

Shriram Transport Finance Limited
Q3 FY08 Earnings Call
January 24, 2008

Moderator: Good afternoon, ladies and gentlemen. I am Monali, the moderator for this conference. Welcome to the Q3 FY08 earnings call of Shriram Transport Finance Limited organised by Four-S Services. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to hand over the proceedings to Mr. R. Sridhar of Shriram Transport Finance Limited. Thank you and over to you, sir.

R. Sridhar: Good evening to all of you and welcome to this analyst meeting for Q3 results. We declared the Q3 results yesterday. I hope that the numbers are with you. The quarter highlight of the performance is that income moved up 79.2%. The profit after tax was up 95% during this quarter. As against Rs 54 crores, we have done about Rs 107 crores net profit, which takes our nine-month profit to Rs 274 crores as against Rs 190 crores in FY07. This has been possible due to a strong investment growth during this quarter. The total disbursement during this quarter has been about Rs 3,053 crores and as usual, used vehicles contributed the maximum - it stood at Rs 2,200 crores. The balance Rs 853 crores came from new vehicles. This is against Rs 1,792 crores in the same quarter last year, regarding growth disbursements. Consequently, assets under management have moved up - it stands at about Rs 10,600 crores as of 31 December 2007. During the quarter, we have also raised capital for meeting future growth as planned. The capital-raising program concluded in December. Out of the planned Rs 600 crores, we have raised Rs 384 crores in phase I, leaving Rs 216 crores by way of warrants with promoters, which may be converted at any time within 18 months. This capital is sufficient for our growth plans till March 2010. The debt inflow into the company to meet the disbursement growth is comfortable, and we are moving towards more of banks and institutional loans. Now, the proportion is - 85% of our total borrowings are in banks and institutions and 15% in retail. It was 74% and 26% in the same period last year. Credit quality has been stable, and gross non-performing assets have come down a little - at about 1.63% and the net NPAs were around 1.01. During the quarter, we have also increased our reach by adding more branches, around 11; taking the total to 402. The number of people on the field, mostly the field officers, has increased considerably during the quarter. We have added about 1,200 people, and the total employees are now around 7,500. Looking into the future, we are very confident of the growth in the coming quarters. The commercial vehicle industry is undergoing a little bit of a slowdown, particularly in the new commercial vehicles. This, we have been claiming, is on account of excess capacity built up

in the system, and hence, the new commercial vehicle buyers have preferred to defer and postpone the purchase of new vehicles. I think the first nine months, medium and heavy commercial vehicles have seen a 10% slowdown. Other vehicles like light commercial & small commercial vehicles are showing growth. Of late from December, we are seeing improvement and I am confident that in the next three to six months, things will stabilise and start moving up in the new commercial vehicles. However, being a predominantly used-vehicle financier, we are not very much affected by the slowdown in the new commercial vehicle sales. Since we are not increasing capacity, the used-commercial vehicles' demand for money is quite substantial. Apart from the acquisition credit, we have also introduced various other requirements credit for the truck owners and that takes our disbursements up. So, we are very confident that in spite of a small slowdown in the new commercial vehicle segment, our disbursements will not get affected in the future and we would be able to see reasonably good growth in our disbursements in the coming quarters. With this I leave the forum to questions and answers.

Moderator: Thank you very much, sir. We will now begin the Q&A interactive session. Participants who wish to ask questions may please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking questions. To ask a question, please press *1 now. First in line, we have Mr. Ashish from Enam AMC.

Ashish: Good evening, sir. Congratulations.

Moderator: Ashish, sorry to interrupt you, sir. There is some disturbance from your line. Can you just dial back again, sir?

Ashish: Sure.

Moderator: Meanwhile, we will take the next question from Ms. Manjari from HDFC.

Ms. Manjari: Congratulations sir, on a great set of numbers. What would be your capital adequacy as of 31 December?

R. Sridhar: It is slightly above 15%.

Ms. Manjari: Your statutory requirement is 10% right?

R. Sridhar: 12%.

Ms. Manjari: 12%?

R. Sridhar: Yes.

Ms. Manjari: This would fall under a deposit-taking SI right?

R. Sridhar: Right. We are a deposit-taking NBFC classified as an asset financing company. We have a capital adequacy of 12%. Non-deposit taking systemic NBFCs have got 10% capital adequacy.

Ms. Manjari: Right. Yes. What would the corresponding number be for the previous year, sir?

R. Sridhar: Previous year could be around 14%.

Ms. Manjari: Okay. So it has improved to this capital infusion.

R. Sridhar: Yes. It would be around that level always. We see that it remains at that level by investing more capital; so that is what we have done now.

Ms. Manjari: Tier 1, the statutory requirement would be 6% right?

R. Sridhar: Not like that. See the total capital adequacy should be 12% out of which the tier 2 cannot be more than 50% of tier 1. So, proportion should be 8 + 4.

