



“Shriram Transport Finance Company Limited Q2 FY16-17 Financial Results Conference Call”

October 25, 2016



**MANAGEMENT: MR. UMESH REVANKAR
MR. PARAG SHARMA
MR. S. SUNDER
MR. SANJAY MUNDRA**

Moderator: Ladies and gentlemen, good day and welcome to the second quarter financial results for 2016-17 of Shriram Transport Finance Company Limited. As a remainder, 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 for an operator by pressing "*" followed by "0" on your touchtone phone. I now hand the conference over to Mr. Sanjay Mundra. Thank you and over to you sir.

Sanjay Mundra: Yes. Good evening all of you. I would just like to make an announcement that in today's Board meeting, Mr. Umesh Revankar has once again been appointed as the Managing Director of the Company. So I would just like to hand over this call to Mr. Revankar for his initial remarks. Thank you.

Umesh Revankar: Good evening to everyone in India. Good morning to the investors who have joined from US. I hope all of you have been able to run through the investor update that has been sent to you earlier.

Let me start by sharing some perspectives on the macroeconomic environment. While there was projection of exceptionally strong monsoon rainfall this year, Skymet had projected 110% and IMD, Indian Metrological Department has projected 106%, but it has ended up with 97% which is fairly good I should say, considering the last two years drought situation which was around 88% and 90% in the last two years. So most of the water reservoirs are full. It is 25% more than what it was last year. So this is a very good news for everyone and the rain was also reasonably well spread. The only weak area was the South Karnataka belt and to some extent Tamil Nadu. Tamil Nadu should be getting rain through the South East Monsoon, but as of now South East Monsoon is yet to start. Normally from October 1st it should start. So generally a good positive look as far as the rural economy is concerned and the sowing was around 107 million hectares compared to 102 hectares earlier and expectation is that government has targeted around 135 million tonnes as a Kharif output compared to 132 earlier.

The inflation also is little under control or I should say much better looking at the monsoon outlook. Agriculture output should be reasonably good and supply side, there should not be any constraint for next 6 months to 8 months. Looking at that and present CPI being less than 5, RBI also has reduced the repo rate by 25 basis points and we hope that this continuous low CPI should help us in getting lower cost of funds and RBI also may possibly look into further reduction if required.

Coming to the CV sales data, the heavy vehicle sales are little down in the last 3 months. There are couple of reasons. One is the construction activity had come to little standstill because of the heavy rain in certain pockets, mostly in the Eastern part of the India where the construction activities were reasonably high scale that has come down and the another reason probably is that coal and mining activity also comes down during the monsoon season. Therefore the

heavy vehicle sales have been little down and there could be another third reason which last 3 years if you look at, in India the sales of higher tonnage vehicle have been much higher than the medium tonnage, that is the earlier popular vehicle of 25 tonner is less sold now and more in 31, 37 and 49 tonners are sold and because of 31 and 37 in the rigid and 49 in the articulated, sales have increased. The freight movement, in spite of increase in the freight movement, there has been what I should say lesser number of vehicle being sold in the last 3-4 months and this is likely to continue because already purchase has been taken for heavier tonnage vehicle; however, the LCV sales have been up by around 12% for the last 2 months. Since it is compared with lower base of last year, we cannot really comment, but generally when the rural economy is good and when the redistribution activity or the urban demand goes up and because of e-commerce activity, the LCV sales are likely to be up. So we expect the LCV sales to be up for some more months to come. So multiple factors such as improved monsoon, softer inflation, stable GDP growth and anticipated payout of 7th pay commission, they are coming based on recommendation, so I feel the purchasing power of individuals in the urban area and the rural area mainly because of agricultural output being better is likely to be good. So the post festival, now we are nearing the Diwali and another one week lot of festival activity is there in India, we expect the buying power and purchasing is likely to go up in the next 2-3 months and if there is Rabi crop also is equally good because the reservoir being full and most of the Rabi crop depends upon the reservoir water, stored water, we expect a good Rabi crop. So the best thing or the best output our results should come in the first quarter of next year because post April, till then there will be some pressure is our observation.

