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“Shriram Transport Finance Company Limited”

July 24, 2012



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MANAGEMENT: **MR. UMESH REVANKAR**
MR. R. SRIDHAR



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Moderator: Ladies and gentlemen, good evening and welcome to the Shriram Transport Finance Q1 FY'2012-13 earnings conference call. As a reminder for the duration of this conference, all participants' lines are in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should need assistance during the conference call please signal for an operator by pressing "*" followed by "0" on your touchtone phone. Please note that the conference is being recorded. I would now like to hand the conference over to Mr. Umesh Revankar, Managing Director of Shriram Transport for initial remark. Thank you and over to you Sir.

Umesh Revankar: Ladies and gentlemen this is the first quarter of our results and I should say we have done a quite well, looking at the economic scenario in India. Our disbursement went up compared to the last quarter by around 7% and mostly in used vehicle it is went up by 9.69% to 4370 Crores against 3984 Crores during last quarter overall disbursement went up by also 5369 against 4980. So AUM was 4.25% so AUM is now 41922 Crores. NIMs have grown 7.24 to 7.42, the highlight of this quarter' disbursement is we had operationalized 200 rural centers and we have finance to 12000 new customers from this rural market and that is the first entry in to rural market and we have plans to open 200 more this year. This augurs quite well for us because we feel that there is a good demand in rural market and that market seems to be receiving us quite well.

The margins have slightly increased because in the rural market we yet the better yield. The PAT has increased to 321 Crores against 308 Crores last quarter the ROA has increased to 3.72 against 3.55 and ROE has remained same. Then coming to our subsidiary company Shriram Equipment Finance has them quite well in the first quarter even though it has gone cautious because it is a new infrastructure project, have not been coming up and demand has listless sluggish but in spite of that the profits have gone up to 17 Crores and auto mall is another I should say it is a big change in the we have started the operations. Auto mall initially was supposed to give business to Shriram Transport Finance Company for its second hand vehicle activity but now we have made it a debit platform form where any buyer and seller can come so there are many banks institution are the participating. The fleet operators are participating, the individuals are participating approximately 150000 customers we have in auto mall who regularly visit auto mall do the buying and selling and we have done approximately 60000 transactions converted into our loan out of that. So auto mall also has given us the profit of over 2.5 Crores so both the subsidiaries are contributing well to our business and consolidated profit is around 341 Crores. The other news is that the PSL guidelines have come and whatever look has restrictive to for us that is 35% and 65 ratio between off book and on book is changed rather it is kept open so that we have advantage now to increase our securitization and one more is the spread which was restricted to 6% now is base rate plus 8 so that is the advantage. So the two advantages should give lot of fillip to us and probably some of constraints of raising resources through securitization for PSL requirement of a bank are now open. So I think we are in a very good wicket and I also feel that coming quarters we should have an increased demand and business should be doing quite well.



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So with initial remarks I keep it open for question and answers and hope all of you received your financial's and derivative. Thank you very much.

Moderator: Thank you gentlemen. We have a first question from the line of Mr. Jonathan Prigoff from Equinox Partners. Please go ahead.

Jonathan Prigoff: Thanks for taking my question. You know I think last quarter I asked a similar question, which is it looks like the NIM of your on balance sheet lending keeps going down and last quarter we said there were some one off due to securitizations, but you know we basically, if I look net interest income on balance sheet was Rs.2.7 billion in the first quarter 2013. In the first quarter 2011 it was Rs.3.1 billion and I was on a smaller amount of on balance sheet loan. So I am wondering is that I mean all the NIMs are coming down you know what extent of the have they come down and has missed trend that is all going to continue for the on balance sheet so obviously you have been able to supplement that and come with securitization related income, but I think the trend is clearly downwards at least for the on balance sheet stuff?

Umesh Revankar: Like we replied on last in the previous call also see what is happening is that we have been using the securitization as a funding instrument and hence the higher yielding assets have been securitized and consequently what happens is that that moves out these books and what remains in our books are slightly lower yielding assets plus we also have for the purpose of treasury management and having some buffer in this system we carry around 3000 to 4000 Crores of cash in our books, which pulls on the effective net interest income on the balance sheet and it will take AUM business it would be 7.42%. In fact that had improved from 7.24 in the previous quarter.

Jonathan Prigoff: I am just I mean working may not necessarily compared to the previous quarter but compared two years ago you know the amount of cash and securities you have now lower that was there the amount of loans is about 25% higher any and yet the total amount of net interest income is lower and I guess we are going the securitization?

