



# “Shriram Transport Finance Company Limited Q1 FY-15 Earnings Conference Call”

**July 25, 2014**



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**Moderator**

Ladies and gentlemen good day and welcome to the Shriram Transport Q1 FY15 Earnings Conference call. As a reminder all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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 – CEO & Managing Director of Shriram Transport for opening remarks. Thank you and over to you, Mr. Revankar.

**Umesh Revankar**

Ladies and gentlemen, I am here with my colleagues Sundar, Kelkar, Parag and Mundra. To start with this is the first quarter of this financial year and the first quarter the main action was in election in India. And we did get a good result out of election and we have a stable government. However, during the election some productivity loss also was there. In spite of that this quarter looks quite positive for us in many of the numbers. The demand for the credit in the rural and semi urban seems to be quite good for us and there was a good agri and seasonal foods movement and the loads availability was good so freight movement was in general good and the demand for credit in the rural areas was good.

The urban consumption and credit demand is still less. It is not picked up. It may take some more time may be with lot of industrial activities and infra activity the urban consumptions may pick up. In the mining and infra not much of activity because the government was virtually not functioning because of the code of conduct during the election time. There is some pick up in new vehicle sales in a heavy commercial small pickup. Basically because there is some improvement in industrial production which is around 4.2% in the month of June and 3.6% in the month of May. The GDP rates in the Q1 was 4.6% and CPI has come down to around 7.31%.

Bank credit growth has not gone up much there is a diesel price increase and margins for our customers were little tight because the freight rate did not really go up to the expected level of diesel price increase. Overall CV sales if you look at all other segment that is small, medium and heavy year-on-year it is a negative growth and we do not really see any possibility of growth in this quarter also. The consolidated numbers wise there was an increase in total income from Rs. 2,029 crores to Rs. 2,149 crores but there is a decrease in PAT from Rs. 366 crores last year to Rs. 312 crores. On a standalone basis the total income grew by 6.6% from Rs. 1,892 crores to Rs. 2,017 crores and PAT was less by 10% from Rs. 341 crores to Rs. 306 crores. However, I would like you to look at sequential number QOQ because QOQ most of the number looks more positive and there is increase in profit of standalone company STFC from Rs. 294 crores to Rs. 306 crores.

The gross NPLs which was 3.86% has come down to 3.74%. The disbursement also has gone up by 7%. The net interest margins have gone up from 6.46% to 6.54%. The ROA has gone up from 2.38% to 2.46% and ROE from 14.43% to 14.55%. So sequentially it looks like the numbers are improving and giving us confidence that things will keep moving up in the coming

quarters. However, the next quarter is not likely to be big because monsoon has been delayed and we expect the total indicators for the quarter to come after the mid quarter only.

However, we are very confident on the second half of this year. With this comment I will go for questions and answers.

**Moderator** Thank you very much. We will now begin the question and answer session. The first question is from the line of Sneha Ganatra from Subhkam Ventures. Please go ahead.

**Sneha Ganatra** Sir, first question is post the election are we planning to change our growth guidance? Second question is related to the margin front. What is the outlook on that? And the third question is on the NPA front. Do we see our NPA have been bottoming out and what will be trend we are expecting in the coming quarters?

**Umesh Revankar** See we have been consistently maintaining that first two quarters of this financial year there will not be much growth even before the election. Election results and a stable government gives us little more hope and confidence that there will be some improvement in the investment by the corporates and the government especially in infrastructure and mining activities. And another most important is power generation. But this too start reflecting and getting us some kind of movement and growth it may take some more time may be another three to six months' time. So I expect something to be very positively moving or going only from Jan 2015 and on NPLs we are able to manage at present level and there may not be a dramatic improvement immediately but we are hopeful of improving on this further as the overall climate and business improves. Ultimately it is our customers who should have that comfort of earning more and able to pay. Right now it is constrained by increased diesel price and not much of increase in freight rate. The vehicles are not idling like there is enough business for them but only thing is the freight rates not increasing it is squeezing its margin and income. The net interest margin is something I do not really expect immediate change but we are able to improve from last quarter that itself is a good sign. But we will be striving ourselves working towards moving to 7% which is our original goal. But immediately we will not be able to pass it on to the customers. If there is a benefit out of cost of funds then probably there will be some more scope for increase in the net interest margins.

**Sneha Ganatra** And one more question. Could you highlight the reposition trend in the current quarter are we seeing the realization to it on that?

**Umesh Revankar** Reposition is virtually stopped because of higher utilization of vehicles. So the last three to six months I should say reposition has come down drastically. But whereas the resale values are good in some segments it may not be as good in other segments. So it varies from segment-to-segment and we cannot really say that it is very good or bad.

