“Shriram Transport Finance Company Limited Conference Call to discuss Shriram Group – IDFC Group Merger Agreement”

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Ladies and gentlemen, good day and welcome to the Shriram Transport Finance Conference Call. As a reminder, all participants’ lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Umesh Revankar – CEO and Managing Director for his initial remarks. Thank you and over to you, sir.

Umesh Revankar:

Good evening for people from India and good morning to the people who joined from US. We are happy to inform you that the Boards of various Shriram Group companies have approved the proposal to examine a merger with the IDFC Group with an exclusive period of 90 days to finalize the structure, swap ratio, undertake due diligence, etc. This is a total package and individual company wise proposal.

This proposal would provide an opportunity for Shriram to transform itself into a mass retail bank. The merger would also provide the combined enterprise with a bank in its fold which will have bearing on cost of funds as well as provide an opportunity for our customers with the benefit of bank. This will provide us opportunity to provide more products to our customers and also bring in more synergetic offerings.

That combination will also bring in a complementary advantage to both groups as IDFC has a large footprint in the corporate segment and Shriram Group in the retail segment. The benefit of both brands would be taken advantage under common brand IDFC Shriram. The structure envisages a model wherein the SCUF will merge with IDFC Bank and rest of the business under Shriram Capital including STFC gets aligned with IDFC Ltd, the parent of IDFC Bank. The proposal is subject to various regulatory clearance and the requisite shareholder approval. The process is likely to take anywhere between 12 to 15 months.

I would like to highlight some of the points which had come up in the media. The Economic Times editorial has said the approach is to create in a display of animal spirit in financial sector that has been listless at best off late. The merger will be significant long-term gain to IDFC and to Shriram shareholders. This would expand bank retail footprint and give IDFC presence in multiple financial business ranging from insurance to share broking.

I would like to also highlight the comment made by our founder Mr. Thyagarajan. The company or group has to keep growing to have more impact on community. We need partners for the growth. We have had a series of partnerships in the past and this partnership would further help us to grow together. There are around 10 million customers of Shriram Group as potential client base for IDFC Bank for deposits, savings account and current account and also credit cards.
This would be huge CASA addition to IDFC Bank especially when today mobile banking is a key buzzword and banking facility can be given from anywhere to anytime. Advantage for STFC in specific overall reduction in cost of borrowing being part of large entity. We also believe over the period on our size it will make a substantial difference on our bottomline. I would like to recall your attention that during the initial period of demonetization we had to immediately get our act together and put payment gateway solution for our customer to immediately transfer the money and IDFC Bank I believe has a very strong technology platform which would help us to provide innovative and customized product to our customers.

Access to banking platform and banking products would help us to retain customer for a very long. We have observed that our customers who we source over the period they keep growing and ultimately, they migrate to bank and having a bank in our fold will help us to retain the customers for very long. And also when they have current account and savings account within our group we should be able to monitor their transactions and would be able to help them with better solution and better products.

In this new generation where payment banks and small finance banks are emerging this is a very good step forward for Shriram Group to take our customer with future transaction in mind and future business in mind with our bank in the fold. When we distribute third party products there are two distinct advantage. One the direct fee income helps our bottomline and another indirect - through customer satisfaction and long-term loyalty. We strongly feel that Shriram philosophy purpose, commitment of serving to the underserved community would be better achieved by having association and being part of banking group who believes in similar vision.

Thank you.

Moderator: Thank you very much. We will now begin with the question-and-answer session. We have the first question from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: I have a question on the shareholding of the top management of Shriram Transport and Shriram Capital. How much do you own in Shriram Capital? How much you as an employee or the top management of Shriram Transport own in Shriram Capital, what is your ownership?

Umesh Revankar: No, my personal question you are asking?

Amit Premchandani: No, we want to understand from the shareholder’s point of view Shriram Transport shareholder is getting IDFC Limited share. But from a management point of view, you may be owning Shriram Trust share and Shriram Trust will be owning Shriram General Insurance and Life Insurance. So I am just trying to understand when minority shareholders are seeing nothing in the deal, how are you justifying the deal from a management point of view?
Umesh Revankar: No, Shriram ownership trust does not own in Shriram Transport they own in Shriram Capital.

Amit Premchandani: Sir, what I understand is from the deal that Shriram Capital shareholders are getting a listed entity and an exit in the life insurance and general insurance business?

Umesh Revankar: They will get IDFC Limited share is the what proposal is.

Amit Premchandani: Right. But from a Shriram Transport shareholder, they are getting a share of a non-operating kind of holding company against the operating well run used CV company so how do you justify this kind of a deal?