Umesh Revankar: Earlier we used to securitize only the lower yielding assets which was emanating from the new asset financing but off late last couple of years I would say that we have also been aggressively selling and securitizing used asset which were giving higher yield and since the higher yielding assets are going out of the balance sheet what remains in the balance sheet slightly lower yielding assets.

Jonathan Prigoff: I see when did you start securitizing these vehicles?

Umesh Revankar: May be around two years we have been doing it past two years.

Jonathan Prigoff: Thank you very much.



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Moderator: Thank you. We have our next question from the line of Mr. Prashant Shah from Vantage Securities. Please go ahead.

Prashant Shah: Thank you. Sir could you just throw some light on the PSL guidelines we have and how would it impact your business and your securitization activity?

Umesh Revankar: PSL guidelines they have taken into consideration whatever Mr. Nair Committee recommended but they have not taken entire recommendation from the Nair Committee what they have stipulated is two things one is the interest rates spread between the bank base rate and customer rate cannot be beyond 8%, which we see as positive because overall yield of our assets is customer rate will be around 17% to 18% only that is one. The second thing they have taken any of the other recommendation like off balance sheet total component and 5% cap of the overall bank lending through the NBFC route that also have been considered.

Prashant Shah: So basically with this cap on the interest rate you it will be your positive for your overall NIMs?

Umesh Revankar: Yes it will be positive because there is 6% we would have done only the vehicle securitization with 8% norm we can do the used vehicle also.

Prashant Shah: Just coming to your results for this quarter now the other thing is that you have mentioned that your disbursement grew by about 9% and your EMI has grown by about 5%. But if you see your total income on a year-on-year basis it has gone down actually, it has been more or less flat. It means it is supported only by a 3% growth in securitization income. So could you explain this difference?

Umesh Revankar: See what we have already maintaining is that the we have got a CV income after considering the secularization income also, so if you see the net interest income including securitization after considering the discounting charges of securitization as well the interest cost. So year-on-year it has grown up from 782 Crores to 802 Crores where have been an increase.

Prashant Shah: But does it does not seem to be a very big increase 782 to 800 Crores, it does not even work out about 5%?

Umesh Revankar: Last year the NIMs were higher.

Prashant Shah: Sir just one last thing is they any impact of the economic environment right now on your demand CVs?

Umesh Revankar: See right now we do not see any threat because at micro level demand is quite good. The freight rates are good, freight availability is good and there is a good demand for used vehicle. So at macro level at tier-to-tier 3 cities there is a reasonably good activity only demand is little slow or



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may be a negative in the heavy vehicles mainly because they are dependent on as such in activity directly.

Prashant Shah: But your new 200 new rural centers that you mentioned would be basically means you have basically shifting focus towards these rural areas now from basically urban centric focus or may be semi-urban centric focus.

Umesh Revankar: We were just adding new centers, we are not changing the focus because this will be very small 200 rural centers total lending would be around 150 to 200 Crores only. Only thing is it uses a new market and we believe that rural market over a period will do very well because of the economic activities road connectivity and mobile the communication and Government of India also is linking all the villagers through the broadband and 2500000 villages are likely to be connected with the broadband in another two years. So that budget is on so everything I feel the rural economy will do well, so we are going there to be first.

Prashant Shah: Sir, but you mentioned that because of this incremental lending towards rural areas (indiscernible) 13.31 yields you have improved your margins but would it extend the whole thing because your sequential improvement was about Rs.40 and basically your mix in the loan book has not changed. Your used versions were new as till what similar to what it was last quarter?

Umesh Revankar: It is changing actually earlier portfolio used to be a 70:30 now it is around 75:25.

Prashant Shah: But if you see on Q-on-Q it was about 75 it is still about 77 to 223.

Umesh Revankar: Q-on-Q the income will not make a big difference because it is just a month's average income we would have got.

Prashant Shah: But what would extend 42 basis points, because 42 basis points jump in one quarter is quite significant?

Umesh Revankar: From 7.24 to 7.

Prashant Shah: Sorry it was correct. Thank you very much sir.

Moderator: Thank you. We have our next question from the line of Mr. Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma: Thanks for taking for that question sir. Just one clarification on these PSL guidelines is there any clarifications as to whether this small road transport operators the CV loans will not be part of the priority sector because I think the new draft is a bit silent on that?