I will briefly touch upon the headline numbers, rest of the numbers are with you. AUM growth for the year was 19.1% that is 75,300 crores against 63,200 crores. Net interest income was higher by 13.3 to 1,353 crores compared with 1,193. Net interest margins have increased to 7.14% compared to 7.03 in the previous year Q2. PAT is up by 14.7% year-on-year, that is 387 crores against 338 crores. EPS per share at 17.08% compared to 14.9% in the previous year. So all the factors mentioned above in terms of good monsoon, increased sowing, increased utilization level and freight rates, we expect a big pickup in infrastructure and mining activity. We expect the coming quarters should be good and the most of the benefits should come back around next year first quarter and second quarter. Thank you very much. I have with me Mr. Sunder, Kelkar, Parag Sharma and Sanjay and we will all put together answer your questions. Thank you very much.

Moderator: Thank you sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Kunal Shah from Edelweiss. Please proceed.

Kunal Shah: Sir, with respect to the management change, so if you can share more insights as to what has actually led to this in 3-4 months, may be some clarity on that front would be very helpful?

Umesh Revankar: It is a Board decision. So there was a deliberation on that and Board has taken the decision.

- Kunal Shah:** Yes, definitely. I would also say the decision has been good, but may be like 3-4 months and again this kind of a change, so how should we look up on into this? So just wanted maybe what has led to maybe initially Mr. Gujral coming on board and again within 4 months maybe you again replacing Mr. Gujral?
- Umesh Revankar:** Sanjay would answer this question because I cannot explain myself about it.
- Sanjay Mundra:** Kunal, the thing is that, we just like to tell you that since when the deliberation was there, it was the Board's decisions where lot of senior people who attend the Board meetings did not take part in that proceedings and only the independent directors were there and they took a call. I think beyond that we would not be able to comment much on this matter.
- Kunal Shah:** So should it be read into, say the deliberations where two parties maybe in terms of say Piramal and say Shriram, so how should we read into this?
- Sanjay Mundra:** I think both of them have agreed to this matter, that much I can tell you.
- Kunal Shah:** Okay and secondly in terms of this entire construction equipment, so what is the number right now if you compare around 1,270 or so and what has been the impact in the quarter in terms of, say either in terms of NPL addition or say write-offs and say what has been the recovery rate?
- S. Sunder:** Sir, the closing AUM as on 30th September of equipment was 1,271 crores as compared to June AUM of 1,447 crores and the NPA in fact it has come down compared to June quarter. The June quarter gross NPAs were 960 crores as against that the current NPAs are 931 crores.
- Kunal Shah:** Okay and how much would have been the write-off in this quarter?
- S. Sunder:** Write-off is 13 crores.
- Kunal Shah:** Okay, so last time also it was around about 14?
- S. Sunder:** Yes, it was 14 last time.
- Kunal Shah:** Okay and the other question maybe, if Mr. Revankar sir, if you can just let us know in terms of what is your view in terms of the scrapping of say more than 10-year-old vehicle and what would be the overall impact in terms of the market size itself and also maybe the demand for say 9-10 years truck also coming off. So overall in terms of the potential for the market growth, how would this impact as far as Shriram Transport is concerned?
- Umesh Revankar:** See, our portfolio above 10 years was between 6%-8% in different geographies and slowly we are bringing it down, so that the impact is not much over the period because as we stop lending beyond 10 years and automatically the overall weightage of that impact will be less, but we

have to understand nowhere in the world, vehicles above particular year has been banned. Only the manufacturers who have withdrawn the vehicle or they have given the life of the vehicle as 15 years or 16 years, something like that. So no government has banned. Only thing is government has put a strict emission norm. So even in US, there is a strict emission norm and engines are retrofitted to manage or observe that particular norms, that is all. So in India also, it will not stand in a court because my reading is that Mr. Gadkari himself has given a statement in the parliament that we cannot enact an act to scrap a vehicle because our laws do not provide for that. So there is no question of scrapping all above 10 years old vehicles any point of time. So that is one thing we should understand. Okay, in Delhi they say you do not come near because pollution is little high and all allied people live there, yes you can do that, but that will not stand across India. There is no risk because of that for Shriram Transport.