Umesh Revankar: See, we are talking about the advantage for STFC customer and to STFC as a company. So when this customer gets advantage the company also would benefit by better customer loyalty and more customer being part of Shriram and also the fee income generated by cross selling and that business revenue will accrue to STFC and whatever the revenue accrues to STFC will accrue to the IDFC also. So being a holding company IDFC will have shares of bank, STFC and insurance companies. Insurance companies are unlisted, both the insurance companies of Shriram are profit making companies. They have been doing very well and they are likely to become highly profitable going forward. Being a part of a conglomerate, there is a huge advantage for insurance companies to do very well in future. So we expect all this benefit will accrue to IDFC Shriram, merged entity and that will benefit the shareholders.

Amit Premchandani: And what is the morale of the employees down the line when they read the interview of the largest minority shareholder talking about senior management of Shriram Transport?

Umesh Revankar: As far as Shriram Transport employees they are very happy because we have been looking at some kind of arrangement with bank in the past also to give some banking product to our customers, to retain our customers for very long, because retaining customer for long is very, very important. So Shriram employees are very happy especially Shriram Transport Finance Company employees are very happy because we are remaining a standalone. So there is no difference for Shriram Transport employee.

Amit Premchandani: But from a minority shareholder point of view, we own a direct used CV company we do not want to own a diversified financial conglomerate?

Umesh Revankar: No, we are taking the shareholders view also into account.

Moderator: Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: During the IDFC call on the deal, they said that this deal will help Shriram Transport in the form of reduction in the cost of funds. Without this deal the cost of funds will not go down? And secondly, when you say the IDFC will be able to cross sell the products to the Shriram
Transport customer, I would like to know without this deal you cannot have a tie up with one of the bank for doing this activity because ultimately the profit of having a higher CASA will go to the IDFC Bank not to Shriram Transport as a company?

Umesh Revankar: See when we have an arrangement with a bank our customer we source the customer with a great difficulty and we make him part of our customer. Then sharing the customer detail with any bank that means you are allowing the customer to go away from you. When you are just a arrangement. But within the group the customers remain within the group and he remains loyal to the group. This is why we feel having a bank in the group helps us. And the second point was?

Manish Ostwal: Cost of funds, sir?

Umesh Revankar: Cost of funds, see having a bigger large entity will help these costs of funds to be much better than as standalone company is what we feel. And IDFC has better rating now and that should help us going forward. So how much difference it will make I cannot comment on that. But there will be substantial difference in the bottomline.

Manish Ostwal: Okay sir and lastly, what you call the structure of Shriram Transport with IDFC so after this deal the Shriram Transport will be unlisted entity right, sir?

Umesh Revankar: Yes.

Moderator: Thank you. We have the next question from the line of Manish Shah from Comgest, Singapore.

Manish Shah: I can understand the benefit to IDFC as well as IDFC Bank but it is difficult to understand how it benefits Shriram Transport. I mean the IDFC Bank will be a separate entity with its own shareholders, so it has its own interests to take care of. Shriram Transport already has a good credit rating it is able to borrow funds at fine rates. I am not sure how it is going to help in reducing cost of funds, considering that the bank itself will be a separate entity.

Second is as shareholders minorities, we will be forced to invest in a bank as well as an NBFC when we wanted only to invest in specialized or specialist NBFCs where over the year the banks have found it difficult to penetrate. So this merger is really forcing us to have investments in entities which we are not very keen on?

Umesh Revankar: Yes, we will be taking all shareholders’ interest in our mind before getting into further details.

Manish Shah: Is there going to be a vote where the promoters cannot it is only the minorities who vote?

Umesh Revankar: It is special resolution where everyone can vote.
Manish Shah: 

Everyone can, including the promoters, all the shareholders?

Umesh Revankar: 

Yes.

Manish Shah: 

Okay and I mean the first question was how does it help reduce cost considering that the bank is a separate entity?

Umesh Revankar: 

See, IDFC as a head of a conglomerate definitely there is the derived advantage on getting a reduced cost. We feel that it can be substantial when it comes to bottom line looking at our size.

Manish Shah: 

I mean Shriram itself is quite a big size in the Indian context and therefore it is already getting very fine rates?

Umesh Revankar: 

We feel that there is a further opportunity to reduce.

Moderator: 

Thank you. We have the next question from the line of Karthik Chellappa from Buena Vista. Please go ahead.

Karthik Chellappa: 

I mean like what some of my previous investors also shared, I actually fail to see the benefit for Shriram Transport. Firstly, on the cost of funds point which you made, now unlike SCUF which will get merged with the bank and so they might have access to let us say maybe deposits or so, we are going to retain our identity as a standalone NBFC. So whatever cost of funds benefits that you are highlighting because of the IDFC parentage, I mean given that we are in a interest downward cycle anyway, do not you think the benefit that we get on cost of funds alone might just be less than let us say 100 basis points maybe 50% to 75% basis points which we would have anyway got because the rates are anyway going down. So do you think the benefit of this cost of funds is tangible enough for us to actually dilute our identity and get IDFC shares in return?

