



## “Shriram Transport Q2FY13 Results Conference Call”

**October 30, 2012**



**MODERATORS: MR. UMESH REVANKAR – M.D., SHRIRAM TRANSPORT FINANCE COMPANY.**

**Moderator**

Ladies and gentleman good evening and welcome to the Shriram Transport Finance Q2 FY13 Earnings Conference call. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference please signal an operator by pressing \* and then 0 on your touch tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Umesh Revankar – Managing Director of Shriram Transport for his initial remarks, thank you and over to you sir.

**Umesh Revankar**

Hello everybody. To start with I will just dwell upon the current economic situation in India. The macro economy has not really changed, it has remained little bit sluggish, and there is not much of manufacturing activity, boom or increase in capital investment. So the heavy vehicles sales have come down in the first 2 quarters by 12% compared to the last year but the smaller commercial vehicle and LCV's are doing quite well because the consumption in India seems to be quite good and there is a good demand for transportation and essentials and agriculture producers and general economic activity is reasonably good. The liquidity is quite good helping us in maintaining our asset quality. We are able to reach out to little wider segment. Earlier we were focused on segment of Heavy Used Vehicle and LCV Used Vehicle. Today we have a small commercial vehicle pick truck all adding. So the broad range of 1 ton to 49 ton is giving us huge opportunity, because all this new segments are becoming used vehicle segment. So giving us a wide range of vehicles to finance and added to that from this financial year we have started penetrating into rural market, which has given us a depth into the deep pockets of rural market where the small commercial vehicles are becoming quite popular because need of our small street capital and they are able to have their own vehicle and earn. So that makes them owner of vehicle which is helping them in their economic activity.

Then we also have our subsidiaries doing quite well. Our Shriram Equipment finance has done quite well by having a Rs. 22 crores profit in this quarter against Rs. 17 crores last quarter and 5 crores last year. And Shriram Automall has been a great support to STFC, I should say. The basic objective of starting the Automall was to support STFC and it is actually helping us a lot.

In Automall we have 250,000 customers who are regularly buying and selling and becoming our customers over the period, every month we have around 20,000 transactions by selling. So the Used Vehicle disbursements have increased by Automall activities and also by deeper penetration into rural market.

With this I will give some numbers on our performance – Our PAT has increased from Rs. 312 crores last year Q2 to Rs. 362 crores consolidated. Net interest income has increased from Rs. 862 crores to Rs. 913 crores and AUM has grown 18% from Rs. 39,000 crores to Rs. 46,466 crores. So disbursement has increased from Rs. 5,180 crores to 6,576 crores. So disbursement increase has mainly come out of Used Vehicle lending.

On standalone basis our PAT has increased from Rs. 299 crores last year to Rs. 337 crores this year for Q2 and net interest income from Rs. 834 crores to Rs. 867 crores.

So the asset quality has been maintained at reasonable level of 2.89 of Gross NPA and Net NPA of 0.61% and in spite of increase in the volume and AUM. So of book AUM has not grown much because we have not done much securitisation this quarter we have done around Rs. 400 crores of securitization and probably the 3<sup>rd</sup> quarter and 4<sup>th</sup> quarter we can witness lot of demand for securitisation. Already the demand is quite high on securitization and we are making enough plans to do that by this quarter and next Quarter.

The Used portfolio has increased in overall ratio; it is around 78% now in our AUM and new is 22%. So because of increase in used portfolio the NIMs have improved. NIMs have become 7.67 against 7.42: Q1 this year and Q4 of 7.24. So increasingly QoQ the NIMs are improving.

So these are the broad number. The board has announced the interim dividend of 30% against 25% last year interim dividend. I think in the nut shell these are the numbers as we have more question and answer probably we can get into the finer numbers. Thank you.

**Moderator**

Thank you very much, Sir. We will now begin the question and answer session. The first question is from the line of Prashant Shah from Vantage Securities, please go ahead.

**Prashant Shah**

Sir, you mentioned that traction in your disbursement has increased on back of your support from Automall and your rural penetrations. So do you expect this to continue in the coming months, means you expect a similar kind of figure or it will moderate slightly?