**Moderator** Thank you very much. The next question is from the line of Anish Tawakley from Barclays. Please go ahead.

- Anish Tawakley** Could you just talk a little bit about the expenses? I am just trying to understand the employee benefit expenses are down significantly whereas other expenditure is up and the net is flat. So has there been some sort of restructuring and are you opening branches and hiring people or not really at this stage?
- Umesh Revankar** We have opened 12 branches in the last quarter. We are not really hiring people. We have done some restructuring in our process and the way we do the business. So we have given customer focus and the geographical focus and trying to have much better utilization of our manpower in single geography and that has improved our overall productivity and utilization of manpower. So and also there is some decrease in overall manpower because of the rationalization exercise and whatever the attrition we had. We did not have to recruit so that has helped us increasing the productivity. Otherwise there is no change in heads.
- Management** Compared to March it is flat however compared to the previous year it is down but previous year there was some onetime bonuses which was declared.
- Anish Tawakley** So this is a normal trend?
- Management** Yeah, this will be the normal trend.
- Anish Tawakley** And the other OPEX that this kind of growth rate on a year-on-year basis is that what we should think about?
- Management** Yeah.
- Anish Tawakley** So this is about 20%?
- Management** It will be in the region of around 10% to 15% I would say year-on-year it will be going forward.
- Moderator** Thank you. The next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.
- Digant Haria** Sir, can you just take us through the performance of your subsidiary because I think the NPAs have gone up there and the NII and the profits both have been there. So just like what are the trends we are seeing in the commercial equipment space?
- Umesh Revankar** See construction equipment and infra business if you look at last one, one-and-half years it has going through some stress and the stress is mainly because the liquidity issue with the execution of project. Many of the payments were delayed or held of not cleared half work done. So this has put the customers in to some difficulty. Many of our customers are small operators having one or two machineries which is operating in various projects across and some of them

are in the civil and some of them government projects and some of them may be for personal use.

So these funds not being available as freely in the last one year has delayed some of the payments and last six months because of election government payments were totally stopped there is code of conduct and other issues and since the government payments have stopped the entire cycle of rotation of money is blocked to some extent and many of these people did not get their payment. So that has really increased the NPL levels. So I feel it will be temporary and plus we have been managing it so well till last year.

This is the first quarter we are seeing some increase in NPLs. So I feel it will be a temporary phase and we should be able to manage very well. And the team our Shriram Equipment Finance team is extremely confident that when the infra and the overall mining activity improves then we will be able to bounce back and grow their AUM very aggressively.

**Digant Haria**

Sir, my second question say in the second half we are expecting some growth so would it be right to assume that the growth will first come in the UCV space where that we will see some more transactions in the UCV and then the new CV demand actually picks up or it could be or there need not necessarily be such a correlation?

**Umesh Revankar**

It will be simultaneously because what happens is when there is a shortage of vehicles then the demand comes immediately in all segments. Now if the demand is mostly in mining then the demand for new vehicles will be first coming then subsequently to used-vehicles. Because if the mining requires new vehicles which have very good capacity because they have to work in a high gradient activities. But for general transportation it is not required but there is also something called replacement demand. Long distance or long haul transportation they required to replace their vehicle every three or four years.

If some of the long haul operators have not changed their vehicle for last two, three years and if the opportunity and cash flow looks good we may go for replacement immediately one thing it looks at the brighter picture. So the new vehicle demand will definitely be up the moment the economy starts growing. At the same time when people buy new vehicles they try to sell their existing vehicle. So automatically there will be sufficient used vehicles being sold and there will be enough buyers in the secondary routes and secondary applications. So it can be simultaneous both new and used demand go up. It is my take.

**Digant Haria**

And lastly sir, if the new vehicle demands picks up sharply so we would be participating there also, right? Because in the last two years you have completely stayed away from new vehicles but if it picks up and if the economies on the main we would definitely start doing new vehicles or would we stick to the used ones?

**Umesh Revankar**

It depends up on our customer. If customers feel that the new vehicle is viable for him he will go for a new vehicle. Our typical customers are small operators and he would prefer used

vehicles but a particular contract or particular business needs new vehicle he will go for a new vehicle. We normally do not have arrangement with manufacturers or dealers to get in to a market share of the new vehicle financing. We normally go by what the customers wants. We would never lend to new unknown customers for new vehicle. It will be our existing customer only. So it all depends up on what our customers would like to prefer when market booms.

**Moderator** Thank you very much. The next question is from the line of Mayur Parkaria from Wealth Management. Please go ahead.

**Mayur Parkaria** First is we have seen a consistent gradual fall in the level of securitization which was to be as high as 45% many quarters back and now we have come down to 24%. I understand that the yield must have also been fallen. So if you can just give a highlight on what would be the current yield structure which must be on the securitization and what is the strategy going forward on the OPEX?