Umesh Revankar: 

As far as brand and identity is concerned it will not be lost because it will be IDFC Shriram. But as a shareholder, yes, we agree but we feel that even a 25-basis points difference if we get on our size, it will be substantial on the bottom line. So we have to understand that as rates become finer and finer, even a 10 to 15 basis points can make a difference in our bottom line. And also we have added advantage of earning revenue through cross selling the fee income what we generate. And the third one is most important, we have to understand we have been nurturing customer and trying to retain the customer. If bank is in the fold retaining customer for long for various other banking product becomes easy. So in the long run, shareholders will benefit much better if they are part of the conglomerate especially in India where your customer loyalty and the giving in multiple product, multiple services are very, very important.

And I feel that is going to help us in the long run. In the short run the benefit may not be visible but in the long run it will be extremely beneficial because we are able to retain the
customer and have a reasonably good margin. And another big advantage is when you are retaining the customer for long, there is a huge advantage on cost of operation. Your cost of operations are likely to be much lesser when you are able to retain the customer for long. So all these benefits probably we cannot really illustrate by giving numbers. But definitely that is going to help our shareholders in the long run.

Karthik Chellappa: Okay. And sir my second question is I mean starting just the previous quarter we had started ramping up our employee hiring which has been frozen at least for the last few quarters and we were actually poised to grow again at about 14%, 15% AuM. Now given that for the next 90 days the management bandwidth is going to be consumed with all the due diligence and the swap ratios, etc. Is there any other change in guidance at the margin on your growth or employee hiring or the way you want to go about the organic part of the business?

Umesh Revankar: There is absolutely no change in the way in the direction in which we are going. And definitely the bandwidth is large enough to allocate enough time for all those things. So everything will be as per the plan. There is absolutely no change in the plan.

Karthik Chellappa: Okay and last question is, as far as the deal is concerned the origination of the deal was it IDFC which actually approached us or we were keen to scout out for a banking partner and we zeroed in on IDFC. How did the whole thing come about?

Umesh Revankar: We cannot comment on that.

Karthik Chellappa: Okay and for the remaining minority shareholders which is let us say listed in your presentation or so, have you sounded out to them and got their feedback and what has the feedback been?

Umesh Revankar: We have been talking to the shareholders who are large enough and known to us and without having some kind of a positive comment we would have not have continued.

Moderator: Thank you. The next question is from the line of Balaji S from Punjab National Bank. Please go ahead.

Balaji S: We understand that the Shriram Transport Finance Corporation is going to be merged with the parent IDFC Limited as a subsidiary and this other company Shriram City Union Finance is being merged with the IDFC Bank. It will be totally taken by the IDFC bank actually. What is the reason for these two differences, why both the companies they are not decided to go in the same fashion of mergers? This is point number one.

Umesh Revankar: I think that clarification is already given by both Shriram Capital and IDFC Bank it is in the media. So I think you can refer to that.
Balaji S: Okay then one more thing. These approvals have to be taken statutory approvals from Reserve Bank of India and SEBI these have to be obtained. Whether STFC will be applying for these approvals after 90 days, after the due diligence is over, or before that they will be applying, sir?

Umesh Revankar: It will be simultaneously happening.

Balaji S: Okay by what time you expect to get the clearances for these statutory approvals like RBI, SEBI etcetera?

Umesh Revankar: See 90 days is the ideal time we have suggested but some of the regulatory clearance may take time. We cannot comment on that.

Moderator: Thank you. The next question is from the line of Nilesh Parikh from Edelweiss Securities. Please go ahead.

Nilesh Parikh: This is Nilesh here. I had just one question pertaining to this. You have alluded to fee income so just wanted to if you can expand that, what the stream of fee income that we will be able to garner which we actually cannot do it today?

Umesh Revankar: We are now getting fee income by selling the insurance and the banking products when we sell probably we have to we cannot have a number right now because when we have 10 million customers the opportunity will accrue over the period. You cannot say tomorrow I will get so much. So you need to get all customers together and one by one probably will get introduced to the banking products. So over the period it will accrue.

Nilesh Parikh: I am not actually asking for numbers. I am asking which type of products because today as you have mentioned, insurance is something which is already there in the group. Asset management is there in the group so what type of products is something that we are going to get fee income on for the nature of our customers basically?

Umesh Revankar: The banking products are many. So it depends upon how we have arrangement with the bank. That will decide on what kind of an income we would be able to generate over the period and the customers’ requirement also can be customized and it can be specific so and today you can sell banking products from anywhere and anytime. It is not that you need to have a brick and mortar bank branch next to you. So opening a bank account is easy even with the payment bank is coming they do not have any branch at all.