Ms. Manjari: Right, so what would your tier 1 capital adequacy be?

R. Sridhar: It should be near 12% now.

Ms. Manjari: Okay. Thank you sir.

Moderator: Thank you very much, ma'am. Next in line, we have Ms. Chandana Jha from PINC Research.

Chandana Jha: Sir, congratulations for very good numbers. I have a couple of questions. First, what has been the reason for decline in your NIM, because I can see that your yield has come down but your borrowing profile has improved? What reasons do you attribute for around 100 basis point decline in NIM?

R. Sridhar: See, our yield in real terms for new and old vehicles during this quarter has improved, but here the yield has shown decline due to excess liquidity. During the quarter, there has been mobilisation. A lot of sanctions were there, where we have taken disbursements during the quarter. That has kept the fund idle - not earning anything. Hence, it was kept in fixed deposits and some mutual fund investments and all that. This will get improved. It is an aberration and it will get rectified during this quarter.

Chandana Jha: If I understand it correctly, does it mean that approved limits that were not sanctioned were parked with liquid mutual funds?

R. Sridhar: No, see disbursements have been taken and since the usage will be only during the current quarter, it has been kept in interest bearing investments. But those interests are less than that for our normal truck investments. So, there will be a drop in the yield.

Chandana Jha: Was there any income booked from the mutual funds in the current quarter?

R. Sridhar: Yes. Whatever interest we have earned.

Chandana Jha: That is reflected in the other income?

R. Sridhar: Yes correct.

Chandana Jha: Okay.

R. Sridhar: There is no worry in this. Both our yield as well as cost - yield will slightly go up, cost will come down during the current quarter.

Chandana Jha: But where do you see NIM stabilising going forward? What is a sustainable NIM for Shriram Transport?

R. Sridhar: The yield would be around 17.5% to 18%. The NIM should be around 8%.

Chandana Jha: Okay.

R. Sridhar: It can be even slightly above 8.

Chandana Jha: Was there any securitisation done in the current quarter?

R. Sridhar: Yes, we have done around 1100 crores.

Chandana Jha: 1100 crores.

R. Sridhar: Yes.

Chandana Jha: So income booked from securitisation, which is amortisation done from securitised amount done in previous quarter as well as in the current quarter?

R. Sridhar: Yes. See, there will be something which will come from the earlier securitisation. Something very little will be added from the current one. There will be some residual which will be carried forward. That will come in the future quarter.

Chandana Jha: Okay. Sir, what is the average borrowing cost, and if you can give me borrowing costs from banks and institutions and for retail separately?

R. Sridhar: No, all are around 11%.

Chandana Jha: 11% on average?

R. Sridhar: Correct.

Chandana Jha: Okay, thank you, sir.

Moderator: Thank you very much, ma'am. Next in line, we have Mr. Chirag Shah from MK Shares.

Chirag Shah: Good evening. If you can share the break-up in disbursements? I just missed that point actually.

R. Sridhar: Total disbursements are Rs 3,054 crores during this quarter – 2,200 is on account of used vehicle, balance 854 crores new vehicles.

Chirag Shah: What was the comparable quarter last year?

R. Sridhar: Last year was 1800, 1,250, and 550 -1,250 used, 550 new.

Chirag Shah: Okay. Are we looking at any other business or predominantly M&HCVs only?

R. Sridhar: Slowdown is only there, not in other vehicles. But that is the maximum tonnage vehicles.

Chirag Shah: Okay, so in terms of the smaller vehicles, the share would not be significant.

R. Sridhar: Yes. See the number of vehicles.

Chirag Shah: No, in terms of loan disbursements, in terms of disbursements you make, what would be the smaller vehicles? Are you financing LCVs?

R. Sridhar: Everything. All vehicles, small commercial, light, medium, heavy, all are financed.

Chirag Shah: But what would be the general ratio? On a broader basis, what will be the share of LCVs in your total used CV portfolio, used CV business?

R. Sridhar: It should be around 35-40%.

Chirag Shah: Hello?

R. Sridhar: 35% to 40%.

Chirag Shah: So 35-40% of your loan book would be LCVs.

R. Sridhar: Correct.

Chirag Shah: Okay, sir, but the LCV industry, I was under the impression that your loan book would largely be of M&HCV. When I say M&HCVs it would be 12 tonnes and higher.

R. Sridhar: That is also there. See, this is only 30-40%. Balance is all big vehicles.

Chirag Shah: I was under the impression it would be slightly higher.

R. Sridhar: No, no.

Chirag Shah: Any particular reason for this mix? Because if you look at the industry in terms of size, if you look at 30,000 crores of industry, the new vehicles I am talking about, which would translate into old vehicles, four years down the line for you. Okay, of this, 5,000 crores is the market size of LCVs. In that sense, you have a much larger share for LCV business, even if you look at the population in terms of value. The share of M&HCV should be much higher?