**Umesh Revankar** See what has happened is subsequent to the RBI guidelines for minimum seasoning and all we are able to securitize only assets which are minimum six months seasoned. So the runoff is quite fast. Last year if you look at we have securitized close to around Rs. 10,000 crores of our portfolio. In spite of that the overall level of securitization and the portfolio outstanding came down. And normally securitization demand comes only from September quarter onwards. So this quarter we have done only one deal of Rs. 170 crores and the overall target for the year also is not significantly high we are planning to do the Rs. 10,000 crores of securitization. But because of the runoff I still feel that overall portfolio of our books is still be lower.

**Mayur Parkaria** So will it be means I understand the rundown may be much faster but will it be now in the more in the 25% range or will it further go down from here?

**Umesh Revankar** It should be around 25% to 30% only.

**Mayur Parkaria** Sir, then in the next slightly basic question I had on the same. For calculation of NIM and CAR do we have to take off balance sheet in to accounting and on the CAR what would be the risk weight effects comes?

**Management** The CAR what we do is that whatever credit enhancement has been given will be netted off from the Capital.

**Mayur Parkaria** Okay, at the time of securitization?

**Management** No, while calculating the capital adequacy ratio. Instead of taking it as an exposure whatever is the credit enhancement that the company provide to the buyer so that is netted off from the net.....

**Mayur Parkaria** And for the NIM the denominators are the same as AUM?

- Management** Yeah.
- Moderator** Thank you. The next question is from the line of Devam Modi from Equirus Securities. Please go ahead.
- Devam Modi** Wanted to ask firstly that given that the monsoon has been relatively poor this year till now. Would there be some impact on our asset quality and what is the general crop cycle of the areas where we are majorly financing used CVs for agricultural growth?
- Umesh Revankar** See first of all let us understand that monsoon seems to be bleak till the beginning of July. It was around 46% deficient and now it is around 25% deficient and in some region it is as low as 10% to 15%. So the overall monsoon deficiency against normal has come down drastically and I feel by month end by 31<sup>st</sup> we will have a reasonably clear picture on monsoon. That is one thing. And second, if you look at historically for last 10 years monsoon has been weak in three years; 2001, 2002 and 2009. So 2001 and 2002 two consecutive year it was deficient and there was an impact in the 2002 and 2003. But in 2009 was deficient by 26% and the impact was not really much. The impact was only in 2010-11 through inflation not through agri production. So agri production actually year-on-year did not come down much. So if agri production does not improve when people have a capacity to buy or when there is more demand.
- Then the food price may go up. So the food price going up will indirectly help rural economy because they have better realization. But here we have to see which are the area rainfall was deficient and which area rainfall was reasonable. If the catchment areas are deficient then it has a long term impact because it will impact your winter crop also. If the catchment area is having a good rainfall then the winter crop will be good. So it will not have a much impact. So as of now it looks as if there may not be much impact on the rural income because of the rain.
- Devam Modi** So sir, the only thing being that there has been a like you have rightly mentioned probably the monsoon deficiency is only 10% to 15% in some regions but in certain western regions it is above 50%, 60%. So given that you will have some level of exposure here you could see some impact on that side, right?
- Umesh Revankar** Yeah, the Marathwada area and some part of MP it has been deficient and these belt we have to see because there is always the farmers do not depend on one crop they always look for an opportunity to go for a second crop. Now I was reading somewhere that people have been already getting ready to skip the rice cultivation and going for oil seeds or pulses. And this is a cash crop and they can earn more money. So today because of sufficient knowledge is available and the government support is there the farmers are able to manage their cultivation accordingly and make their living and earn money. So it is too early to make a statement saying that this geography will be bad; another geography will be good.
- Devam Modi** Sir, and are there any chances of we getting some write backs once the mining activity resumes because we could see a tremendous improvement on the mining side where the government

policies are shaping up. So could we see any write backs on our portfolios or those are just repossessed and foreclosed caters so there is no chance of write backs there?

**Umesh Revankar** See this happened in 2010 four years back. So if the mining if there is any improvement in the post January that will be virtually five years and I doubt whether we will get write back which because those customers would have virtually may not be there in that business at all or he would have shifted to some other place. So it is difficult to get a write back after five years.

**Devam Modi** Finally if you can just sort of walk us through that compared to earlier normal securitization transaction wherein we are making a much higher margin. I mean on an incremental securitization transaction are we making a much smaller margin what are the main reasons for this?