So if you are able to open the bank accounts for everyone, savings or current account or the credit cards, then it will open up various other opportunity to sell. It can be DD requirement, it could be the LC requirement of our customers, and he may be getting into new businesses. So many things are there. So we cannot list out everything and give you the fee income that can be generated and amount to justify that. But we feel there is a great opportunity and that will
be mutually beneficial for STFC and to bank and to the customer. So we feel that that is a great opportunity.

Nilesh Parikh: Sir, the reason why I am asking because bulk of the opportunity will be housed with the IDFC Bank right so it is if today if hypothetically if Shriram Transport was merged with I completely appreciate your point saying that the cost of benefit advantage but that is true for when it is kind of getting acquired by a bank which carries that kind of a liability franchise which you cannot say the same for IDFC Bank today. So from that perspective I am just trying to see if today an entity which is kept outside what benefit does it derive from a fee income as against if that was the case in terms of trying to get the sourcing of a liability franchise then a direct merger with the bank would have been more appropriate rather than keeping it separate?

Umesh Revankar: No, everything we have examined and after that only this proposal has been made.

Nilesh Parikh: Also just wanted to confirm you were talking about that most of the customers are now migrating at later stage to and they are more demanding from a banking product perspective. Now is it fair to assess that from a NBFC perspective, it makes sense only for a particular up to particular scale and then after that the banking is the end game for an NBFC?

Umesh Revankar: Yes having a bank within the group will be a much more better solution so that you capture the customer and give him whatever his needs are. So we felt that this is a win-win situation.

Moderator: Thank you. The next question is from the line of Ashwini Agarwal from Baroda Pioneer Mutual Fund. Please go ahead.

Ashwini Agarwal: Sir, we were always given an understanding that whoever the customers of an NBFC is, is not really bankable in terms of whether credit quality or whether in terms of nature. That is why he comes to Shriram Transport and takes a loan at 16%, 17% or more on that whether Shriram Transport or SCUF. Now we people are talking that this will help in cross sell. If it is not bankable then how he cross sell, because in terms of the assets which he has he comes to an NBFC and his credit rating is not as per the banking norms. On the CASA and everything, typically these sort of customers they keep their money more with PSU banks rather than private sector banks. Even for various products the PSU banks charges lesser than a private sector bank. So how do you plan to compete or how do you plan to do all these things?

Umesh Revankar: No, it is not true that these people prefer to deal with public sector banks not with private sector banks, it is not true. If it is so then they would not have come to us at all. The very fact that they are coming into NBFC that means they have a banking need and they also need accounts like any other person.

Ashwini Agarwal: I am agreeing to the fact that whatever money they have if they want to keep deposit, they keep in PSU banks or for any bankable service apart from loans they go to PSU banks. This is my understanding?
Umesh Revankar: See if they are going to PSU banks then how we are getting customers? We have been getting customers and please understand and appreciate, we are deposit taking NBFCs, so we have large number of deposit base. It is not that we are not new to the savings product. We have the large number of customers who have deposited the money with us combinedly as SCUF and STFC we have Rs. 10,000 crores deposits. So we understand the liability product also.

Ashwini Agarwal: Sir, but as you were saying that the cost of funds will go down as you become IDFC so all these people who have invested with you at 10% or 11% whether you or SCUF then you will not be able to offer them those rates. You will reduce your rates, right. So will they stick with you again?

Umesh Revankar: See a customer becomes sticky over the period and they would like to be with a particular brand. So as you rightly said in the beginning, some people would like to deal with public sector banks only. There are many customers who would like to stick with a brand; so we are confident that our customers will remain with our Shriram brand, IDFC Shriram brand.

Moderator: Thank you. The next question is from the line of Arun Thirumalai from DC Investment. Please go ahead.

Arun Thirumalai: Is there any long-term plan to eventually merge STFC with IDFC Bank?

Umesh Revankar: There could be, we cannot say the timeline. There could be an opportunity. We cannot talk about the timeline now.

Arun Thirumalai: Alternatively, in terms of a structure, we have had this STFC where the NBFC is a separately listed entity in the bank itself is a separately listed entity. So would not we have thought about the similar structure where STFC could have been a listed entity with a some shareholding from the IDFC Shriram combined entity and the capital merged with the bank so we could have had two separate listed entity. Why we are asking this is because I do not think the merged entity can ever get a similar ROE as say a standalone NBFC. So as minorities, we would be trading a high ROE business to a low ROE business eventually. So that was the concern?

Umesh Revankar: Yes, we understand, we appreciate all the shareholders concern and we will address these issues as and when we work out the solutions.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from Alfaccurate Advisors. Please go ahead.