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Umesh Revankar: We feel that activity is part of SME, so all these days it was part of SME so they would have not mentioned it separately. So we do not really think that that is missing.

Ashish Sharma: So do you expect that the clarifications will come in from the RBI and that would be part of SME thing 110 lakhs?

Umesh Revankar: I think so, bankers have sought the clarification and probably we should get it.

Ashish Sharma: Okay sir, in terms of growth at this current juncture where do we see the loan book going sir?

Umesh Revankar: See, we have a public issue of NCV right now, so I cannot give you the numbers, but I can tell you that economy is quite okay at macro level and we hope a lot of activities in the second half, mainly because there is renewed interest in the mining, there is also coal linkage what they called where the coal is, Prime Minister's Office have asked the coal India to supply coal to the power manufacturers so there is going to be a huge activity because of that.

Ashish Sharma: In terms of monsoon sir, do you see any sensitivity to the loan growth for you and this quality because of failed monsoon?

Umesh Revankar: Monsoon is we look this history, it has never had impacted the quality of the asset for us, because we have been business for nearly 25 years and having seen the worst droughts because it is not that the monsoon deficient in all the areas, it will deficient in part, overall average is less or more, so the worst monsoon was in 2009, monsoon was 78% of the expected level and then the agriculture growth was 1% for the previous year and the previous year was just 1% when the monsoon was 98%, but after these two years 2010 the output grew by 7.5%. It is only the yield that makes farmer reinvest his money and get a better return. So I do not really think that the output will be negative, because of monsoon being deficient in part, but monsoon in India will last till January, it is just June or July, because south west monsoon first then south east monsoon, so the total impact of monsoon will be seen over the period and the reduction in rainfall or deficiency in rainfall during July will effect Kharif crop which is basically rice, but if we get rains little later then the second crop for which is Rabi and your sugarcane and other pulses that it will not have any impact, so it is too early to talk about monsoon.

Ashish Sharma: Just trying to deduce some in earlier you also mentioned that 10% to 15% used to be the (indiscernible) 18.22 FY 13 in terms of growth, there has not been in any changes in microenvironment for you to change that?

Umesh Revankar: The first quarter we have grown by 4% non-AUM, so you can make a judgment.

Ashish Sharma: Thank you.



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Moderator: Thank you. The next question from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao: Thank you very much sir. My first are two fold. One, could you throw some lights on the quality of loan book right now, are you seeing any rise in delinquencies or collections periods getting longer that will be helpful given that, there is definitely has slowdown in the new vehicle sales, so that would be the first question and secondly, are there any regional differences right now, because we generally heard and your commentary was also there in the past that south was not doing well, but it has kind of revived as we understand in the last three, four months, so these two aspects would be helpful?

Umesh Revankar: The credit cycle lengthening happens when the vehicle is playing to a manufacturing activity and manufacturing companies normally during economic slowdown, they try to conserve the cash and one of the most effected people would be transporters, they conserve instead of paying in 15 days if they pay in 45 days, 30-days cash they can rotate and use it as the working capital, so the vehicles which are essentially running for manufacturing activity like bringing raw material, transporting finished goods or unfinished good there is some kind of delay and credit cycle is lengthening that is happening, but far as our 80% portfolio is in the cash and carry business which are carrying the essentials, dairies, your vegetables, grains, so the typical individual owner and used vehicle owner and small vehicle owner will have cash and carry business, so 80% of our portfolio as 0 impact and the 20% of the business also has a little impact, because even then the impact will be more on the transport company, which actually engages this small customers and whenever they carry the goods they have to give him 80% to 90% upfront, so if there will be holding off 15% to 20% which he normally discounts in the market. He discounts instead of discounting at 2% in the goods market, he will discount at 4%, so the ultimate lost to the individual would be 2%, and so the small customers normally do not get impacted by the credit cycle being longer.

Srinivas Rao: Sir on the issue of regional imbalances?

Umesh Revankar: When I say south the GDP growth in the south was a little slower, but market remain quite steady, so the recovery or the demand was reasonably study, but GDP growth was lesser than the other areas like Bihar and UP. That is what I mentioned last time, so south east steady even today and the UP and Bihar is going faster than the south, that does not mean it is catching up, but the south remains very steady and demand for us is quite good wherein we have around 35% to 40% of our total business.