Kunal Shah: Maybe state-wise still you can see some of this being there but...?

Umesh Revankar: In Kerala, they tried to bring. The NGT has brought but it has gone to the court. The court has given a stay for that and the vehicles are running, no vehicles are being stopped. So vehicles are plenty.

Kunal Shah: And even if it goes to the court, you are saying there is no law as such?

Umesh Revankar: There is no law to ban it. The only thing is they can say you cannot come within certain limit, only it happened in Delhi and nowhere else. In Bombay, what they have done is registration of a vehicle which is beyond 7 years is not allowed. So it can go to Thane and Bombay to Thane is just 15 km, Dadar to Thane. So that is what it can do, it cannot do beyond that.

Kunal Shah: And the only thing is even if this comes through, then may be from 8-10 year vehicle also maybe the sale or say the resale of those would actually come off maybe either in terms of the resale price or even in terms of the volume of transactions. So obviously beyond 10 proportion is 6:8, but how would be the distribution between say 4-7 years and 8-10 years. So if you can just share that split, that will be helpful.

Umesh Revankar: We will not have right now the numbers. We will give it subsequently.

Moderator: Thank you. The next question is from the line of Umang Shah. Please proceed.

Umang Shah: Firstly, just a data point if you could share the disbursement numbers for the quarter?

S. Sunder: The new vehicles we have done 500 crores and used vehicles 9300 crores, totaling to 9800 crores.

Umang Shah: And sir, just wanted to understand during the quarter it seems that there is a very sharp drop in our employee headcount. We were closer to some 19,100 odd last quarter and now it is around 17,000 odd. So any specific exercise which the management has taken and also related

question that our cost-to-income is also substantially lower now, do we have anymore headroom to bring it down further going forward?

Umesh Revankar: To answer your first question regarding the employee count, there were around 300 odd people who had resigned from, who were earlier working as part of the Shriram equipment team and they had resigned and we have not replaced them and in Shriram Transport vertical, there were couple of verticals which were aligned together to the main line of business and that activity became redundant and hence we did not replace people who have left in the last few months. That was the reason for the drop in the headcount.

Umang Shah: Okay and related to the cost-to-income?

Umesh Revankar: Yes, cost-to-income currently we are close to 23%, 22.4% which we feel that it should be more or less in this range only. There is no scope for further reduction on that.

Umang Shah: Okay, but can it expand further?

Umesh Revankar: Maybe give or take 100 basis points.

Umang Shah: And just last question which I wanted to ask was that, I appreciate that you cannot really comment more on the management change, but just want to understand is Mr. Gujral still associated with Shriram Group?

S. Sunder: He is still part of Shriram Group. He has moved to Shriram Capital.

Moderator: Thank you. The next question is from the line of Shiva Kumar from Unifi Capital. Please proceed.

Shiva Kumar: Sir, what would be the guidance for FY17 loan book growth, now that advantage we are just around 4% over the Q4FY16?

Umesh Revankar: Our loan book growth, as I was commenting in the beginning, we expect the loan growth to really happen in the first quarter of next year. This two quarters, it will be maybe around, earlier year in the beginning of the year we had given a guidance of 12%-15% on the AUM growth. We should be able to reach that target.

Shiva Kumar: So you are confident that for FY17, you will end with 12%-15% AUM growth, right?

Umesh Revankar: Yes, 12%-15% range we had given and we should be able to reach that.

Shiva Kumar: And sir what is your view on the GNPA rise because there has not been any let up in the rise of GNPA estimate, again in this quarter we saw a 20 bps increase in the GNPA ratio, what is your sense that, is it going to increase further or again is this the maximum that you expect to reach?