Rajesh Kothari: Sir, over a period of next five years let us assume that everything goes as per your plan, I am sure that since you are considering merger you must have evaluated various synergies. Can you just broadly tell us that over next five years which are the various synergies more on
quantitative terms which can help Shriram Transport to gain significantly compared to its own original business plan?

**Umesh Revankar:** No, see our business plan will be as normal we do not have a separate business plan now. What we have started we are continuing to do and we have strategies to conquer certain segments, certain geographies. That will continue as per the plan. So in the new situation things are not going to change.

**Rajesh Kothari:** So there are no benefits?

**Umesh Revankar:** Benefits you mean the post-merger benefit, the only benefits would be the lower cost of fund and the cross-selling opportunities. These are the two benefits for customers and for STFC.

**Rajesh Kothari:** And cross selling opportunity which you are talking about is more for you or more for the bank?

**Umesh Revankar:** It is business for the bank and fee income for STFC.

**Rajesh Kothari:** What sir fee income for?

**Umesh Revankar:** Income, by cross selling we can generate certain fee income.

**Rajesh Kothari:** I mean you mean to say that your customers will be available to the bank and therefore you will get origination kind of a fees from IDFC bank.

**Umesh Revankar:** Yes, we need to work out on all those things.

**Rajesh Kothari:** Okay so that is what you meant am I right when you say?

**Umesh Revankar:** Yes you are right.

**Rajesh Kothari:** Okay and as I understand because there were some reports somewhere that you will be giving the buyback option to Shriram shareholder investors somewhere it was mentioned I do not know couple of days back. So that is part of the structure or that is not part of the structure?

**Umesh Revankar:** No, there is nothing like that.

**Rajesh Kothari:** Okay so basically Shriram Transport shareholders will get IDFC shares and IDFC will own 100% of that company, am I right?

**Umesh Revankar:** Yes, you are right.

**Rajesh Kothari:** So it will be de-listed?
Umesh Revankar: Yes.

Rajesh Kothari: Okay and lastly how big is Shriram Capital apart from the insurance business is there anything else what Shriram Capital owns?

Umesh Revankar: No basically it is NBFCs and insurance companies.

Rajesh Kothari: So how big is that NBFC?

Umesh Revankar: STFC and SCUF are the NBFC.

Rajesh Kothari: Okay that is it, nothing else like for example there are lot of chit type of business of Shriram capital?

Umesh Revankar: No, chit is not part of capital.

Rajesh Kothari: Chit is not part of capital okay. And that business continues to remain or that business will be?

Umesh Revankar: That will continue to remain.

Rajesh Kothari: Separate, this will remain separate?

Umesh Revankar: Yes.

Rajesh Kothari: I see. And just a thought that why IDFC should own 100% of Shriram Transport. Even if just the management would have been changed, promoters to promoters then everything would have remained as it is, am I right. So why a merger, why a forced merger of holding IDFC shares?

Umesh Revankar: See it is a proposal, it is a well thought out proposal. To have a group together and have a group where we also have advantage of having a bank.

Rajesh Kothari: No, what I am saying instead of just a shareholding change?

Umesh Revankar: I understand your point. But how we have done the proposal, we have to see. Now 90 days is there if there is any change in proposal we will look into it.

Rajesh Kothari: What I am trying to say is that I am sure you must have got variety of questions and most of the questions are pertaining to the fact that nobody would, probably shareholders prefer to own direct Shriram Transport rather than IDFC shares. So there is no such right justification of one structure over other am I right. You guys keep saying that we have evaluated all the possibilities, but we do not see a single point where instead of holding a separate company
why forced merger with IDFC bank. I mean IDFC could have hold the Shriram Transport with a 51% ownership?

**Umesh Revankar:** I agree and I appreciate your point.

**Rajesh Kothari:** So is there any reason why this structure is better, IDFC structure is better than the alternate structure, what is the reason? What is the merit?

**Umesh Revankar:** No, the merit we felt is that there are unlisted businesses in Shriram group, that is insurance companies. Both general and life insurance are doing very well.

**Rajesh Kothari:** Let them go to IDFC, that is not a problem. I am talking about Shriram Transport?

**Umesh Revankar:** That is what I am telling you. When we have a bank, insurance company and the NBFC on a common IDFC Shriram entity there will be a long-term benefit for the shareholder is what we feel and that is what we propose.

**Rajesh Kothari:** Yes that will anyway accrue if the IFDC hold stake, that will continue. It is just a change of promoters. Why minority shareholders to be sold?

**Umesh Revankar:** No see we have just put a proposal and we will get into the details and come with a swap ratio. Then we will look in to it.