Srinivas Rao: Thank you sir. One more question, you mentioned, sometime back that the yield on your loans at the customer level is about 17%, 18% and add to that as you mentioned there is a cost of discounting to the small user to the extent of another 2%. Effectively are you telling me that the small business or small transport, your customers have a return on investment which is



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something like 25% to 30% plus, that would be correct my assessment, because that sound extraordinarily high or am I wrong in my assessment?

Umesh Revankar: The way the small operator runs his vehicle is a little different, because he works out the payback period's method on this investment. He does not relief go on the yield. He invests one lakh and take a vehicle of 3 lakhs, so he will try to pay within three years or three-and-a-half years and at the end of the loan period, vehicle value would be around 2.5 lakhs or 3 lakhs, so with the investment for one lakh he get 2 lakh, that how he calculates his return and as far as his livelihood is concerned he tries to live at a very, very marginal living, because he normally makes very small income may be investment of 1lakh, he makes 15,000 with a take home salary or net take home amount, so whenever they is the pressure on his income then probably he may delay our payment, so 13 to 16 months can be stretched to 40 months, that is how the manages ultimately he repays and he gets back his investment only by selling the vehicle and going for another vehicle, so he goes for better next time with a better and more investment, that is how all the small operators keep calculating their income. It is not the way recalculate the yield they operate.

Srinivas Rao: One final question, since now you have auto mall, which is almost as you mentioned has become a platform, have you seen second hand values start to flatten given that the slow down now. They would have been increasing for the last at least practically last two years, because new vehicle prices have also been going up, so is there a change in the trend?

Umesh Revankar: There are two things, one in inflation keeps the vehicle prices up, you are right. Last three years vehicle prices of new vehicle went up, so used vehicle went up, but when the new vehicles sales come down and then there is used vehicles go up when there is sudden slow down of new vehicle arrival, so in the heavy vehicle we are seeing the recent prices are steady and going up sometime in some location and as far as used vehicle is concerned there is not much of change, because small vehicles are sending even today 15% year-on-year growth sale.

Srinivas Rao: Thanks. This is very helpful. I will come back for more questions.

Moderator: Thank you. We have next question from Devesh Dokwal from Reliance Mutual Fund. Please go ahead.

Devesh Dokwal: Good evening Sir.

Umesh Revankar: Good evening.

Devesh Dokwal: Sir, I just wanted to ask, we against recognizing 180 day NPA if we do recognition on 90 day, how will gross NPA and net NPA look?

Umesh Revankar: We have not tried to calculate, but roughly it should double is what do you feel.



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Devesh Dokwal: Okay and you are take on the competitive scenario given that some of the NBFCs and banks are looking to grow aggressively in this space, so your overall take on the competitor scenario and the corresponding underwriting standards?

Umesh Revankar: We have been trying to understand the competition, because we have been getting questions on that. In the niche segment of used vehicle I do not see any competition. I would like to make a statement because any of other lender like Sundaram finance or Cholamandalam Finance or IndusInd Bank they have not really got into used vehicle in a big way, if there are existing customers, they are giving some top of loan or may be extended loan or some buying and selling they may be doing, so I do not really see them as the competitor right now. There are small financiers like RU Finance and some Marc Finance, but they are lend approximately 40, 50 Crores in a month, so they are nowhere near our lending, so main component of lending comes from the private money lenders who are either organized or unorganized. There are some very organized small players. They are around 10000 to 12000 organized players in the used vehicle market and there are many unorganized who lend cash by just keeping the RC book with no document done, so there are so many players, so over the period as organized players put together, try to convocate then the market will become more some kind of used vehicle market will go up, so right now I do not really think we have any competition whatsoever as far as used vehicle is concerned. For the new vehicle, there is a competition, but traditionally Shriram has been lending, our lending to new vehicle has been upgrading our used vehicle customer. Used vehicle customer who upgrades himself for him, he used to give a new vehicle. We never went into the market to get a market share or very pride to grow on new vehicle very aggressively, but when the small commercial vehicle came into the scene may be around three years back, then automatically many of the customer, they came into Shriram fold because were the only people whoever having a maximum reach and spread and even the manufacturers and dealers they felt that Shriram is the best bet to deal with, so we had naturally people coming into us, in that particular space now there are players who are competing and I should say there are competing among themselves or not with actually Shriram, because each one of them are trying to find a space in dealer point by giving a payout to the dealers, so we do not do that and we believe that new vehicle business has to emerge from all existing customer base or reference, so we do not really go for a market share in the new vehicle.