- S. Sunder:** See, one of the reason for the spike in the percentage from 6.38 to 6.58 is because the base has come down on account of securitization of portfolio; however, the increase in absolute amount is only 100 odd crores, so which we are confident that going in the next couple of quarters it should stabilize if not come down.
- Shiva Kumar:** Sir, one final query. What explains the drop in NIMs quarter-on-quarter from 7.35 to 7.14 even though the new vehicle segment has actually degrown over the quarter?
- S. Sunder:** Mainly on account of composition of the age of the used vehicle. We have been concentrating on slightly newer used vehicle which has contributed to marginal drop in the NIMs.
- Shiva Kumar:** Sir can you give the breakup of the existing used vehicles AUM, in terms of age as well?
- Sanjay Mundra:** See, the used vehicle is 67,685 crores and the new vehicle is 7,601 crores.
- Shiva Kumar:** And sir can you give the age wise breakup of the used vehicle segment?
- Sanjay Mundra:** See, I can only tell you roughly around if you look at more than 10 years will be roughly in terms of value wise could be around 6%-7% of the book and if you look at less than 5 years, including new it will be roughly around 20%-21% of the book. So if you look at between 5-10 years, it will be around 73%-74% of the total book.
- Moderator:** Thank you. The next question is from the line of Digant Haria from Antique Stock Broking. Please proceed.
- Digant Haria:** Sir just wanted to check on this thing that we have seen crude oil prices and diesel prices move up sharply in the past 2 months. So sir on the ground like are we seeing some impact of that in terms of cash flows of the truck operators again coming into some sort of stress because as we read the freight rates have not gone up and I think last time we mentioned on the call that utilization has improved from something like 18 days per month to something like 22 days. So any comment on that would be useful.
- Umesh Revankar:** See, as I was telling you, there is little underutilization in this quarter mainly because of the rains and mining activity not being in full swing, rails and infrastructure. So the utilization levels have come down and when the utilization comes down, the freight rate also gets subdued because more vehicle supply would be there and competition will be there. So it is a demand supply game. So this will keep changing. May be this quarter it will again, the supply constraint would be there, so demand will be high, so the freight rate likely to go up because I have not seen the latest numbers, maybe post Diwali when we look at the numbers or in the first week of November if you look at the October numbers, we should be able to see better freight rates. So as of now we are not able to give you the exact numbers.

- Digant Haria:** And then lastly can you comment on the trends in the repossessed vehicles, the resale rates of repossessed vehicles and the discounts being given by the OEMs, like how is that panning out?
- Umesh Revankar:** Let me get back to that a little later because I was not in direct touch with on-ground activity. So maybe I will be able to answer you subsequently, maybe you can get in touch with Sanjay and he would be able to collect the answer from me and give you.
- Moderator:** Thank you. The next question is from Veekesh Gandhi from Bank of America. Please proceed.
- Veekesh Gandhi:** Sir I just have a few questions. One is, what is your view on securitization, I mean I see that irrespective of in the last couple of quarters, so your view on that and commensurately you partly did answer a broad question on margins, but any guidance around margins because they rose and then they are coming down if you look at Q-o-Q basis. So just to get a sense of where we are heading? I understand obviously it has to do with your newer vehicle and new vehicle business, but just from overall perspective?
- Parag Sharma:** On securitization from the current year banks are supposed to comply with private sector norms for every quarter. So there has been good demand from the bank side for priority assets. The good thing is because of the taxation issue being resolved, now the mutual funds are also coming back for securitization. So we have in fact done some non-priority pools also for the first time and mutual funds have taken it. Total around 2,800 crores of securitization has been done. We do expect this trend to continue. Another 6,000-7,000 crores of securitization we should be able to do for the balance year. So securitization demand is good and further utility fund participation I think we should be looking at larger demand. Your other question on margins?
- Veekesh Gandhi:** Yes.
- Umesh Revankar:** Margins should be in a position to be able to maintain at present level. I do not see big deviation in that.
- Veekesh Gandhi:** So sir, just wanted to understand your bank funding is what, like outside of securitization would be 35%-36%?
- Parag Sharma:** It will be around 25%.
- Veekesh Gandhi:** Outside of securitization, right?
- Parag Sharma:** Outside of securitization, yes.
- Veekesh Gandhi:** We have seen most of the other companies actually working hard to get this down, now I know obviously there could be some constraints, but...