**Umesh Revankar**

See these are all the new initiative and this should keep adding. I really feel that this will, because from 250 rural centers we are likely to touch 400 by year end. So there will be more number of rural centers coming and Automall activities today we have a 10 big Automall centers and we are having activities in 40 other small centers and number of big Automalls which are 10 are likely to become 15 by this year end. So naturally you can expect bigger volumes from these 2 new initiatives.

**Prashant Shah**

So, we can expect this section to continue?

**Umesh Revankar**

Yes.

**Prashant Shah**

And Sir just wanted to ask you, your yields have gone up actually quite significantly by almost 83 basis fund sequentially. So have you hiked your lending rates?

**Umesh Revankar**

It is because of a mixed change. More used numbers are helping us in our yield, so it is showing you better yield.

**Prashant Shah**

That's true but if you see on a sequential basis, your mix in your disbursement has not change that significantly also. It was about 81% used in Q1 and it is just about 82% right now.

- Umesh Revankar** If you see that on an overall AUM basis the yields have been pretty stable I would say and between the on and off balance sheet there has been a movement. If you see that we have not securitized for the last quarter and the current quarter also the securitization numbers are on the lower side. Hence we are able to retain higher yielding assets on the balance sheet and hence the on-balance sheet yields have gone up.
- Prashant Shah** So you expect this your NIMs to be at similar level or you can expect some improvement?
- Umesh Revankar** NIMs should be on similar levels but if you want to pedal the growth probably we can pass on some benefit to customer but we can expect it to be on same level for time being.
- Prashant Shah** Looking at your standalone income statement your provision cost are flat on quarter On quarter basis but they are lower by 11% by YoY basis but your Gross in absolute percentage if you see, your Gross NPA are up by 30% and your Net are up by about 78%. So how do you explain this dichotomy?
- Management** See compared to year-on-year there has been a reduction because if you recollect in September 2011 because of the mining issue we had taken a one-time hit of around Rs. 60 crores and compared to the previous quarter that is June 2012 there is a marginal increase of around Rs. 10 crores on the provision on the write off and which is commensurate the increase in the AUM, I would say.
- Prashant Shah** Okay fine, just wanted to ask you this - the assets that you wrote off in the last fiscal in Q2, you have still included in your Net NPS?
- Management** That has been written off totally.
- Prashant Shah** It has been written off?
- Management** Yes.
- Moderator** Thank you. The next question is from the line of Devam Modi from Equirus Securities, please go ahead.
- Devam Modi** Basically wanted to ask about what percentage of asset and liabilities are expected to be reprised in the coming 6 months?
- Management** See roughly around 36 months is the average tenure, so one-third matures in a year on the assets side and the liability also it is the more of same.
- Devam Modi** And the assets are on a fixed basis and liability are floating basis on terms of pricing?

- Management** Yes, assets are on a fixed basis and liabilities 70% is fixed.
- Devam Modi** Liabilities 70% is fixed?
- Management** Correct.
- Devam Modi** 70% of liabilities is fixed and assets 100% is fixed.
- Umesh Revankar** Correct.
- Devam Modi** So what is the view on what percentage of off book should we want to be having in terms as currently probably there will be an issue with regard to the pricing at which you will be able to do securitization. So even then generally in 4<sup>th</sup> quarter you will probably see the highest demands. What percentage of total AUM can be assumed on a long term basis that we will be having off book?
- Umesh Revankar** Should be around 30%-35% the off book should be in that range.
- Devam Modi** But it will tend to fall during the year in the 1st 3 quarters and suddenly rise sharply in the 4<sup>th</sup> quarter mainly because of seasonal or that sort of demand for securitization.
- Umesh Revankar** Yes, normally the demand comes for priority sector assets only in the last Quarter, so we do last securitization only between January to March that is when the off book will grow.
- Devam Modi** Given that- if there is say some competition and yields drop to around 18% then the scope for doing this securitization goes away, right? You need yields of at least some 20% to do this securitization.
- Umesh Revankar** No, see what RBI stipulated is the differential between the bank base rate and the customer rate should not be more than 8%. So the customer rate should be lower than 18% then only it will qualify of a priority sector asset.
- Devam Modi** But say you will- all right sir I will take that off line and if you could just give more color on the rise in Gross NPA in this Quarter?
- Umesh Revankar** NPA has not risen it is almost same as last quarter against 3 it is 2.89 Gross NPA and Net NPAs are at 0.61% against 0.62%. So it is almost stable.
- Devam Modi** Sir, I am talking in terms of actual Quantum that is the- Gross NPA have gone up some-where around Rs. 790 crores to Rs. 868 crores. So this would be something as a part of the normal business you are saying, there is nothing extraordinary that has happened over here.
- Umesh Revankar** Yes, it is normal business, as the more assets gets expired and getting closed, as business increases this also increases.