**Umesh Revankar** Yah, Parag will let you know.

**Parag Sharma** The impact is only because of RBI guidelines wherein banks which they buy an asset which is 8% above their base rate that qualifies for priority otherwise it does not qualify. So we have been securitizing only the priority assets to the bank so thereby securitization income has been coming down. There is no other reason.

**Devam Modi** So your spread and then being lower than 8%?

**Parag Sharma** What we are securitizing with the bank is up to 8% of the bank base rate.

**Devam Modi** Okay, but in fact when we do the overall spread that we are making on the off book AUM I mean your realization seems to be even lesser than 8% in terms of the securitization income and interest on that?

**Umesh Revankar** See the maximum is 8% so we also securitize cases which is less than the 8% cap also. And hence the blended if you see it will be lower than 8%.

**Devam Modi** Okay and this will be comparing with what sort of levels earlier it used to be like 8% to 10% plus as well, right?

**Umesh Revankar** Plus 10%.

**Moderator** Thank you very much. The next question is from the line of Aadesh Mehta from Ambit Capital. Please go ahead.

**Aadesh Mehta** Sir, do we have the breakup disbursements old and new vehicles?

**Umesh Revankar** The new vehicles are Rs. 400 crores and the used vehicles are roughly Rs. 7004 crores.

**Aadesh Mehta** So total disbursements would be around Rs. 7,400 crores?

- Umesh Revankar** Yeah.
- Aadesh Mehta** And sir, regarding the plugging of tax arbitrage between debt FMP and bank deposits what kind of increase in borrowing cost are we envisaging?
- Umesh Revankar** See one is overall money which we have borrowed from mutual fund it will to the tune of roughly around Rs. 4,000 crores because we normally do not borrow anything which is less than three years. So mutual fund contribution to overall borrowing was much less. We were more depended upon debt FIIs; bank treasuries; some of the PAs that has been the borrowing road. So I do not foresee any cost increase because of this regulation norm. We have to either shift or the maturities bank treasuries or to the regular bank borrowing in the form of term loan. Because the quantum is less I do not foresee significant cost increase because of that.
- Aadesh Mehta** But it is still at around 10% of our liabilities I guess?
- Umesh Revankar** Correct.
- Aadesh Mehta** And there is 100 bps increase then that could be accounted 10 bps increase in the borrowing cost?
- Umesh Revankar** With debt FYs or bank treasuries there should not be any cost increase.
- Moderator** Thank you. The next question is from the line of Divya Bais from Daiwa Capital. Please go ahead.
- Divya Bais** I just wanted to know the reason as to why the other income has fallen down so much?
- Umesh Revankar** No particular reason. The investment as such are come down in different quarter and hence the other income has come down. Apart from this no other specific reason.
- Moderator** Thank you. The next question is from the line of Jyothi Kumar from Spark Capital. Please go ahead.
- Jyothi Kumar** Most of my questions have been answered just one thing. If you can expand a bit more on the freight rate that you see in the market especially in the last couple of months that would be really helpful?
- Umesh Revankar** The freight rates have been quite firm and I think it would have been quite comfortable had it not been the diesel price increase by around 60 basis points. I thought after the new government coming that increase in diesel price will stop but somehow the diesel price increase is monthly continuing. So the utilization of vehicles have been good. So that is a good sign but freight rate improvement may be in waiting. So I think freight rate now will start moving up since the utilization is full.

- Jyothi Kumar** So when you say freight rates are increasing are they higher than the diesel rate hikes or are they lower than diesel rate hikes?
- Umesh Revankar** It is lower than the diesel rate hike. Because what has happened in the diesel price is increasing every month. The freight rate increase is happening once in three months or once in two months. So that is not compensating them enough.
- Moderator** Thank you. The next question is from the line of Jigar Valia from OHM Group. Please go ahead.
- Jigar Valia** Sir, if you could throw some more light on the passenger vehicle piece?
- Umesh Revankar** See passenger vehicles we finance normally vehicles which are in the semi urban and rural area for this MUV and this mini buses and that is a one segment. And the second segment is school buses and the call center and factory people transportation. And the third is the permit routes buses which is not really big segment it is a very small segment.
- Jigar Valia** In terms of yields and for this versus other yields somewhere between used and new or for this category?
- Umesh Revankar** No yields are on par with our other commercial vehicles new and used both. And the new and used mixed here is new is little more than the used. Because passengers normally prefer new and newer vehicles. So the new vehicle mix is little more in the passenger segment but the penetration level is very low. We have a huge opportunity to grow in these segments.
- Jigar Valia** Over the next five years probably or independent of the mix do you think this segment can for you can grown at 20%?
- Umesh Revankar** Yeah, this segment we can easily grow at 20% but only thing is it will not make a big impact on our overall AUM because the ticket size is small especially when you are financing second hand passenger vehicle the ticket size being small it will not have a big impact on overall but the growth would be much faster. We definitely would grow at 15% to 20% on passenger.
- Jigar Valia** And sir, you said 1 the yield just similar; what will be the duration for this type of a portfolio versus....
- Umesh Revankar** Duration will be around three years only.
- Jigar Valia** And versus for a regular vehicles it would be like four years now?
- Umesh Revankar** Yeah, regular commercial vehicle it will be little more three and half years.
- Jigar Valia** Sir, I missed out on the disbursements if you could please repeat for me sir?