R. Sridhar: No. See, why the percentage is like that we do not know, but we can always change the percentage in any way we want.

Chirag Shah: Yes, fair enough, just trying to understand how we look at the overall scheme of things.

R. Sridhar: There is no reason for that, we cannot.

Chirag Shah: Okay and the yield is?

R. Sridhar: Same.

Chirag Shah: Same, so you charge same amount of interest for an LCV or M&HCV.

R. Sridhar: Yes. Correct.

Chirag Shah: Okay. Thank you.

Moderator: Thank you very much, sir. Next in line, we have Mr. Ashish Sharma from Enam AMC.

Ashish Sharma: Good evening, once again sir. Congratulation on a good set of numbers. I am not sure if this question was asked because I disconnected the call. On the NPA provisioning side, because in your earlier calls, in the earlier quarters you said that we would maintain the NPA provisioning as a percentage of average assets close to 2%, but this quarter, the number has gone down to 1.38%. What is the reason for that, sir?

R. Sridhar: No, it has improved. See the provisioning has come down, plus your non-performing assets have reduced, so it is only 1.63% and the net NPA is 1.01.

Ashish Sharma: No. The provisioning, because you had mentioned that you have done that statistical analysis and you have found that probably close to 2% is credit

R. Sridhar: Normally what we said is our credit losses are around 2% and gross NPAs were around 2%. So this quarter, it has come down. We are following the prudential norms prescribed by the Reserve Bank. Accordingly we are providing. So this quarter it has come down.

Ashish Sharma: Okay, but for the quarters ahead, the number would remain the same as what we have seen in the earlier two quarters of close to 1.85%.

R. Sridhar: Yes. Around that. Correct.

Ashish Sharma: Okay fine, sir. Second question on your growth in the AUM, I think we are seeing a good amount of traction in the AUM growth. Your target is around 25,000 crores by 2010, assuming you improve your targets like maybe, I think in the first half of 2010, this would be done away with. So, are we seeing equity dilution before 2010 or will the current equity base be able to sustain growth?

R. Sridhar: Yes. Even if we are above 25,000, it is sufficient.

Ashish Sharma: What is the number till which time it will be sufficient, sir?

R. Sridhar: That is not exactly calculated, but it can take a little bit here and there. Certain amount of planning and management.

Ashish Sharma: Okay fine, sir. Thank you, sir. Thanks a lot.

Moderator: Thank you very much, sir. Next in line, we have Mr. Ankit Vakharia from CNBC TV18.

Ankit Vakharia: Good evening, sir.

R. Sridhar: Good evening.

Ankit Vakharia: Sir, first of all congratulations on your good set of numbers.

R. Sridhar: Okay.

Ankit Vakharia: Sir, can you give a brief idea about what could be your plans in the next six months. What is your investment focus for the next six months or a year, on a yearly basis?

R. Sridhar: We will continue to be focussed in the same business where we are present today. We will continue to finance commercial vehicles. But within the commercial vehicles, we have now expanded our profile to include passenger commercial vehicles, three-wheelers, tractors. So we have created a lot of verticals including co-branded credit card, freight bill discounting, tie-up finance, so many things. We continue to be focused on that. We will not diversify into consumer finance.

Ankit Vakharia: Okay sir, thank you very much.

Moderator: Thank you very much, sir. Next in line, we have Mr. Puneet from Enam Securities.

Female Speaker: Hello, sir. This is Aditi from Enam Securities. Sir, could I have the gross and net NPA numbers on an absolute basis for Q3 and for Q2?

R. Sridhar: Numbers?

Ms. Aditi: Yes, sir.

R. Sridhar: The gross NPA is 212.7 crores, net NPA 113.3 crores.

Ms. Aditi: 113.3 crores.

R. Sridhar: Yeah.

Ms. Aditi: And, sir, for Q2, the same set of numbers?

R. Sridhar: Q2 gross was 204, net was 126.

Ms. Aditi: 126 crores. Sir, could you share with us the recovery from written-off accounts in both these quarters?

R. Sridhar: We do not have at present. I will ask my people to send you a mail on that.

Ms. Aditi: Okay sir, no problem. Sir, actually I have one more question - the financials in Q3 have been restated to reflect the merger of Shriram Overseas Finance Limited and Shriram International Limited.

R. Sridhar: That is long back done.

Ms. Aditi: Sir, because I was just comparing the Q2 presentation and the Q3 presentation, many numbers seem have to been restated?

R. Sridhar: I do not think so.

Ms. Aditi: Sir, the securitisation income.

R. Sridhar: Now what we released is unaudited. So Q2 after that, there was a limited review.

Ms. Aditi: Okay.

R. Sridhar: So after that some adjustments could have been made - small, minor.

Ms. Aditi: There has been no change in any accounting treatment?