- Moderator** Thank you. The next question is from the line of Saurabh Kumar from JP Morgan, please go ahead.
- Saurabh Kumar** Sir I have 3 questions: Firstly - Interest cost to assets for you have not come down even though we have seen some reduction at least on the whole sale part. So is it because of most of your liabilities were fixed and you have to re-priced this quarter or next quarter onwards
- Management** No liability costs have not come down, yes-because 70% of the liability as we have mentioned are fixed rate, incremental what-ever we borrow given the growth of-
- Saurabh Kumar** Even that 30% would be floating even there we should have had some relief. But that has not come down as well.
- Management** There is some relief, but we did also this NCD issuance of Rs. 600 crores, public issue, so there is up fronting of the cost there which has been taken a hit in the current Quarter.
- Saurabh Kumar** And you include all the processing charges as part of the interest cost, right?
- Management** Correct.
- Saurabh Kumar** Secondly, what would be the Automall disbursement now?
- Umesh Revankar** See, Automall do not make a disbursement it creates a transaction between buyer and seller.
- Saurabh Kumar** You will finance the other guy, right?
- Umesh Revankar** Yes, we will finance the other guy but right now the strike rate is around 50%-60%, and more and more strike rate is expected over the period.
- Saurabh Kumar** But as of now it will not be very significant, may be like 10% or something of the total disbursement?
- Umesh Revankar** Right now see, our disbursement per month if you look at is around 60,000 – 70,000 numbers. So it is reasonably significant-20,000, so over the period it should increase.
- Saurabh Kumar** Thirdly - On your rural strategy, I mean- we have about 513 branches as of today and we are talking about 400 rural centers getting added, how does your OPEX then move, because most of these branches may probably take at least 1- 1.5 years to break-even. So should we assume that there will be some kind of increase in OPEX?
- Management** No, because what we have done is we have put individual executives in charge of these rural centers by taking one single room as office and we have given them laptop and scanner to do the business and right now the office is not really big, and they are attached to the branches. So it is becoming a part of a branch expense only and branch gets the business. So over the period as the

volume goes up then we will add up one or two people there and go for bigger place. It may take another 1 or 2 years. But right now if you look at the business volumes what they do and expenses they are breaking even in third month itself.

**Saurabh Kumar** So, it is basically something like a hub and spoke where in-

**Umesh Revankar** You are right.

**Saurabh Kumar** Lastly, if I can just add one more question- see the incremental deal- if we do by the PTC route that will come on the investment book of the banks.

**Management** Yes.

**Saurabh Kumar** And there do not have any base rate constraint, so incremental you have already commented that you have a lot of demand for these loans. So how do you think about the cost benefit? If we do it by PTC obviously you get a rate which is far better than base rate but you will obviously have some impact on your capitals whereas with assignment you probably do not need any credit enhancement. So how do you think about it? Which is better in your view?

**Management** See definitely PTC as you rightly said will be bench mark to that similar rated instrument and since it gives the benefit of priority sector we can still command a better rate. This will be advantageous-Yes, and there will be capital hit-Yes, there would be for credit enhancement there will be a reduction from the capital but if you look at other borrowing what we have is roughly around 10- 10.5, this will come in between 9-9.5, so 1% advantage will be there on the rate part.

**Saurabh Kumar** So would you rather go in for PTC's or assignments?

**Management** Assignments nothing has been done till date. Banks are still evaluating. So we are not seeing any great demand in assignment as of now.

**Moderator** Thank you, the next question is from the line of Anand Laddha from HDFC Mutual Fund, please go ahead.

**Anand Laddha** Sir, just wanted to check- looking at the growth that we had done in the 1<sup>st</sup> half, do we need to change our guidance for the whole year in terms of disbursement in AUM growth? Because in all interaction these investors you have been guiding at them 15% growth is not sustainable.