**Moderator:** Thank you. The next question is from the line of Sangam Iyer from Shubhkam Ventures.

**Sangam Iyer:** It is kind of a question continuing from the previous participants who have been asking. Given that if I were to summarize given that all the benefits in the longer term are accruing at bank entity be it the incremental cross selling businesses that comes to the bank or incremental customer accretion to the bank, why the rationale that we are merging Shriram Transport into IDFC and then creating a holding company discount kind of a structure for the existing shareholders of Shriram Transport who can directly deal with the listed entity? Why not put the Shriram Transport also into the bank if that was the case, then you have the whole entity with the banking structure in place and the whole benefit is also accrued to the same shareholder here rather than via a holding company discount?

**Umesh Revankar:** No, I think this has already been explained through media why STFC is kept as a separate entity. I think you can go through the details.

**Sangam Iyer:** I understand that but given that incremental benefits are nothing much that are accruing to STFC per se from a business perspective or even from a longer-term cost benefit perspective. I mean cost of fund also reduction would directly happen if you were part of the bank. So from that perspective I am just trying to understand that here as a shareholder of Shriram Transport
this kind of creating a holding company kind of a structure rather than an operational entity here, right?

Umesh Revankar: No, see when you are admitting that there is enough benefit accruing to the bank you should also appreciate that same holding company will be holding both banks and STFC.

Sangam Iyer: No, but that happens to a holding there would be an indirect structure, right?

Umesh Revankar: So STFC also will be benefited by fee income and by getting more customer bank also will be benefited so both will be benefited and both benefit will go to holding company. So the shareholders of holding company will benefit from both.

Sangam Iyer: What you are saying is that but when the fact is that given there is a holding company structure coming in, there is always a discount that comes into the picture and so that is where the whole point of the accretion of the benefits to the minority shareholders gets diluted?

Umesh Revankar: See, what I feel is over the period the discount factor will go is what I feel because when there is a transmission of benefit from the companies directly to the parent company whatever the discount which we are talking that will go over the period is what we believe.

Moderator: Thank you. The next question is from the line of Nandita Agarwal Parker from Karma Capital. Please go ahead.

Nandita Agarwal Parker: I guess my question relates to it is twofold. One is how long was this process discussed before the structure was put together? That is my first question. Like how long has it been in the works, is it like three months’ kind of thing or has it been going on for a year?

Umesh Revankar: No, it is not very long but it has been discussed over four, five months.

Nandita Agarwal Parker: Okay. And the reason I asked that is just to understand the commitment of the two managements to do it in this particular way or the flexibility to change it if you could respond to that. And I know that you said you will take minority shareholders’ interest into consideration but I just wanted to understand how much flexibility there further is because there is a bunch of swap ratios out in the market being discussed and if you could just shed some light on that?

Umesh Revankar: It is basically two entities are coming together. It is more of a partnership than any kind of merger or acquisition kind of a situation. So it will be mutually beneficial for both the companies, both the Group I should say and it also should be beneficial for the shareholders. So we will definitely look into all this angle before concluding on various ratios.

Nandita Agarwal Parker: Right and I guess this all stemmed from the industry so you are talking about synergies and I appreciate that. But there is also opportunity cost related to how long it will take to integrate
these entities so that they can function together. There is a very big difference in cultures, in how IDFC Bank was started only recently as well and you know how you have been running your companies. And Mr. Piramal mentioned recently that it will take two years for him to integrate Shriram Capital with his financial services company. So it obviously cannot take less than that period of time.

And so there is an opportunity cost, the synergies that might accrue in terms of cost saving whether it is cost of funds etcetera might be diluted extraordinarily by the difference in cultures and integration and management teams which are very, very important issues in the banking system. And I just wanted you to shed a little bit more color on that in terms of how you are thinking about that and how you are talking about whether that we are changes in management team or how you are thinking about the leadership?

Umesh Revankar: See as far as Shriram Transport Finance Company is concerned, nothing is going to change. So there is absolutely no issue on integration issue and loss of productivity per employee. So we feel that there will be absolutely no challenge in that. But yes, there could be some challenges in Shriram City Union Finance with bank but I think being it is a very advantageous situation we should look into the advantage also when accounting what we lose on timeframe or some cultural matching. But as an overall two group coming together I do not see any challenge.

I feel it should be happening reasonably seamlessly and whatever there are senior leaders in both the group who are matured enough to understand and take it along. So I am extremely confident that all our senior teams will be able to put aside whatever challenges whatever the hurdles that come and we can integrate seamlessly and go ahead. And since the advantage what will be accruing will be much more we should get through that as early as possible so that benefit accrues to everyone, customer and shareholders.

Nandita Agarwal Parker: I appreciate that. Just on that you mentioned the approvals, have you already started the approval process with RBI, SEBI and IRDA?