R. Sridhar: Treatment is not there, but due to the audit, there could be some adjustment entries in all that, which would have brought down the profit by 1 or 2 crores. What you had seen in Q2, now what you are seeing in Q3 is unaudited. So next one month, there will be an audit, and after that the limited review figures will be released, which could be slightly different from the current one, but very minor changes in this.

Ms. Aditi: Okay, sir, because the securitisation income in the Q2 presentation and what is reported in the.....

R. Sridhar: There could be some minor changes, yes.

Ms. Aditi: Okay. Thank you, sir.

Moderator: Thank you very much, sir. Next in line, we have Mr. Vishal Shah from ILFS.

Vishal Shah: Good evening, sir. Actually, I needed your total loan book and what is the total borrowings because I think I missed it.

R. Sridhar: The total loan book, assets under management, is 16,670 to be very precise.

Vishal Shah: Okay and the borrowings?

R. Sridhar: Borrowings is 13,722. Total borrowings.

Vishal Shah: Okay and your capital adequacy is how much right now?

R. Sridhar: Around 16%.

Vishal Shah: What is the kind of leverage that a non-deposit taking NBFC can go for?

R. Sridhar: We have a capital adequacy of 12% which means about 8.33 times, we can actually do leverage.

Vishal Shah: Okay sir, thank you.

Moderator: Thank you very much, sir. Next is Ms. Nikita from SK Securities.

Ms. Nikita: Hello, sir. I just wanted to know what amount has been securitised in the last quarter.

R. Sridhar: It is around 1,100 crores.

Ms. Nikita: Of the total AUM?

R. Sridhar: Of the total AUM, it is 3,637 crores.

Ms. Nikita: Okay, thank you, sir.

Moderator: Thank you very much, ma'am. Next, we have Mr. Ajinkya from Motilal Oswal Securities.

Male Speaker: Hello, good afternoon, sir. Just one question, you seemed to have built up a lot of liquidity in your balance sheet in December-end. The cash balance is high. Even the investment portfolio. It will be rolled out very fast in the next three months, in the fourth quarter especially. I mean that would take care of the yield, am I right in that?

R. Sridhar: Correct.

Male Speaker: On a QoQ basis, the cost of fund seems to have gone up, which is a bit surprising.

R. Sridhar: The cost of funds is around 11%. That has gone up because of current interest rates. That also we are working out. You know our rating revision and all that is there, so we are hopeful that it should also come down.

Male Speaker: Okay, but currently you are AA right.

R. Sridhar: Yeah, it is AA.

Male Speaker: No, incrementally you are borrowing at 11% from the bank. Okay, but has there been any reductions on a mass level?

R. Sridhar: There can be some reductions. We are negotiating with the lenders, but there will be improvement in the current quarter.

Male Speaker: So the cost of funds, as you said, will come down in the fourth quarter.

R. Sridhar: Definitely.

Male Speaker: And this liquidity gets converted into loans and yields will expand.

R. Sridhar: Yield also will expand.

Male Speaker: Okay, thank you, sir.

Moderator: Thank you very much, sir. Next in line, we have Mr. Chirag Shah from MK Shares.

Chirag Shah: Yeah, good evening.

R. Sridhar: Yes.

Chirag Shah: I have been trying to understand that if you look at the last two to three quarters, disbursements have been growing at a very fast pace at 70-80%. In your view, what is the kind of growth that you actually foresee going ahead. This kind of pace can be maintained from the existing businesses? If not then, what is the sustainable growth rate that you can maintain?

R. Sridhar: See, because the base is low, the percentage looks very high, so once this year we do, we have already done 7,400 crores to 7,500 crores. So we should end up around 10,000 crores. So from there, we can look reasonably at about 20-25% growth on disbursements.

Chirag Shah: On disbursements.

R. Sridhar: Yeah.

Chirag Shah: And secondly, you just mentioned that you are looking at new areas in the commercial vehicle side, like three-wheelers, tractors, and passenger vehicles. Again, your thought on this side. Why at this point of time, you are deciding or thinking of going in this, because still you have not really penetrated the second-hand existing market. There is large amount of market share that is available for you that you can capture. Then why at this point diversification, not necessarily one year back or one year ahead, you know?

R. Sridhar: Today, we are in a position where we have a lot of money flowing into the company, so we need to be in many products, many assets. See you cannot be in only one asset, which is commercial vehicles, but whatever vehicles we are funding now, are also commercial vehicles. We are not stepping out of commercial vehicles. Within the commercial vehicles whatever vehicles we have not been funding earlier, we have included that and created a vertical. So those verticals are today very small, but it can grow substantially in the future. All these are plans for the future. So today if you do these initiatives, it will have an impact over the next three-five years.

Chirag Shah: So when do you see a meaningful contribution coming and at what stage are you today on this new vertical and when can we

see some kind of volume and traction coming in? Are we in the early stages, and it is still a two-year away story or in terms of meaningful contribution you may start doing.