- Sanjay Mundra:** No, as of now because bank rates are slightly up and bonds are much cheaper, but yes there has been some shift. That is people are shifting to bonds. Banks have been constant providers of loan. If we take a loan from the bank, the bank rates also in fact coming down. So if you are able to block your asset at the bank borrowing rate, then you do not have any NII pressure, net interest is in fact frozen for the full tenor. That should not be worrisome. If I am taking a bank loan at 9.5% and am able to create an asset at 16%-17%, that freezes my margin and banks as of now are in fact looking for borrowers. They are not able to find avenues to lend. So NBFCs is one thing which they are looking at for acquiring more credit and we do maintain relationship with large banks and in fact almost around all banks are there giving loans to us and we want to continue the relationship. As of now yes, there is a cheaper avenue available, but in long run this relationship is definitely valuable, we want to continue this relationship.
- Veekesh Gandhi:** But sir I would like to believe that bank even if they give you whatever, 2-3-4-5 year loans, isn't a revolver every year where obviously it comes back on the table for rates or for approvals or re-approvals rather and all of that, I mean it might be a cursory process, but isn't that the way it works?
- Parag Sharma:** Yes, we have seen for a pretty long time the relationship with the bank has been very strong and we have not found any pressures particularly regarding renewal or banks are really demanding higher margins because the situations are like this. But servicing has been good from the company side. Banks do value that. We have never seen banks changing suddenly margins or suddenly not providing further credit. So we have not seen that even in difficult times. We will continue to have bank borrowing to the extent of 25%-30% yes, that is it. I think we will definitely continue.
- Veekesh Gandhi:** So can you give me a broad breakup of your funding mix percentage?
- Sanjay Mundra:** Overall 80% is from wholesale and...
- Veekesh Gandhi:** That is fine.
- Parag Sharma:** I understand. When it comes to the bank, roughly around 20 odd thousand crores is bank term loans and cash paid facility and almost a similar quantum by way of bonds, be it subordinated or the secured and unsecured bonds what we borrow and then we have close to around 12,000 crores of securitized portfolio. Then there is roughly around 10,000 crores of retail borrowing.
- Moderator:** Thank you. The next question is from the line of Mahrukh Adajania from IDFC. Please proceed.
- Mahrukh Adajania:** Yes sir, could you give us the mix of disbursements?
- S. Sunder:** New vehicles 500 crores and used vehicle 9,300 crores.

- Moderator:** Thank you. The next question is from the line of Abhishek Murarka from India Infoline. Please proceed.
- Abhishek Murarka:** Sir can you just tell me what the GNPA's would have been on a 90 DPD basis or on a 120 DPD basis?
- S. Sunder:** As earlier we were guiding had we followed 120 days norm now, our GNPA's would have been anywhere between 100 to 150 basis points from the current levels.
- Abhishek Murarka:** So that difference remains?
- S. Sunder:** Yes.
- Abhishek Murarka:** And what about 90?
- S. Sunder:** It will be further 150 basis points.
- Abhishek Murarka:** Okay, the similar gap remains.
- S. Sunder:** Yes.
- Abhishek Murarka:** Sir also can you give me just incremental borrowing cost between banks and NCDs for you?
- Parag Sharma:** The bank borrowing rates are roughly between 9.25 to 9.5, that being the one year MCLR. The bonds are in fact in the last 1.5-2 months, they have suddenly dropped, but still continues between 8%-8.5% as the 3-year bond rates. We have been AA+ rated. That is the rate and if it comes to securitization, priority is going at roughly around 7.5 and non-priority will be around 8.5.
- Abhishek Murarka:** And just lastly in your explanation for the drop in employee count, you basically alluded to some verticals getting merged or aligned and therefore people getting released from debts, can you just give a further explanation what verticals these were and how many people would have been released because of this activity?
- S. Sunder:** See, earlier we had a concept of product heads, wherein there were specialists in each product, so like LCV, HCV we had specialized product heads and we also had product executives. So there were close to around 3,000 odd employees in that segment whom we thought are branch's operating people themselves are capable of doing that activity and hence these people were shifted to the main line of activities and on an average if you see at the field level close to around 600-700 people keep resigning and then we keep adding similar number to maintain that, that we have not done for the last 4-5 months wherein we had not filled in the vacancy and this got reduced.