**Umesh Revankar** Right now that 15% is something which I still feel comfortable numbers on a consolidated basis.

**Anand Laddha** I thought this will exceed that growth number looking at the growth in the 2<sup>nd</sup> Quarter.

**Umesh Revankar** Yes, 2nd quarter was exceptionally good compared to the last year 2<sup>nd</sup> quarter because last year 2<sup>nd</sup> quarter was little smaller numbers. So we have to see, when you see year-on-year, but AUM definitely 15% is something which we are confident of growing.

- Anand Laddha** Sir, if I have to look at our AUM growth of 16% YoY and NII growth including securitization income, it has grown by 5% YoY. If I have to look at composition also of the AUM between Q2 of last year and now the used vehicle composition has increased, so despite that NII growth has not been so strong including securitization. What explains that, sir?
- Umesh Revankar** Last year at the end of Q2 our NIMs were at 8.19, this year it 7.67 so there is little compression of NIMs and that explains the reduction.
- Anand Laddha** Sir, do you foresee the NIM to improve further back to 8% as the composition also changes in terms of used vehicle.
- Umesh Revankar** See NIMs should remain at this level because now our used-to-new is 78-22. I do not think further change would be there in fact in the last quarter normally the new vehicle number goes up, so the overall NIMs should remain at present rate.
- Anand Laddha** Sir, you just mentioned that this time the results got boost from the rural initiative which you have started, if you can just highlight or give some indications what sort of disbursement happened from this rural branches?
- Umesh Revankar** See, rural branches has given us Rs. 35,000 new customers and they are all totally new customers unlike in our existing branch where we get the existing customer coming back repeat or he taking additional vehicle. So these are new set of customers but they are known customers through our existing customers, so that is how we have been able to build and by the yearend we should have around 75,000-80,000 new customer in a new location. So that gives us an advantage of growth in the coming years.
- Anand Laddha** Sir, 35,000 new customers that mean almost Rs. 700 crores of disbursement because of that approximately.
- Umesh Revankar** Yes, approximately 2 lakhs.
- Moderator** Thank you. The next question is from the line of Rohit Gajare from UTI PMS, please go ahead.
- Rohit Gajare** Sir, regarding the other income of around Rs. 30.8 crores, can you tell me what was the breakup of that. Does it have any interest component let us say dividend for mutual fund or something?
- Management** No, it is basically the investment income, it comprises both of FD income as well as dividend from mutual fund.
- Rohit Gajare** So this entire thing is basically dividends from Mutual funds and FD interest.
- Management** Yes.
- Rohit Gajare** Because the corresponding in June quarter there was some Rs. 55 crores of –

- Management** Correct, if you recollect in March end we had securitized around Rs. 6,000 crores and we had that Rs. 6,000 crores throughout the 1<sup>st</sup> quarter which contributed more interest in other income and which we could utilize in the current quarter and hence the investment income has come down.
- Rohit Gajare** Sir and with regards to this move towards rural branches, I think it has been almost a year now that you have been trying this and what has been the credit experience, if you can share with me?
- Umesh Revankar** We started in the last quarter of last year, so I should say effectively 6-7 months now and since it is too early to comment but the portfolio is really behaving very well and we are very comfortable at this moment. So as the ticket size is also small and most of the customers are referred by our existing customers who were with us in Tire-3- Tire-4 cities. So we are not really exposing ourselves to a new set of customer but they are taking the vehicle for the first time, the drivers becoming the owners. So I should say that this will give us a base in the rural market.
- Rohit Gajare** Sir, again with regard to this rural expansion, how do you see the cost-to-income ratio for the overall standalone entity behaving? Do you think that it is safer to look at maintaining say 21.2 which you achieved in FY12 as for next couple of years or do you see some operating leverage benefitting us going forward and hence improving the ratio?
- Umesh Revankar** In fact for all practical purpose when we grow at present platform with technology the cost-to-income ratio has to improve and we are hopeful of improving on that.
- Rohit Gajare** Despite that rural sort of push we are still looking at some slight improvements in the future as well.
- Umesh Revankar** Yes, because see rural push is not really adding cost to us because we are not putting up brick and mortar big branch, we are putting a single executive there with a laptop, a scanner, and printer, so it is not really adding brisk cost to us, it is costing us around Rs. 60,000-Rs. 70,000 per center.
- Rohit Gajare** And the current employee count of I think 14,159 would include these rural executives as well?
- Umesh Revankar** Yes, it is all inclusive. Our existing senior executives are sent there, they are in the rural. The recruitment we will be starting now in a very aggressive way because some of the existing executives we have pushed to the rural. So now we are recruiting and probably we should add around 600 people by yearend.
- Rohit Gajare** Sir, another question on the asset quality itself. So as a percentage we have done a commendable job on a sequential basis, that has worked out well but on an absolute basis there has been an increase. So just wanted to understand that do you see that due to the environment that sort of run rate should continue in the coming quarters or it could worsen also from here?