R. Sridhar: All these new initiatives will be starting very small and then it will grow gradually. It will take about three to four years for you to have a reasonably large size share in the overall pie. So maybe in the next three years you will have these new initiatives growing into book size.

Chirag Shah: Okay, so would it be right to presume when you say in the next three years they would contribute to around about 20% of your book size?

R. Sridhar: Definitely.

Chirag Shah: Okay. Thank you.

Moderator: Thank you very much, sir. Next is Mr. Ashish Sharma from Enam AMC.

Ashish Sharma: One follow-up question on your JV with Ashok Leyland for HT transport finance. What will be the equity contribution in the JV sir?

R. Sridhar: 40%.

Ashish Sharma: No, in the amount, sir? What amount is already invested in the JV?

R. Sridhar: The amount face value is 4 crores, but we have purchased for 1.8.

Ashish Sharma: So 1.8 crores is the...?

R. Sridhar: Outflow.

Ashish Sharma: Okay fine, sir. Thank you. Thanks a lot.

R. Sridhar: It is there in the balance sheet.

Moderator: Thank you very much, sir. Participants who wish to ask questions may please press *1. Next in line, we have Mr. Nischint from Kotak Securities.

Mr. Nischint: Sir, when I look at your trends for disbursements in the fourth quarter last year, what I find is that the disbursement for pre-owned vehicles came down significantly QoQ and for new vehicles that went up. Now is it something like an annual trend or something that we should expect this year again, in the fourth quarter to happen or is it just something that was you know a function of the situation at that point in time. I mean, how do you

really see the growth for pre-owned and new vehicles in the fourth quarter?

R. Sridhar: See Nischint, last year the fourth quarter was an aberration due to some error in our judgment, we exceeded the new and consequently the old had come down, but we have made amends. I do not think that will continue any further, so we are trying to maintain 70:30. That will be the pattern in the future also.

Mr. Nischint: In terms of pre-owned vehicles, the growth will continue to remain strong?

R. Sridhar: Correct.

Mr. Nischint: On the spread front - I did not get this very clearly, the cost of funds, what was the reason that you said the cost of fund has gone up QoQ?

R. Sridhar: Both the yield coming down and cost going up. Cost going up is that interest rates have gone up. During the quarter, there were lot of disbursements. Some of them, some front-ended payments and all that have added up. So, it will get rectified next quarter. The yield because of the huge money which we have received at disbursement as well as securitisation. These monies were lying idle in some investments which were earning less, so that is why it has pulled down the yield. Once they get disbursed during the current quarter, it will move up.

Mr. Nischint: I believe, for an NBFC, this would be an ongoing phenomenon. That you borrow in bulk, you know, 50 crores, 100 crores and you give smaller ticket size loans. So you will always have a treasury. I mean even this quarter, I believe you will have a similar problem where you will have liquidity and liquidity would be tied up, then you park it up in mutual funds or something, which kind of pulls down the yields.

R. Sridhar: No. This has happened in this quarter because of various disbursements which the lenders wanted to disburse, so that is why it has happened, and otherwise we maintain a reasonably smaller balance which will not have that impact. So it should move up to 18% yield if we had not carried so much of money. So that should get rectified.

Mr. Nischint: Should we expect something like this in the fourth quarter also, because that is also typically a period in which...?

R. Sridhar: No, we are planning now to avoid the situation.

Mr. Nischint: Okay. Another thing is in terms of securitisation that you have done this quarter, I mean, is there any used vehicle securitisation that you have done in this quarter?

R. Sridhar: It does not matter whether used or new because the rates are not different for each. What we are doing is mostly new vehicles.

Mr. Nischint: So, 1,800 more or less would be what you are saying are new vehicles?

R. Sridhar: 1100.

Mr. Nischint: Sorry?

R. Sridhar: 1100 crores.

Mr. Nischint: Okay. Thank you.

Moderator: Thank you very much, sir. Next in line, we have Mr. Vikas from Ambit Capital.

Mr. Vikas: Good evening, sir. Congratulations on the good set of numbers. Sir, out of this previous income of 13.5mn, can you please tell me how much is the income from challan discounting?

R. Sridhar: Challan discounting will be very negligible because we have started very recently.

Mr. Vikas: Sir, you intend to capture around 5% of this market share in challan discounting, right?

R. Sridhar: Over the next two years and not now. It could be 5%, it could be 10% also, but this is an initiative which has been started about three to six months back. So, it will take some time for us to build a reasonably good volume. We are doing it in certain locations only. Depending upon our experience and all that, we will be rolling out, and that would be only in the next financial year, and we will accumulate transactions, but since it is all one-month tenure, there will be no build-up of big AUM on that, but there will be income. AUM which I was talking about, we are planning to have 10% of the total market share, which could be around 750 to 1,000 crores.

Mr. Vikas: Sir, when the AUM will become 750 to 1,000 crores, how much fee-based income can you expect from that?