- Abhishek Murarka:** So these product heads and executives they are counted as field officers or they are counted as...
- S. Sunder:** They were counted part of field officers.
- Moderator:** Thank you. The next question is from the line of Sneha Ganatra from Subhkam Ventures. Please proceed.
- Sneha Ganatra:** Sir, one question. First quarter we have grown at 23%, second quarter 19% AUM growth, but still we are guiding only 15%, considering the best monsoon and the pickup in the CV segment also?
- Sanjay Mundra:** Yes, I got your point, but if you look at since the base of last year was so low in the first half that is why the percentage looks very high. If you look at last year, basically the growth happened only in the Q3 and the Q4 that is the second half of last financial year. So that is why the AUM growth looks like around 19%-20% kind of growth, but if you look at it sequentially, sequentially probably we have grown around 4% in the first 6 months. So for the second half we predict close to around 8%-10% kind of growth.
- Sneha Ganatra:** And my second question is if you can clarify on the margin and what is the target you are setting for the margin front?
- Sanjay Mundra:** I think it will be similar to be of last year. Last year probably it was around 7.23, so I think we will be ending up around 7.2%-7.35%.
- Sneha Ganatra:** And on the credit cost guidance?
- Sanjay Mundra:** Credit cost is a one thing we are working very hard. You must have met me and we have been discussing about all this, the credit cost. So I think probably we are trying our level best but as far as the environment is concerned, hope so that the second half remains pretty good in terms of growth and hence the credit cost might come down.
- Sneha Ganatra:** Okay, got it and the PCR target considering this transition norms also still?
- Sanjay Mundra:** We will do in the Q4 and they are still 6 months away, so let us see how does the economic environment pan out.
- Moderator:** Thank you. The next question is from the line of Manish Shukla from Deutsche Bank. Please proceed.
- Manish Shukla:** First on the less than 5-year-old vehicle which are about 20%-21%. What would this number have been as of March?

- Sanjay Mundra:** March could have been (+/-1%), not very huge.
- Manish Shukla:** No, what I am trying to understand is, in the last 6 months March margins even if you adjust for the construction equipment since then they are down about 35 odd basis points in an environment in which funding cost have gone down and securitization has gone up and yet there is a serious margin compression. So what necessarily is driving this?
- Sanjay Mundra:** Manish, I would just like to answer this question into two parts. The first part is that as you know, we have stopped lending above 10 years, the vehicles, which always used to give 100-200 basis points extra yields in terms of lending, even though it remains 6%-7% of your total book you used to get around 10-20 basis points on the overall portfolio, that is one part. The second part if you look at last 6 months, the growth has not been there, in a big way what we have done probably in the Q3 and Q4 of last financial year. So when the growth becomes slightly low that means you acquire less new customer and new customer always gives you 100-150 basis points extra yield compared to the existing customer. So this could be the another reason. So combining those two things if you look at, the net interest margin has come down. This is what the operational side is concerned. The second thing if you look at, the gross NPA is inching higher even in last two quarters. That means lot of income reversal, if you look at in absolute amount probably the gross NPA could have risen by around 350-360 crores in last two quarters and what happens there is lot of income reversal happens, that is one. Number two, today if you just look at more than 6.5% of the book we are not booking as an income. So even if you estimate that yields could be around 16.5%-17%. So that income is not coming on the entire portfolio. Your income reversal is a past income which you have booked, but going forward also you are unable to book the income on 6.5% of the book. So if you calculate purely in terms of accounting issues, there could be 10-15 basis point drop because of this also. So I think these three are the reasons probably the net interest margin has come down.
- Manish Shukla:** And considering that you are still largely expecting margins to be similar, that means that essentially the picture is not likely to change much in second half?
- Sanjay Mundra:** No. See the thing is that you have to understand we have to do the transition. So I am including that part also.
- Manish Shukla:** Fair enough. If I look at your product wise AUM mix, the shift towards passenger vehicle is fairly sharp over the last one year, I mean that particular component AUM wise it has actually gone 33%. Is there anything specific that is there because it was 22% of the AUM last year, today it is 25?
- Sanjay Mundra:** There is one thing you know. The equipment portfolio, they will get added last year. Okay?
- Manish Shukla:** I am referring only to passenger vehicles, absolute rupee number?