Umesh Revankar: No, it is just started, so it will take time.

Moderator: Thank you. The next question is from the line of Shekhar Singh from Excelsyor Capital. Please go ahead.

Shekhar Singh: Just wanted to understand like are Shriram Transport Finance to get delisted and 100% owned by IDFC Limited. Should not the shareholders or say if you are buying full controlling stake through a stock merger so particular share swap or something? Is there some sort of a provision for a good premium to be paid in terms of the swap ratio? Are you basically thinking on those lines or?

Umesh Revankar: No, see when we calculate swap ratio I think definitely this will be looked into.
Shekhar Singh: Correct because see you always had your option of maintaining Shriram Transport Finance as a listed company also. In the sense like IDFC Limited could have taken some stake and there still were some listed portion of it. Here what we are doing is we are basically converting it into a totally unlisted firm so to that extent there has to be a significant premium for that. So I just wanted to know like how do you quantify that premium?

Umesh Revankar: No, we will look into it because we have now time of 90 days it is just started so before concluding everything, every shareholder interests will be seen and I will try to protect the shareholders interest.

Shekhar Singh: No, in the sense like it is not any group of shareholders like it is the entire shareholders of Shriram Transport including the promoters, you are giving up something which is very precious and you are giving up each and every bit of it. Then you have to have some sort of swap ratio which takes everything into account?

Umesh Revankar: Yes, we will definitely Shriram Management and Shriram team will definitely look in to it and we will appreciate your point.

Moderator: Thank you. The next question is from the line of Dhawal Mehta from Somerset Capital Management. Please go ahead.

Dhawal Mehta: My question is you talked about Shriram’s cost of fund, it is getting benefit of lower cost of funds. My question is as far as Shriram is concerned, nothing changes apart from the ownership. I mean right now it is listed and it goes to be unlisted. So just because Shriram is held by IDFC that also happens to own a bank, how does Shriram’s cost of fund going to be any significantly lower than what it is currently. Currently also you borrow at extremely good rates, so is that such a big quantifiable benefit for Shriram in that the cost of funds will come down significantly?

Umesh Revankar: See we feel that even if there is a 10, 15 basis point advantage it is significant for our size. So we feel that the advantage can be much more than that, so for our size I feel it can make a huge difference.

Dhawal Mehta: Which is true sir but there is actually no direct association with IDFC Bank I mean Shriram Transport is just going to be held by IDFC but also happens to own a bank. So where is the association with IDFC Bank and that relates to the other question also sir. As I see it over the last so many decades Shriram has built a very loyal customer franchise and kudos to the management who has done it. But my question is that the loyalty is towards Shriram, the loyalty is not towards IDFC or IDFC Bank, why would a customer or why would a customer suddenly want to bank with IDFC Bank.

They want to do business with Shriram because they know Shriram and they have been doing business with Shriram. Why would they want to do business with IDFC Bank when there are
thirty other banks in the system that are doing everything that a bank can do in terms of products, in terms of distribution, in terms of reach and so on? So I can understand IDFC Bank’s or IDFC’s interest in having this merger. I simply cannot understand how Shriram will benefit from this. I mean as much hard I try to understand what is it that you gain on day one. It is a bit difficult for me to understand, sir, if you could elaborate on that?

Umesh Revankar: As you rightly put it Shriram has highly loyal customer base and we have built it assiduously over so many years. What we need to do is we need to benefit them much more because even if they have opportunity of banking with other banks, they may not get the same advantage or treatment. What if it is a Shriram related or Shriram Group can give. So within Shriram Group we have a bank our ability to give service will be much better.

And one other thing is, customers gradually over the period will move away from NBFC if you are not able to give them banking products. So we feel that having bank in the group will hold the customer within the group. See when I say group we have to understand that the benefit will accrue to the parent. So I feel the customers’ longevity and loyalty can be better protected when we have a bank within the group.

Dhawal Mehta: No sir, I understand that point completely, but my question therefore is that I would think that any bank would love to tie up with Shriram because you know you have the franchise, you have loyal customers, you have such deep distribution. So I think as I see the negotiating power is in your hands. I mean you have the customer, you have the distribution, so why IDFC Bank I am sure any bank would give an arm and a leg to kind of tie up with you if you can sell their products to your customer. So which again goes to my point as I see it your, the value that Shriram has built in the business to my mind is significant. So will that get the requisite value is my concern?

Umesh Revankar: No, I appreciate your point. But see we can tie up with any bank but any bank is different from having a bank within the group. So in IDFC Shriram in a merged entity we have a bank within the group, that captures all the advantages. But if at all we tie up with somebody else outside bank, it could be only till the arrangement is there. So there may not be a permanency in holding the customer. When you have a group there is a permanency. So whatever the advantage and whatever the benefit to the customer will be permanently captured. So we feel that it is a long term, it is a great advantage having a bank within the group.