R. Sridhar: See, 750 to 1000 crores - on that you can add about 30%. That would be the total income.

Mr. Vikas: 30% of 1,000 crores, that is around 300 crores?

R. Sridhar: Correct.

Mr. Vikas: Okay, sir. Thank you, sir.

Moderator: Thank you very much, sir. Next in line, we have Mr. Subramanian from SBI Securities.

Mr. Subramaniam: Good evening, sir. Your current business of truck financing, you cater to a very niche segment which is the small truck operator.

R. Sridhar: Yes.

Mr. Subramaniam: Coming to your new business lines, wherein you intend to finance passenger vehicles and auto, what is the customer segment that you are looking at?

R. Sridhar: Everywhere it is small people only. If there is a small truck owner like a small tractor owner, all are small. We are not going into a medium and large segment which is catered to by the large NBFCs and banks. In every segment, you have all these commercial vehicles. Most of the ownership is fragmented, and it is with small players. That is the segment we are financing.

Mr. Subramaniam: What would be the yields for these new lines of business, sir?

R. Sridhar: It would be slightly more than the trucks.

Mr. Subramaniam: Thank you, sir.

Moderator: Thank you very much, sir. Next in line, we have Mr. Vishal Shah from Allied Partners.

Vishal Shah: My question is what is your view on the growth in the commercial vehicle industry going forward?

R. Sridhar: As I have told you in the beginning, medium and heavy commercial vehicles are seeing a negative growth, which is 10%. Of late we are seeing an improvement. I feel in the current quarter it should stabilise. From the first quarter of the next financial year, the medium and heavy commercial should also grow positive.

Vishal Shah: Okay, is the slowdown one of the reasons that you are venturing into new areas like passenger vehicles?

R. Sridhar: No. Venturing into other areas is strategy of the company to be present in all the commercial vehicles financing segments. We have been only in trucks, so we got into passenger commercial vehicles, tractors, three-wheelers, multi-utility vehicles, and all that. So that is the strategy for financing the whole spectrum of commercial vehicles, but it has nothing to do with small slowdown in the new commercial vehicle and even with -10% that is sufficient for financiers to fund.

Vishal Shah: Okay. Thank you, sir.

Moderator: Thank you very much, sir. Next in line we have Mr. Himanshu from ING Mutual Fund.

Mr. Himanshu: Hello, sir. Congratulations on a very good set of numbers. Sir, I just wanted to have your view. There are more and more players now in other NBFCs who are trying to get into the used CV segment. Do you see any hardening or any reduction in yields because of competition? I mean, how do you see your net interest margins going, lets say, one or two years down the line?

R. Sridhar: There are other financiers who are trying to get into the used truck financing, but we have not seen them in our segment of small truck owners so far. So, I would say that there is no impact or there would be a marginal impact of their presence. I do not think any player can make a very significant presence or impact in the segments where we are present because it is a very complex and complicated segment which took about three decades for Shriram Transport to stabilise and grow. I do not think this is like any other business; it is not a business where you can just start today and then make profits or create assets from tomorrow. It is not that kind of business. You need a big organisation to lend and collect money, which needs presence in different places, cash business, no intermediaries, direct... all these things, physical verification, valuation expertise, all these things are entry barriers, that is why even after 2-1/2 decades you are seeing that the only organised player is Shriram Transport. I do not think there will be activity in this used truck segment. If any, that would be again medium and large operators; small truck owners' penetration has been only by Shriram Transport and we will continue to be there. So on account of these factors, I do not think there will be significant reduction in the NIMs due to competitive picture.

Mr. Himanshu: Okay. I mean you are saying that currently, whatever presence that is there, that is largely in medium and large truck operators.

R. Sridhar: That is all.

Mr. Himanshu: So, then NIMs would remain more or less at same levels or maybe 10-20 basis points here and there.

R. Sridhar: Correct.

Himanshu: Okay, thank you very much, sir.

Moderator: Thank you very much, sir. Next in line, we have Ms. Sarika from Kotak Securities.

Ms. Sarika: Sir, I just wanted to know what would be the cumulative for nine-month period securitised assets?

R. Sridhar: Same, 1,100 only, because that was the only transaction we have done during the current financial year.

Ms. Sarika: Okay, and how much was it in the previous year?

R. Sridhar: The previous year's total was around 3,000 crores.

Ms. Sarika: Okay fine. Thank you.

Moderator: Thank you very much, sir. Next in line, we have Ms. Manjari from HDFC.

Ms. Manjari: I have two-three questions. What would be the yield on your loan portfolio for this quarter?

R. Sridhar: It was 17.41.

Ms. Manjari: The previous quarter?

R. Sridhar: 17.76?

Ms. Manjari: The quarter last year corresponding to December 2007?

R. Sridhar: December was 17.91.

Ms. Manjari: What would be your average loan size, ticket size?