- Umesh Revankar** It is a Rs. 405 crores new and Rs. 7,000 crores used.
- Moderator** Thank you. The next question is from the line of Nitin Kumar from Quant Capital. Please go ahead.
- Nitin Kumar** Sir, how has been the trend in the discount rate on new commercial vehicles and are you contemplating any change in LTVs now given the improving freight rates and the improving utilization levels?
- Umesh Revankar** The discounting has definitely come down in the last may be from January. But in heavy vehicles the discounting is still continuing. See discounting happens only when there is a high inventory built up. Right now the inventory levels have come down so discounts have come down. So the LTV we will make the changes only when the resale values firm up very much. So resale value firming up is very important for us. So right now resale values of all segments of vehicles have not really firmed up. One or two segments are firmed and reasonably doing well. There we are making necessary changes. Every quarter we look in to the market and resale value and keep changing our LTVs. And therefore it is very dynamic. It is not that we do it once a year.
- Nitin Kumar** But the trend is now upwards, right?
- Umesh Revankar** No, we are not yet our LTVs are still very tight we are not relaxed it.
- Moderator** Thank you very much. The next question is from the line of Alpesh Mehta from Motilal Oswal Securities. Please go ahead.
- Alpesh Mehta** Sir, first of all just wanted to reconfirm the disbursement numbers? Old vehicle is Rs. 7,000 crores and the new one is Rs. 1,500 crores?
- Umesh Revankar** No, Rs. 405 crores.
- Alpesh Mehta** So our total number is around Rs. 7,405 crores?
- Umesh Revankar** Yeah.
- Alpesh Mehta** Which is a decline of almost 7% on a YOY basis?
- Umesh Revankar** Year-on-year, yeah you are right.
- Alpesh Mehta** Secondly on the construction equipment business what are the disbursement number for the new and the old one?
- G. S. Sundararajan** New is Rs. 200 crores; used is Rs. 300 crores. Total is Rs. 500 crores.

- Alpesh Mehta** And there is a sharp increase in to NPLs in to that particular business if you can throw some light on that business as well?
- Umesh Revankar** See basically this infra is going through a little difficult time for nearly one year and all the payments have been delayed or stopped. And last six months it aggregated mainly because of government has not released any money for any of the infra activity wherever government is involved mainly because of code of conduct and the new government coming in they are yet to start releasing backlogs. So that has created some kind of cash crunch for many of the operators and the contractors and therefore there are some delays in payment which has made the NPL numbers to go up in the books. So because of higher NPLs the profits are little lower and I feel it will be a temporary phase may be another quarter. After that things should improve and once the infra industry takes up because now there are lot of this government has announced lot of measures to improve liquidity towards infra. I think things will improve by January.
- Alpesh Mehta** And sir, on the CV side the mix of used and new would be more or less the same that we reported it the further AUM 99 types?
- Umesh Revankar** Yeah, it will be almost same but there will be little increase in the new vehicle over the period as the economy improves.
- Alpesh Mehta** Okay, so if I have to see your portfolio may be three years down the line do you see the mix shifting more towards passenger vehicle segment and you will start moving away slightly from at the HCV segment per se?
- Umesh Revankar** As a percentage passenger may move up little not big because ticket size being small it will not have a big impact. But however, definitely it will be more towards passenger vehicles and tractors because there is scope to grow it much faster.
- Alpesh Mehta** And how different are the yields between the CV and the passenger tractor side?
- Umesh Revankar** It is almost the same. There is not much difference.
- Alpesh Mehta** But the cost of operations are slightly higher for the passenger and tractor portfolio also?
- Umesh Revankar** Yeah, smaller ticket it will be little higher but in the rural segments the use are much higher for this segment.
- Alpesh Mehta** Okay so from a ROA basis are all the products giving you more or less the same kind of ROA or some specific like passenger vehicles are slightly dilutive on the ROA side?
- Umesh Revankar** See passenger it depends upon the mix if the used mix is more then definitely the returns are better. So yields will be more in used so it depends up on the mix what we have. So the mix can change your yield.