Dhawal Mehta: Sir, my thing is that the point that I made earlier in that that Shriram has built a very valuable business, distribution, loyal customers. Are these factors being considered when you kind of decide on the swap ratios. I mean my point is I just feel as if Shriram Transport minority shareholders I feel that the assets that Shriram has I mean to put it bluntly I think IDFC if you just leave valuation aside for a minute, the feeling I get is that IDFC is getting a great deal and the only way to compensate and the only way to kind of compensate that is the if Shriram shareholder get value for that. I mean as I see it like I said if you leave valuation aside, IDFC
seems to be walking away with a great deal in my view. Now I am just hoping that Shriram shareholders get requisite value for that?

**Umesh Revankar:** No, I appreciate your point, at the same time please understand the value will be captured within the group. Even if a bank is getting the advantage the value is getting captured within the group so the shareholders will get all the benefits.

**Dhawal Mehta:** No sir, you know again I am going back. This point has been made earlier, but sir what happens is that as of now as a Shriram shareholder okay I understand I get the benefit as in Shriram. But now given that IDFC is such a large conglomerate, it has multiple businesses, because of the holding company structure that benefit does not and now Shriram Transport is going to be unlisted so there is no opportunity for us to invest directly in a business if we like for such a long time. So in some sense it is getting lost in that large vehicle that is IDFC. So I am just hoping sir that this factor is recognized and that Shriram shareholders get adequately compensated for the fact that they are giving up on and they are kind of allowing somebody to benefit from Shriram’s business?

**Umesh Revankar:** No, we appreciate your point and definitely it will be taking into account or into consideration, while arriving at the swap ratio. So let us work out it and we will present you the proposal subsequently once we arrive at swap ratio.

**Moderator:** Thank you. The next question is from the line of Anjali Sinha from Macquarie. Please go ahead.

**Anjali Sinha:** Sir, as per SEBI’s 2013 regulation any listed company undertaking a scheme of arrangement actually needs a special resolution past where the public shareholders voting in favor of the deal should be two times that of voting against. And the rule specifically mentions that only public shareholders will vote, but you mentioned earlier on the call that all shareholders including the promoter will be able to vote on the deal. So how does this work, does this deal is not come under scheme of arrangement or is my understanding on SEBI regulation wrong?

**Umesh Revankar:** We will get back to you because we need to really take experts view on that but whatever the rule we will abide by that. We will not be able to go without following the rule so whatever maybe the regulation and rule we will strictly follow that.

**Moderator:** Thank you. The next question is from the line of Ashok Kumar from Unifi Capital. Please go ahead.

**Ashok Kumar:** Sir, when you say you are trying to cross sell to the customers of STFC what was the exact products that you have in mind because the way I see it Shriram already has insurance companies, it also has an AMC so and you have a chit franchisee also which actually acts as a kind of a source of customers for SCUF and STFC. So going forward it looks like now STFC
and SCUF will be hived off from that franchise. So what products are you looking at to cross sell to the existing customers using this merger opportunity?

Umesh Revankar: See, having a current account, savings account and possibility of giving a credit card to our borrowers is a good cross selling option. And as and when more and more of our customers prosper and start to get into bigger larger businesses, they get other banking products. So it is going to accrue to the customers over the period and that is going to benefit Shriram Transport over the period. And whatever benefit goes to bank and whatever benefit comes to Shriram STFC will accrue to the parent company. So it will be captured within the group all the benefits.

Ashok Kumar: Sir, and we hope that some of the queries raised by the minority shareholders you would be taking it to the Board of STFC sir given the fact that some of the shareholders have expressed displeasure over the fact that we are actually getting shares of holding company instead of a standalone vehicle finance company?

Umesh Revankar: Yes, definitely we will discuss in the Board and I will take it personally on that issue.

Moderator: Thank you. The next question is from the line of Aditya Singhania from Enam Holdings. Please go ahead.

Aditya Singhania: Thank you. My question has been answered.

Moderator: Thank you very much. Actually that was the last question in queue. As there are no further questions, I would like to hand the conference back to Mr. Umesh Revankar for any closing comments.

Umesh Revankar: I would like to repeat what I said in the last line while starting that we strongly feel that Shriram philosophy, purpose, commitment of serving the customers who are under served community would be better achieved by this association and having a part of bank in our group. So we feel that not only the customers even the shareholders will benefit in the long run and the benefit of having the all companies together and capturing the benefit of the new companies which are yet to be listed like life and general will benefit everyone and all the shareholders is what I would like to say. And thank you very much for joining me in the short notice.

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