R. Sridhar: In the used truck, it would be around 2 to 2.5 lakhs. In the new truck, it would be around 4 to 5 lakhs.

Ms. Manjari: The loan to value ratio would be?

R. Sridhar: On the old truck, it would be 60%. On the new truck, it would be around 80-85%.

Ms. Manjari: Would you tell me something on the composition of your other income?

R. Sridhar: The other income is coming by way of interest received on our reimbursements and all that.

Ms. Manjari: This has gone up substantially this quarter?

R. Sridhar: Maybe.

Ms. Manjari: Sorry?

R. Sridhar: Mutual funds, investments, bank deposit interest, and...

Ms. Manjari: Sir, What is the reason that it has gone up so much?

R. Sridhar: That is because of the huge balance and on the huge investment which we have made, that is one of the reasons, which will not be there in the current quarter.

Ms. Manjari: Okay. You mean, the cash that you all raised for.....

R. Sridhar: See, the disbursements which we took during this quarter have been parked in different savings investments and that has contributed to a higher income of other income.

Ms. Manjari: What would be your NPA numbers for Q3'07?

R. Sridhar: Q3'07, it was 1.49 gross and 0.74 net.

Ms. Manjari: What would these be in terms of amounts?

R. Sridhar: 124 crores and 61 crores.

Ms. Manjari: What are the reasons for the asset quantum to have changed?

R. Sridhar: No, no. The percentage remains the same, but because of the assets moving up, the amount will increase because of the assets growth. So, earlier one year ago, we had 10,000 crores. Now we have 16,000 crores. So, naturally with the same percentage, your amount will be higher.

Ms. Manjari: Right. Thank you, sir.

Moderator: Thank you very much, sir. Participants who wish to ask questions may please press *1. Next in line, we have Mr. Anirudh from JM Mutual Fund.

Mr. Anirudh: Sir, I just wanted to know what kind of growth are we looking at in terms of our disbursements next year?

R. Sridhar: This year, we have done 7,500 as of December, which is nine months. Going by the trend we should be around 10,000 crores. So you put another 20%, this should be around 12,000.

Mr. Anirudh: For next year, and for fiscal '09?

R. Sridhar: That's what. Fiscal '09 is 12,000.

Mr. Anirudh: Okay, thank you.

Moderator: Thank you very much, sir. Next in line, we have Mr. Vishal Shah from Allied Partners.

Vishal Shah: Hello. Sir. You were saying that it took almost three decades for Shriram Transport to stabilise and grow in this business. I might

have missed out, but what would be the key entry barriers in your business that you are confident that no other player will be able to make an impact in this segment?

R. Sridhar: There are so many, like your presence is one, people, valuation expertise, management of small truck owners, cash handling, all this. So many entry barriers are there, and then credit evaluation is very challenging. It is totally a relationship based model. Not information based model. That would take long time for you to build an organisation to manage the business.

Vishal Shah: Okay, but is there any one significant competitor you would identify.

R. Sridhar: For what?

Vishal Shah: In your segment?

R. Sridhar: No. Nobody is there.

Vishal Shah: Okay. Thank you, sir.

R. Sridhar: Yes.

Moderator: Thank you very much, sir. Next in line, we have Mr. Himanshu from Kotak Securities.

Mr. Himanshu: Hello, sir. I just wanted to understand the kind of leveraging that your customers take. I mean, I am just trying to gauge the impact, if something like a subprime crisis happens in India, and since your customers are mostly of that cadre, subprime. What kind of leveraging you will take? And because your collection is mostly in cash, even though your loan to value ratio is 60%, I mean, are you conservative in your valuation and how much of a percentage of your portfolio is collateral? I just want to gauge the risk that is there in your assets, because if some kind of a cascading effect happens in the economy, maybe two years down the line or something like that, or what is this picture like?

R. Sridhar: First of all, I would like to object to your claiming our customers are subprime.

Mr. Himanshu: Okay.

R. Sridhar: Subprime is one where you classify a customer as subprime when you have a track record which is bad, then you know that he is a bad customer and you increase the interest to take some risk investments. So lenders look for subprime customers whose track record has already been demonstrated to be bad, then they give increased interest lending to these people. That is what is called subprime.

Mr. Himanshu: Okay.

R. Sridhar: But the vice versa is not true. Wherever interest rates are higher, the borrowers need not be subprime. Okay. So wherever you are a subprime, interest rate will be higher is the first statement, but vice versa is not true. Wherever interest rates are higher, customers need not be subprime. So here, in our segment, interest rates are higher because of demand and supply gap. There is a demand from the customers, who are small truck owners and second-hand truck operators. But there are no large NBFCs and banks which are present in this segment delivering credit. So, the total credit is in the hands of the unorganised sector. Because of the demand and supply gap, the interest rates are higher. So first of all I would like to clarify that they are not subprime. That is one. The second is you are talking about some problem like the US which is happening here, which will not happen because these people are not subprime, they are all people who are entrepreneurs who are running commercial vehicles, so the viability of running of commercial vehicles is quite good in the country, because the economy is growing. So only when the economy totally collapses, and you have a GDP growth of 1% or 2% then there will be a problem for this business, but you will agree with me that in that situation, every business will be in problem. So this business is most safest because these assets are commercially run, earning assets, unlike your personal consumption, whatever you are giving, your personal loans, your cars, credit cards, all these things are going for personal consumption. Here it is a commercial asset used to earn money, and out of that earning, the instalments are repaid. So absolutely there is no problem, in terms of safety of money, which is invested in these assets.