- Alpesh Mehta** Yeah sir, but as we discussed in the call I think so passenger people typically prefer the new vehicles?
- Umesh Revankar** These are new vehicles, yeah.
- Alpesh Mehta** So in that case the ROAs will be slightly dilutive, right? Because the mix will definitely remain there?
- Umesh Revankar** What we used there the yield is very high.
- Alpesh Mehta** On the EU side?
- Umesh Revankar** Yeah, used yield is very high so thereby it is compensating doing the new. So what happens is yield compared to commercial vehicles the yield on used passenger vehicles will be much higher.
- Alpesh Mehta** And sir, just the last question. What percentage of our portfolio can be impacted because of monsoon and what kind of credit?
- Umesh Revankar** Right now I do not see any impact because see monsoon now the agri yield is just 13% percent of Indian GDP. So that is not going to make big impact but in the rural economy it will have some impact. Depending upon which geography has less rains. So we are not able to really make out of present rain fall patterns which geography will be impacted. And if the catchment area rainfall is less then the impact will be higher. Otherwise the impact will be very marginal.
- Alpesh Mehta** So sir, related question to this. Last year we had a credit cost of almost 200 basis points where do you see this number should be settling this year? Because definitely as the economy is picking up the asset quality related issues will be lower but where do you see it stabilizing for FY15?
- Umesh Revankar** See historically over the years we feel it should be plus or minus 20 basis points on to 2%. So it should be math levels should be around 2.2% so and lower level should go and found it as how we move but sometimes it can go little erratic depending upon the timings.
- Moderator** Thank you very much. The next question is from the line of Amey Sathe from JM Financial. Please go ahead.
- Amey Sathe** Sir, two questions. One is on your investment policy in the sense we have been maintaining excess cash in the form of liquid investment. Does the rule tax rate change does not impact our strategy with respect to keeping excess cash?
- G. S. Sundararajan** Yeah, most of the cash what we have been keeping is in liquid schemes only or FDs with other bank or CDs. We do not invest for long term. And in fact excess cash what we are carrying was

largely because of funds mobilized in the month of March and it was again not kept anything we do not have anything policy of keeping anything beyond even three months. So largely it will be one week or so in bank deposits. It has come down compared to March and this is the level what in June what is the level we want to continue with this level. But it will be only in liquid schemes.

**Amey Sathe**

And the second question is on the used car space. I think we have entered in the space and so I would like to know what is the market size in that and what is the target loan book that you are looking at?

**Umesh Revankar**

The used car is a very huge segment because what we sell annually is around 20 lakhs cars and if you extrapolate you will find that total number of cars in India will be more than 2 crores and every car is eligible for loan but normally the car very few take a loan only the businessmen and people who are in needy they may take a loan while buying the car. So the opportunity even though it is huge it depends upon the requirement of the person who buys. What we have understood is that the typical businessmen or a person who is working in unorganized segment when he is buying the car the loans he may not get it. So he is currently taking the loan from and I do not say unorganized but small financiers or money lenders. And the opportunity we really do not know what is the total market demand. So he has been taking from a small financier who are around 20,000 to 30,000 numbers across India. So we have to really assess but the opportunity is huge.

**Moderator**

Thank you. The next question is from the line of Swaminathan B from Axis Capital. Please go ahead.

**Swaminathan B**

Just one question on the field officer headcount so we have reduced the headcount from around 11,000 to 10,000. So is there any more reduction that is pending or this is an ongoing process if you can throw some light?

**Umesh Revankar**

There is no further reduction. It was a onetime exercise we did two reallocate files geographically and see that we use the field force optimal and we did not really retrench people. What happened is in this exercise some of the people found that they did not had enough of scope and some of them have left and that is we did in the month of March and April. So there is some reduction and there are some natural attrition which we did not replace because we were able to see that the existing people themselves manage it and our focus was on productivity. So we have got out program in improving the productivity of reach of the persons and that is the reason the numbers have come down but without really impacting the company's performance. And ongoing we do not really further reduce the numbers but if there is a scope for increasing the field officers we may add more people.

**Moderator**

Thank you. The next question is from Aditya Singhania from Enam Holdings. Please go ahead.