- Umesh Revankar** I think current run rate would continue because more and more agreements are coming to expiry or closure, it will increase as per the closing of the contract. So run rate should remain same as a percentage.
- Rohit Gajare** Say around 2% of the AUM?
- Umesh Revankar** Yes, 2% of the AUM should be the credit loss and between 2.8-3 should be the gross NPA.
- Moderator** Thank you. The next question is from the line of Pranav Tendulkar from Canara Robeco, please go ahead.
- Pranav Tendulkar** I have just 2 questions. Average ticket size in the rural that you are observing and second is are you seeing any particular geography pushing the non-rural demanding CVs, so is there any color or is it M&HCVs or LCVs that is driving the demand in non-rural segment?
- Umesh Revankar** Rural, average ticket size is 2 lakhs and on the non-rural the growth has been good in Jharkhand, Bihar and some part of UP. Mostly eastern part other than Orissa has been growing quite well and mostly in LCVs and medium-commercial vehicle.
- Pranav Tendulkar** And no growth in the mining area in Karnataka?
- Umesh Revankar** No, there is no growth and we are also not really focusing on mining belt.
- Pranav Tendulkar** And if I have missed that figures, the average addition per month of the customers the total is 60,000 and rural is 35,000. Am I right?
- Umesh Revankar** No, rural is cumulative 35 I said, 60,000 per month is general lending.
- Moderator** Thank you. The next question is from the line of Hiren Dasani from Goldman Sachs AMC, please go ahead.
- Hiren Dasani** Yes, just some data related issue. It seems on your Slide \$17, the slide which shows about Shriram Automall related P&L, the H1 numbers are just not tallying to Q1 and Q2. So maybe there is some error there.
- Management** I think we will get back to you on that, there could be some regrouping so we will get back to you.
- Hiren Dasani** Yes, I mean there is some probably typo related error only because none of the lines are matching. Maybe you can just put up the updated presentation.
- Umesh Revankar** Yes, we will do it.

- Moderator** Thank you. The next question is from the line of Jyoti Kumar from Spark Capital, please go ahead.
- Jyoti Kumar** First question liabilities, what proportions of your liabilities are from banks today?
- Management** Roughly around 80% of our liabilities are from bank institutions.
- Jyoti Kumar** Purely bank?
- Management** No, bank institution, insurance companies, and mutual fund.
- Jyoti Kumar** The other question is: what proportion of your liabilities would be related to or connected to the base rate of banks?
- Management** See bank's term loans are roughly around Rs. 7,000 crores, that will be linked to the base rate and we have cash credit facility which is largely unutilized which is 5,000 which will be linked to the base rate.
- Jyoti Kumar** On your assets side, few couple of quarters back you said you are reducing your LTV and taking a hit on the yield side to protect your asset quality. Has there been any change in that approach let us say in the last couple of quarters?
- Umesh Revankar** No, there is no change in that approach because till the economy is not picked up to the expected level there could be a chance of resale value of vehicles coming down. So we are still going very conservatively on that.
- Jyoti Kumar** Sir, looking at your numbers in terms of construction equipment, it is seeing a smart jump but if we look at the commentary from other players who are there in the business, there they are saying clearly that there is a stress in the construction equipment segment. What explains this dichotomy?
- Umesh Revankar** See we are basically in mid segment, mid segment, a niche segment which we are catering to and we are just 1.5-2 years old, so not highly matured portfolio. So our portfolio is doing quite well and behaving quite well because may be we are focusing on a niche segment and known segment and also with reasonably good track record. So the professional team which we have hired for managing this business, they have been known these customers for long, so that explains the well balanced approach.
- Jyoti Kumar** Sir, you are saying rural stories more or less pretty good in terms of outlook and other competitors are also probably saying the same but if you look at the commentary in terms of rainfall there has been a delay in the rainfall also the Kharif production clearly RBI has said today that they expect a lower output. Again there is a huge dichotomy with numbers that macro throws up and monsoon data sort of indicates and somehow on ground reality seems to be pretty different. What is, in your opinion causing this difference?