Mr. Himanshu: Sir, if I understand, because you have a specific expertise in valuing the proper asset, especially in the CV market, are you planning to open shops like some of the infrastructure companies have an equipment bank company in which your customers, because you have a very large pool of customers, can come and even purchase and do sale of second-hand CVs?

R. Sridhar: Yes, we are looking at that opportunity, and we will be looking for some partners in that. We are making some efforts in that direction. Something will happen.

Mr. Himanshu: What is the progress of the new initiative that you had taken some JVs and even the credit card and have these.....?

R. Sridhar: All that is progressing because these are all new initiatives which have been taken during the current year. For all these things to shape up, it will take some time, but all are giving assets to us.

They are all insignificant as of now. But these verticals will grow and then you will have bigger share of these in the coming years.

Mr. Himanshu: So probably, they will take two or three years to take traction?

R. Sridhar: Definitely.

Mr. Himanshu: Okay. Thank you, sir.

Moderator: Thank you very much, sir. Next in line, we have Mr. Vikas from Reliance Mutual Fund.

Mr. Vikas: Hi, I actually wanted to.....

R. Sridhar: Hello?

Moderator: Mr. Vikas?

R. Sridhar: Line got disconnected.

Moderator: Yes, that is right, sir. We will take the next question. That is Mr. Chirag Shah from MK Shares.

Chirag Shah: Sir, I just wanted to understand what is the differential rate that the unorganised sector charges to a similar customer profile that you finance?

R. Sridhar: It would be slightly higher than us.

Chirag Shah: What would be the difference like?

R. Sridhar: About 5% to 6%.

Chirag Shah: Secondly, if I take the previous question slightly differently, in general what is the credit profile, or what is the borrowing pattern of your customer? If somebody is coming to you and you are leveraging him for a commercial vehicle, be it for buying a vehicle or for other working capital requirements, apart from that how do you ensure that that is no excessive credit risk running around that particular customer? He may have borrowed money from somewhere, how do you keep a tab of that? It is a very operational and very basic question in that sense.

R. Sridhar: See, everybody who gives money to the truck owner cannot hypothecate the truck. The hypothecation of the truck is in our name.

Chirag Shah: Sir, why I am asking is that.

R. Sridhar: Nobody will give money.

Chirag Shah: I am enquiring about this at the industrial level. At this level, how do you ensure that there is no other personal loan that is running, in case?

R. Sridhar: Personal loans we cannot track. We can only track vehicles whether it is hypothecated, because we have a control lien on the vehicle, so the vehicle if it covers the outstanding and you have LTV of around 60%, then the loan is safe.

Chirag Shah: Fair enough. So you have an asset.

R. Sridhar: You may have so many other borrowings where there is no lien on the asset.

Chirag Shah: Okay, I got it. Secondly the new business that you had spoken about over the next three years, can you shed some light on that? Are there any existing organised players in that particular segment that you are looking at?

R. Sridhar: No, nowhere. Where we are present, nowhere there are organised players except us.

Chirag Shah: I am enquiring about the three-wheeler and the tractor business.

R. Sridhar: Tractor, you know very well, there are so many financiers including banks. But in the used tractors, there are less people. In the customer segment, there are very less. So everybody is present in the assets what we are financing, but the segment is medium and large customers, and new vehicles. What we are specialising in is small operators and used. So there we are the dominant player, beyond us there are no organised players.

Chirag Shah: Secondly again, in this new business side, I was trying to understand dealing with this customer profile would be different; because the target audience, the target area where you would be reaching again would be different. So you will need to have a different skill set to target this particular three-wheeler owner or a tractor owner, vis-à-vis a commercial, or is this almost similar?

R. Sridhar: What I suggest is, for these operational matters you should fix up a time with us.

Chirag Shah: Yes sir, it would be great. Thank you.

R. Sridhar: Let us restrict it to financial matters.

Moderator: Thank you very much, sir.

R. Sridhar: I think we can take one more and close it here.

Moderator: Sure sir.

R. Sridhar: Because already it is one hour.

Moderator: Sir, there are no further questions in the queue. You can go ahead with your final remarks.

R. Sridhar: Yes. Thank you very much for your enthusiastic participation. I look forward to speaking to you once again with the annual report in April. Thank you very much.

Moderator: Ladies and gentlemen, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice day.