- Sanjay Mundra:** Yes.
- Manish Shukla:** It has gone up from 14,000 odd crores last year to 18,800 crores, based on the AUM split that you gave?
- Umesh Revankar:** If you look at the sales, the passenger vehicle sales have been always higher than the commercial vehicle throughout the last 2 years. So automatically you can witness that there is a more demand for the passenger vehicle, especially now the Ola, Uber coming in the commercial activity, that is transportation activity there are lot of entrepreneurs coming in, who wants to own the vehicle which was not the case earlier. So I feel the transportation activity will become major activity in India where infrastructure is not very perfect as far as effective transportation or the intracity or the intercity. So we expect the passenger segment to grow much higher than the commercial vehicle even in next 5-10 years.
- Manish Shukla:** My last question just a clarification, I think Parag said 6,000-7,000 crores of additional securitization right in the second half?
- Parag Sharma:** Yes, I said that.
- Moderator:** Thank you very much. The next question is from the line of Adesh Mehta from Ambit. Please proceed.
- Adesh Mehta:** What could be your NPAs on 180 days basis and what could be the total write-off?
- S. Sunder:** The NPA on 180 days' basis for the merged book would have been 5.79% as against 6.58% currently.
- Adesh Mehta:** Okay and in CV book what could be the 180-day NPA?
- S. Sunder:** It has been 4.49% on 180 days.
- Adesh Mehta:** And in terms of write-offs, what could be the total write-off?
- S. Sunder:** Write-off for the quarter was 325 crores.
- Adesh Mehta:** So for the commercial vehicle book, it would be around 312 crores?
- S. Sunder:** Yes, correct.
- Adesh Mehta:** Okay and what could be the interest reversals on migration to 150 days basis on a YoY basis?
- S. Sunder:** That figure we do not have it right now, so you can take it from Sanjay offline.

- Adesh Mehta:** And what could be the losses on the construction equipment financial business?
- S. Sunder:** The current quarter we have written-off 13 crores.
- Moderator:** Thank you. The next question is from the line of Sneha Ganatra from Subhkam Ventures. Please proceed.
- Sneha Ganatra:** Sir, I just wanted to reconfirm on this construction equipment where we are expecting some uptick and there could be some interest reversal and still you are maintaining your margin guidance at 7.3?
- Parag Sharma:** It will take at least 2-3 quarters for us to again get back the reversals from the equipment book. By the time as Mr .Sanjay was also mentioning, in March quarter we will be migrating to 120 days, so that should get offset by this and there will be some additional provision requirement.
- Sneha Ganatra:** Okay, so that will be a fair assumption that the provision will remain elevated for the second half?
- Parag Sharma:** Correct.
- Moderator:** Thank you. The next question is from the line of Utsav Gogirwal from Investec Capital. Please go ahead.
- Utsav Gogirwal:** Sir my question is regarding the construction equipment finance. So just wanted to understand how do you see this business in the second half on a full year basis? Do you want to expand or do you see any uptick in this business? Any comment on that sir?
- Umesh Revankar:** As far as construction equipment is concerned, even though the infrastructure activities are likely to be much higher scale in the second half of the year, we have not really a plan to build the book aggressively. So depending upon the existing being there in the business with us for long, then only we will expose. We will not get into new construction equipment customer or activity.
- Utsav Gogirwal:** Okay, so we want to stick to the existing base right now?
- Umesh Revankar:** Yes.
- Moderator:** Thank you. The next question is from Ajay Bodke from Prabhudas Lilladhar. Please proceed.
- Ajay Bodke:** Sir, the NGT has observed that states will have to clarify particularly Haryana, UP and others regarding the infrastructure in case for supply and distribution of CNG. So far the Delhi government had interpreted the previous order wherein the commercial vehicles registration