- Umesh Revankar** Yes, there has been a talk by Agricultural Ministry and RBI that outputs are likely to be less by 3-4% over the previous year. So it is the base year that makes the difference because in the year 2009 when monsoon was short by 23% the output was same as the previous year. It did not really go negative and subsequently it went up by 7.5 in 2010 and last year it grew by 2.5. So till the output we get we will not be able to say how much the actual quantum of increase is or decrease in the output, so that is one thing and second thing is village economy today is not just agriculture, village is also having small scale industries and other activities because if you look at the overall village economy even the established players like ITC or Hindustan Lever they are all well entrenched and doing a very good business. And if you look at their success story and their FMCG product sales, they are selling almost 50% in the so-called rural market. So I feel the rural economy is quite strong and self-sustaining and not really dependent on the macro or dependent on the monsoon is my impression and our portfolio is young and new. So actually it is too early to comment but we are quite comfortable and happy with the way the response has been from the rural market.
- Moderator** Thank you. The next question is from the line of Deepak Rohra from Quest Investment Advisors, please go ahead.
- Deepak Rohra** Sir, I just want some clarifications- if you can help me-in terms of the treatment of the PTC verses the direct assignment in the books of banks for the securitization assets. Would both get classified at clarity sector because PTC I thought is more like an investment in the books of the banks.
- Management** They both will get classified at priority sector even though goes with the investment books it will qualify of a priority sector.
- Moderator** Thank you. The next question is from the line of Pranav Tendulkar from Canara Robeco, please go ahead.
- Pranav Tendulkar** Yes, I just wanted to ask that is there a YoY or QoQ change in the economics of securitizing and what is the actual thing that you are seeing on the ground in terms of the yields or the fees that you are getting generally?
- Management** What you are asking is whether securitization we have increased or decreased our volumes?
- Pranav Tendulkar** No, not just the volumes the economics of securitization is it still running as it used to in last year that is it.
- Management** The rates continue to be same in securitization and we have not done much in this quarter or even the year-on-year basis on the Q2 of last year which normally used to be, 4<sup>th</sup> September only the volumes used to pick up and rate wise I think we are exactly the same old rates whatever were they were previous year.
- Pranav Tendulkar** Any target date, how much of your portfolio you want to securitize for next 2 quarters?

- Umesh Revankar**                      Roughly off books we feel that should be around 30% - 35% of our overall AUM. Difficult to give the exact quantum but should be around Rs. 4,000 crores of securitization we will be targeting this year.
- Moderator**                              Thank you. The next question is from the line of Nikita Gupta from ICRA, please go ahead.
- Nikita Gupta**                            Sir, what is your outlook on the various segments of the CV industry in general?
- Umesh Revankar**                      See CV industry in the past figure you know that M&HCV have year-on-year decreased by 12% and LCVs are grown by 16%, but going forward this next 2 quarter, we were expecting some kind of improvement in the demand for heavy vehicles which we are not seeing because for heavy vehicle demand to increase industrial production has to go up, mining and coal movement has to start. So none of these have started, so I do not really expect heavy vehicles demand to go up in this quarter may be in the last quarter if there is some improvement in the coal and mining and also some industrial products in output increase there could be a demand. And as far as LCVs are concerned I think it will continue to do well at 15% to 16% for the rest of the year.
- Moderator**                              Thank you. As there are no further questions I would now hand over the floor back to Mr. Umesh Revankar, for closing comments.
- Umesh Revankar**                      Thank you all for this good results in a difficult time and we hope to improve on it in the next quarter and hope to see you next time. Thank you very much.
- Moderator**                              Thank you. On behalf of Shriram Transport Finance that concludes this conference, thank you for joining us and you may now disconnect your lines.