Devesh Dokwal: Thanks sir. That is it from my side.

Moderator: Thank you. We have a followup questions from Jonathan Prigoff from Equinox Partners. Please go ahead Sir.

Jonathan Prigoff: I was wondering if you could explain what the increase in other income is, what to do, and it looks like other income was something Rs. 700 million that was significantly booked year-on-year and quarter-on-quarter?



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Umesh Revankar: That is the investment made, we had done a lot of securitization in the last quarter, so we had surplus cash, which was invested for short term and that reflects that income.

Jonathan Prigoff: Okay and then can you talk about what are your expectation is in terms of provisioning assets quality obviously last year you took there is one time provision for events in Bellari, since then you maintained still I would say they are reasonably high level of provisioning? Do you still expect that to continue? Do you see any hope that I would decrease over the course of this year? Do you think that current levels are what you need to be doing?

Umesh Revankar: We feel that current levels would remain for some more time. I think this economy improves, because once a customer get into a particular bucket for him to come out of that bucket and pay extra amount becomes difficult because additional income will be difficult to earn for him in the economic event and we also do not go for a foreclosure forcibly and we try to collect it over the period, because once we have comfort on the asset coverage, we do not feel that forcing a customer for closure is the right approach, so this will continue for sometime, but we do not see any the deterioration or we do not see anywhere it will going to result in more write offs.

Jonathan Prigoff: Thank you very much.

Moderator: Thank you. We have our next question from the line of Jyoti Kumar from Spark Capital. Please go ahead.

Jyoti Kumar: Two things, one, what is the proportion of your M&HCV in the loan book and disbursement?

Umesh Revankar: In the loan book, number wise it should be around 20, M&HCV I said both new and used put together and volume wise it should be around 30%.

Jyoti Kumar: Rest of it is LCVs?

Umesh Revankar: Yes, LCV and then we also have the passenger, tractor, and some constructions equipment.

Jyoti Kumar: Okay, secondly going forward, now there is a calcification has come from RBI on the MV NAIR Committee, would you need to reduce your credit enhancement that you give to bank, would you need to reduce it from your networth on for the securitized or the assigned transaction?

Umesh Revankar: Whatever we have done in the past we have already done, so we need not to do fresh.

Jyoti Kumar: Okay and lastly I have one question on your interest income for the quarter, you said AUM has grown 4% Q-O-Q, NIMs are up 18-BIPS but then I have a doubt and wondering why the NII is slightly lower Q-O-Q and including income from securitization?



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- Umesh Revankar:** There if you see the other income which comprises of around 70 Crores in the current quarter, so we are presenting as other income, but we need to take it as part of the net interest income only.
- Jyoti Kumar:** Sorry sir, I did not get it.
- Umesh Revankar:** The other income which the short term investment that we have made in CDs in mutual fund, so that if you see compared to the previous quarter of 25 Crores it has gone up to 70 Crores, so if will add these two also have part of net interest income we will get that.
- Jyoti Kumar:** No, but that is below net interest income.
- Umesh Revankar:** Correct.
- Jyoti Kumar:** I am saying 50 is the economy net interest income including in terms of securitization?
- Umesh Revankar:** From 805 Crores it has come down to 802 Crores in the current quarter.
- Jyoti Kumar:** EMI has gone up then logically this should have.
- Umesh Revankar:** Denominator is an average figure, so on the 805 Crores, the denominator is different from the denominator that we are calculating for 802 Crores, for this if required we can give a working through Mr. Mundhra not an issue.
- Jyoti Kumar:** Sure, okay, thanks, that is it sir.
- Moderator:** Thank you. We have a next question from the line of Devam Modi from Eclerx Securities. Please go ahead.
- Devam Modi:** I just wanted to clarify on how much securitization could be targeting in FY13 and 14?
- Umesh Revankar:** That depends upon the demand, but we feel that right now 5000 Crores is something, which we should be expecting, but the cost of fund advantage is there, we can even do it more.
- Devam Modi:** This would be for FY'13 and any like for FY'14 also we consider similar levels?
- Umesh Revankar:** It could be similar because as our book grows mix can change so as depending upon the cost of funds basically everything.
- Devam Modi:** Do we see any spreads or potential stress that could develop in the portfolio because of the delayed monsoon or deficient monsoon this time?