- Aditya Singhania** Just wanted to check in your opening comments you have mentioned that you are confident on 2H. Could you give some color around this what exactly are you expecting by way of growth or asset quality or what exactly are you confident about?
- Umesh Revankar** See it is basically coming out of the government's focus on infra. The infra and mining because coal and iron ore mining has been virtually stopped for last three years and if there is more activity there. There will be lot of economic activity around that; that could improve the overall need for our vehicles. And second is infra. If the renewed interest on road and other infra activities if continued and the private investment also will be coming in to for other manufacturing activities. So it looks as if everybody is waiting for one signal and one activity to happen then everybody will come after that and there are some small changes that government has made small, small changes to see that bureaucratic hurdles are removed and that also is giving some confidence that now business people could come in and establish business and run the business.
- So India was having major problem on supply side issues which created an inflationary trend. Once that is addressed properly I feel it will have a far reaching impact on everything. Not only the industrial activity will improve but also will improve the overall productivity of the country and inflation will probably subside and that will help the Central Bank to reduce the policy rates.
- Aditya Singhania** And just on the asset quality bit if I remember correctly last quarter's call you were mentioning that the earlier buckets sort of 90 days or lower have been stabilizing. Could you give us some trends there whether there is an improvement and what it means for reported NPLs going forward?
- Umesh Revankar** There is not much of a significant improvement. It is standing where it was in the last quarter. So all the numbers are almost like in the last quarter only there is not much of significant improvement nor there is a deterioration. So we feel that this trend will continue for at least another one or two quarters and then probably start looking better.
- Aditya Singhania** But it would be fair to say that you are confident that the worsening has been arrested for sure?
- Umesh Revankar** See right now it looks as if we have a grip of the situation and there could be some unexpected events which can increase your fuel price to the roof which we cannot really predict but as of now it looks as if things are under control.
- Aditya Singhania** And just on this if I may ask normally one would expect that around elections there would be some negative impact on asset quality that does not seem to have impacted you; would that be a fair thing to say or how should we see this?
- Umesh Revankar** Election time normally negative impact on the asset quality I have never seen. I am in this field for 25 years. But only thing is yes, the productivity of the customers will be lost because many

of our customers they will be participating in the election activities for some party or other. So some four, five days of their activities they may focus on local elections especially in the smaller town and rural areas. So that means the loss of productivity and that would have impacted their payment capacity by to that extent. Instead of paying full amount we would have paid par. Beyond that they will not have any impact.

**Aditya Singhania** If I may just start another question on accounting. Could you just clarify how you account for securitization income now? I understand there was some tax changes last year and I am not sure but I think you also changed how you book the income whether in the top line or in provision. So if you could just clarify that?

**G. S. Sundararajan** We used to account on over a period of the tenure of the agreement unlike other companies which were adhering to an up fronting and currently after the September 2012 guidelines what we have started doing is that we have started booking on cash phases. So as and when we realize we account it here.

**Aditya Singhania** So what I meant for that I think there was some change where in the tax?

**G. S. Sundararajan** Distribution tax has been started from June 2013 onwards and the income that we get is net of the distribution tax and we continue to book in on an NPL is there and we get a benefit in the taxation. So the tax rates compared to the previous years it would be lower.

**Aditya Singhania** So this started from June 2013?

**G. S. Sundararajan** 2013 onwards, yeah.

**Aditya Singhania** And what about the income booking on the cash basis is that netted-off from income or is it in the provisions?

**G. S. Sundararajan** No, it will be netted-off from the income.

**Aditya Singhania** So whatever is the short collection?

**G. S. Sundararajan** See whatever is the short collection to an extent the income will be lower.

**Moderator** Thank you. The next question is from the line of Adarsh P from Nomura. Please go ahead.

**Adarsh P** Sir, just wanted to check on you will kind of give the breakup of the AUM based on passenger and that. I just wanted to understand in each of those categories the larger categories can you give me the yields on once they used and new in each of those categories an approximate number should be okay?

- Umesh Revankar** In the passenger we do not have very old vehicle it will be newer and new only, but the gap between new and the used will be higher. The used yields will be much higher even though it is not very old and the new will be on par with other series.
- Adarsh P** New will on par with other?
- Umesh Revankar** Series commercial vehicles.
- Adarsh P** So what is the approximate actual yield on a portfolio basis that you would have?
- Umesh Revankar** It will be 17, 18 same.
- Adarsh P** So the blended yield would be 17, 18 in the passenger side as well?
- Umesh Revankar** It will be 17 to 18.
- Adarsh P** And just one more question. I see there is a little bit of a run down on liquidity in the balance sheet. I think the investment book is down. So can you go down further or you want to keep it where it is because I think there is a Rs. 2,000 crores run down I believe?
- G. S. Sundararajan** Yeah, that is because of large funds mobilization in the last quarter of the previous year but we will maintain at the current levels.
- Adarsh P** So means the build that you did post the RBI tightening in July that has run down now?
- G. S. Sundararajan** Not because of that we normally mobilize more funds in the last quarter. Last quarter it is because of securitization. At the current level we will like to maintain that level only.
- Moderator** Thank you. The next question is follow up question from Mayur Parkaria from Wealth Management. Please go ahead.
- Mayur Parkaria** Sir, just same thing on the yield I just wanted to understand. If we look at the March 2014 number our interest earned was Rs. 7,600 crores and the AUM reported at that time was Rs. 53,000 crores. So even if we take average AUM the yield comes at much lower of around 12.5. So is there a difference in the realized yield and what we have an understanding there? Now this is one thing and if I have to split this in to the fund based and off balance sheet because we report we have this income from securitization separately reported in the presentation. So there the split comes to around 14.5 and 7.5 and the weighted average comes to 12.5. So is there a difference in the realized and what we understand a 17 and 18?
- Umesh Revankar** I think whatever it is you just mail it to me I will get it checked by the accounts department and revert back to you.

