international rating agencies, we have raised money in the international market. In fact, Moody's were expecting to keep the NBFCs around 12 months maturity in hand. That was their expectation in the COVID. Now it has come down. So, slowly Board also wanted us to keep six months maturity as a liquid buffer, and that's the reason that we have been keeping liquidity. And as Parag rightly put it, by Q4 we will try to reduce it to some extent and put it into business. That will give us a little more gearing into our activity. And as far as the merger is concerned, see this is something which we are discussing, debating and trying to figure out and give a most advantageous situation to all the stakeholders. So that's how we are working out. So, the customers and employees and all the other investor shareholders should benefit out of it. When I say that that means that what advantages we have now, what further advantages we will get in the merged entity is something which we are envisaging so that we come out with a concrete plan.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference over to Mr. Umesh Revankar for closing comments. Thank you and over to you sir.

Umesh Revankar: Thank you for joining the call this time. And as I was alluding to you, next two quarters are likely to be much bigger because we see a very good environment. COVID wave three is not being there, and more than 100 crores vaccinated is extremely positive and government is also proactive to the business, and we believe with one large privatization of Air India, there will be

more private capital coming into India for investment and further economic activity which will lead into bigger scope and opportunity for the growth. And we will be definitely participating in the growth journey, and we are very confident and bullish on our growth. Thank you very much.

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