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- Umesh Revankar:** I do not really think so, because monsoon as I was explaining previously, if you look at long history in the last 25 years it did not really had impact on our asset quality. In fact, there are many instances where no customers would prefer to retain, is this option of having a land and vehicle they would design vehicle because vehicle keeps earning for them, so holding on to vehicle would increase if there is a bad monsoon because vehicles would give them daily roti or food so I do not really feel that will happen.
- Devam Modi:** Thanks a lot Sir. That is it from my side.
- Moderator:** We have our next question from the line of Venkat Rajesh from Premji Investment. Please go ahead.
- Venkat Rajesh:** Can you explain me the employee yield is actually down 25% that is March 2011 level, but one of the factual shows up in the staff cost which are actually of 10%?
- Umesh Revankar:** In fact these employees have been distributor with auto mall and Shriram Equipment some of them and some of the admin executives we have not replaced when they left because we have made a lot of technology advance in our management of business, which helps us to manage with the staff and that is the one of the reason and staff cost has gone up a little because of inflation in last one year and this particular quarter we had given annual incentives, which for previous year more than the estimate, so that could be the reason.
- Venkat Rajesh:** If they have been moved into the other subsidiary, then their staff cost will be reflected in the standalone entity?
- R. Sridhar:** Staff cost pertains only to Shriram Transport employees and whosoever have been shifted to Auto mall their salaries have divided there, what he was trying to say was that compared to the previous year certain incentives have been disbursed in the current quarter, which have effectively made that look a slightly higher compared to the previous year.
- Venkat Rajesh:** I am just doing some calculation and if you can just some more colors, so I am trying to calculate the disbursements for employee, if I actually all the employees from Shriram Transport into Shriram Equipment Finance. The disbursement for employee are actually showing significant disbursement for example, if I take the disbursement per employee in Shriram Transport about 600 Crores on an annual basis and so the current explore on an annual basis whereas that same set if I move the same employee into equipment it shows around 50 Lakhs, but equipment should be higher ticket and disbursement for employee should be little be higher?
- Umesh Revankar:** What I will requests that if you can just put this question through Mr. Mundra in mail so that we can give a detailed explanation to that.



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- Moderator:** We have a next question from the line of Ritesh Nambiar from UTI Mutual Fund. Please go ahead.
- Ritesh Nambiar:** Just wanted further clarity on gross NPA side, in fact if you add this securitization performance how does the gross NPA look like in fact because this totally on book performance, which just shown in the gross NPA numbers?
- Umesh Revankar:** If you take it blended then it will be less than 2%.
- Ritesh Nambiar:** How is the trending there?
- Umesh Revankar:** It is equally good I would say, in fact securitize portfolio have slightly performed better because we generally securitize season portfolio only and hence the delinquencies will be better compared to the on books.
- Ritesh Nambiar:** Your major portfolio tilt on the off book side, as on the high yielding assets so I just wanted clarity?
- Umesh Revankar:** Since we normally securitize the season portfolio, seasoning is anywhere between three to six months or nine months also in certain cases and hence what happened is that and based on the requirement of the buyer that at that point of sale will be say 0 or one month bucket and hence in terms of that turning that will be unlikely and they are very less I would say.
- Ritesh Nambiar:** Secondly wanted to know the monitoring and collection charges, which would charge on the securitization what is the quantum like?
- Umesh Revankar:** You mean to say what we incur or what we recover from the banks?
- Ritesh Nambiar:** What you recover on the fee side of it?
- Umesh Revankar:** Earlier in the agreement it was all-inclusive only, it was part of discounting charges, but in the last few trenches that we have done in January to March we have separately taken and it should be around 1% that we get as a collection fee.
- Ritesh Nambiar:** 1% of the total AUM you are saying?
- Umesh Revankar:** Whatever we collect for the month on that 1%.
- Ritesh Nambiar:** Why this runrate of 200 odd Crores of credit cost does not subside in because the mining issues are being already recorded in the earlier quarters, why is this number not actually coming down, the provisioning on bad debts?



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Umesh Revankar: In the previous couple of quarters the write off component on the close contract was slightly more than 120 to 130 Crores and also in couple of quarters, but now that has come down to 100 Crores; however, because of the increase in the portfolio vis-à-vis previous years the provisioning requirement per se at 3% gross NPA level they are required to provide additional 100 Crores and that is resulting in the 200 Crores of provisional write off for every quarter that is the reason.

Ritesh Nambiar: Could you actually in fact provide certain?