- Mayur Parkaria** That was one thing. The second was sir, I am having some confusion with respect to this portfolio understanding our when we say passenger vehicles are we saying the four wheeler cars or is it more what you explained before like the MUVs, the mini buses, the school buses, the permit buses or that is included in passenger vehicles or is it the passenger cars as such or both of them are there?
- Umesh Revankar** Both of them are there but private cars are very small. We just started six months back but majority more than 95% is what I explained.
- Mayur Parkaria** And even the private cars will be very less?
- Umesh Revankar** Very less, very small.
- Mayur Parkaria** And in the commercial vehicle we report our margins means we have been maintaining a market share of around 22% odd give and take some more. Now as per our understanding given the split of used CV market what AUMs the market size what you have been giving an understanding is it a possibility that in the bucket of 2 to 5 we will have a very small market share in single digit and in the bucket of 5 to 12 it will be significantly upwards of 40% and in the above 12 it is nil. Is what should be the understanding and hence the average is 22 or is it some different understanding?
- Umesh Revankar** It will be very difficult to really give a number on that because 40% is something which will I do not think we have that kind of a penetration in any of these segments. Definitely 5 to 12 will be little higher and 2 to 5 will be little lesser but 2 to 5 portfolio itself will be very small because this portfolio of 2 to 5 normally people once they own the vehicle they do not sell it up to 4 or 5 years. So portfolio of 2 to 5 is small but only opportunity came in last two, three years because many of the vehicles when the market becomes difficult they exited. Since they exited early this market was built up 2 to 5 years. So this market is not that permanently available only in the difficult times you will find this market going up large otherwise this market is normally small. The actual used vehicle transaction happens after four years.
- Mayur Parkaria** Sir, because we had a very good growth in the CV market in the period of 2006 to 2010 and all that of growth the five years is now on the cost of completion. So from a shear market availability point I understand that the credit scenario and the GDP and all those are also important but the shear market size which will be available to us and if we just have to use the 20% kind of here see that will mean a big opportunity coming to us. Is it the right understanding?
- Umesh Revankar** Yeah, it is a big opportunity you are right because the vehicle sales are very high up to 2011 it is going to be a big opportunity coming.
- Mayur Parkaria** Sir, can I have the email ID where I can mail this?

- Sanjay Mundra** smundra@stfc.in.
- Moderator** Thank you. The next question is question is from Deep Maheshwari who is an individual investor. Please go ahead.
- Deep Maheshwari** Sir, just wanted to get a sense of what do you think is the trend in the used CV markets going ahead like say one to two years?
- Umesh Revankar** See the used CV is like your evergreen hero. The used CV market will keep growing as the new vehicle sales goes up because in India normally vehicle do not retire unless it becomes very old. So the cake it keep growing so the market share is something even if you maintain your market share you will keep going. So the opportunities are huge but the main challenges are penetration levels are low in the deep rural markets. So if you are able to get in to deep rural markets and some of the difficult geographies where normally it is not accessible we can still keep growing at a very good pace. The major challenge always has been to get a right person for us to get in to this deeper rural markets. That has been the challenge not only to us but for all the companies.
- Deep Maheshwari** And could you just explain what will be in terms of pricing of these in your used CV vehicles?
- Umesh Revankar** The yield in the used CV is always higher. In the deeper rural area we will charge much more. In the urban area it will be little lesser may be because of the competition will be there. But in the semi-urban and rural areas the yields are always higher and the simple principle is older the vehicle higher the yield and smaller the ticket higher the yield. Because the cost goes up. So that is the simple mantra we have.
- Moderator** Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Revankar for closing comments. Over to you, sir.
- Umesh Revankar** Thank you. As I was telling in the beginning we are quite confident going forward especially the second half looks to be promising for every one of us. The next quarter will be a time to concentrate and put everything in place for bigger growth opportunity that is likely to come and when we meet next time probably we will have our plan ready for the growth. Thank you very much.
- Moderator** Thank you. Ladies and gentlemen, on behalf of Shriram Transport that concludes this conference call. Thank you for joining us and you may now disconnect your lines.