was being denied by them. So if the NGT were to rule and apply the same yardstick to entire NCR region, what in your view would be the impact on the business?

Umesh Revankar: See, we cannot answer this kind of question because if tomorrow if this happens what we can do or what should happen because our exposure in Delhi is not big. Delhi, our business is much smaller because we are more in non-metro and we are more in smaller towns. We do have a reasonably good business in Haryana and border Rajasthan or UP where it is called NCR and the change in supply situation as of now it is limited only to metro cities. Beyond metro cities, we do not have CNG supply at all. So even if you go to any CNG station in Bombay or in metro, you will find a huge queue will be there by the vehicles for filling the CNG. So CNG infrastructure building itself may take a very long time. So I do not really think we should discuss on the impact of changing the vehicle from diesel to CNG at this juncture.

Moderator: Thank you. We have our next question from the line of Harshit Toshniwal from ICICI Securities. Please proceed.

Harshit Toshniwal: Can you just tell me the write-off figures for the quarter?

S. Sunder: It is 325 crores.

Harshit Toshniwal: Out of this 13 crores is relating to CE book?

S. Sunder: Yes, correct, CE book.

Moderator: Thank you. Sir, we have our next question from Adesh Mehta from Ambit. Please proceed.

Adesh Mehta: Sir what could be your guidance in terms of cost of funds because basically we are seeing yields coming off, better guidance for margins remaining same, so we should see tremendous decline in cost of funds, so basically what is your outlook over there?

Parag Sharma: See the bond yields definitely have come down, but off late we have to see October-November being huge FCNR payout, liquidity situation to be seen how it pans out, we do not expect the bond yields come down substantially further. Bank rates, yes because of the repo cut and all, not all banks have passed on the benefits. There can be some reduction in bank rates. That should give some benefit, but that is hardly 10-15 basis points is what banks are reducing. We do not expect substantial decrease in cost of fund per se. Only benefit can be because of securitization what we do wherein priority sector asset will definitely get us better rates.

Adesh Mehta: Okay. So sir then what gives you confidence and you can meet your margin guidance, if the cost of funds would not come off substantially and your yields should come off at least by around 100 basis points, then where do you see your yields panning out?

Parag Sharma: No, we never said that our margins suddenly..

- Sanjay Mundra:** We have never said our yields will come down by 100 basis points.
- Adesh Mehta:** So sir basically around 7% of our portfolio would be earning around 5 percentage points more than our blended portfolio that could be easily around 35-40 bps impact and if you are anyways migrating to 90-day NPA recognition that could add another 30-40 bps of impact on yield, so if not 100 basis points then at least if your yields will come down by around 80 basis points.
- Sanjay Mundra:** See, 90 days DPD will happen in FY18. It would not happen in FY17.
- Moderator:** Thank you. I now hand the conference over to Mr. Mundra for closing comments. Over to you sir.
- Umesh Revankar:** Thank you for participating in this conference. As we told you in the beginning of the meeting that all the positives are there and good monsoon or softer inflation and likely increase in infrastructure spending, we have a very bright quarter ahead and our festival season is just beginning. So maybe next 2 or 3 quarters should be very good for us in increasing the volume and we expect better results, thank you very much.
- Moderator:** Thank you very much members of management. Ladies and gentlemen on behalf of Shriram Transport Finance Limited, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.