Umesh Revankar: If you see the previous quarter March quarter for instance, we had a provision of write off of 194 Crores, hit to the P&L, out of which 120 Crores was on account of certain contract losses and balance 74 Crores was on account of provision. However, if you see the current quarter we had an increase on balance sheet assets of around 3000 odd Crores and which have contributed to around 8 Crores of standard asset provisioning as of RBI norm and all and close to 100 Crores of write offs on close contract and the balance where required to be made as a provision for NPAs as well as securitized portfolio, but going forward we feel that this will come down to 2% level.

Ritesh Nambiar: Standard asset is shown separately in your presentation so I was wondering in fact?

Umesh Revankar: Standard asset shown separately we agree, but going forward we feel that it will gradually come down to 2% level.

Ritesh Nambiar: As you mentioned in the earlier question that in fact might getting to 90 plus days in fact gross NPA doubles so how is the bucketing there in fact if you could give a clarity on this?

Umesh Revankar: One is that the Usha Thorat Committee recommendation is still being considered by RBI based on representation from the industry as such, so we have a problem that 90 day DPD will not come immediately and even if it comes it will take at least they will be giving two to three years at least for that to be achieved, by that time I think it should be fairly comfortable.

Ritesh Nambiar: Thanks a lot.

Moderator: Thank you. We have a next question from the line of Mitul Patel from Laburnum Capital. Please go ahead.

Mitul Patel: Thank you for taking my question. I think you have mentioned earlier that you do not work closer on customers, so if just as a policy within Shriram Transport do you restructure loan for transport purpose?

Umesh Revankar: We do not restructure loan, we allow more time for the customers to pay, so if it is in the four-bucket or five bucket it will remain that five bucket till he closes the loan, instead of 36 months he ends up paying 42 months that is what I mean.



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- Mitul Patel:** But then like you know you have seen some truck in Bellari, so how was that different you participated in those trucks?
- R. Sridhar:** That was because there is no future since Supreme Court came out with a total ban there was no future and the customers started pressurizing us for taking back the vehicle in some cases and some cases we repossessed, so where we do not see any future of the income then we have to close.
- Mitul Patel:** What is the billing to collection ratio?
- Umesh Revankar:** Normally we do not look at that as a ratio, but as you say around 80% to 85%, it should be always collected.
- Moderator:** Thank you Sir. The next question is from the line of Hiren Dasani from Goldman Sachs Asset Management. Please go ahead.
- Hiren Dasani:** Thank you. If I look at between March and June quarter, the cash and liquid investment levels have come down considerably and you maintain a particular level of liquidity on the balance sheet or also opportunistic?
- Umesh Revankar:** So in March we did last securitization because of which there was heavy case, as a policy what we will try to keep it around two months of requirement for meeting our institution liability and our disbursement NIM. Roughly around 2% of disbursement and institution liability we try to keep our cash.
- Hiren Dasani:** Two months of institutional liability and two months of disbursements, March was abnormal in that case?
- Umesh Revankar:** March because we did the last securitization too much of cash came in.
- Hiren Dasani:** Because I was just looking at like cash plus liquid investment, as a percentage of AUM and that number seems to be pretty low compared to several quarters?
- Umesh Revankar:** Two months is what we try to keep.
- Hiren Dasani:** Any outlook on the NIM do you think the margins have bottomed out in the March quarter and from hereon this should improve, or they should be in the same range?
- Umesh Revankar:** It should be in same range, I do not think because we always give indication of 7% to 8%, so you try to maintain. So it is something like this up to 7.5 we are very, very comfortable and above 7.5 is the bonus and anything above then there is pressure from the customer, so you reduce it further so it comes down, in that range only we operate.



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- Hiren Dasani:** Do you think we will go into fullness zone in the coming quarters?
- Umesh Revankar:** If the RBI requires.
- Hiren Dasani:** Thank you very much.
- Moderator:** Thank you. We have our next question from the line of Jyoti Kumar from Spark Capital. Please go ahead.
- Jyoti Kumar:** There are a few NBFC who have received some communication from RBI regarding restrictions on retail entity have you received any?
- Umesh Revankar:** We have not received any such. I think it is for fixed deposit entities. I do not think. We have not received any such restriction.
- Jyoti Kumar:** Lastly, what is the proportion of loans with less 18% deals for you?
- Umesh Revankar:** It should be quite large because all the new vehicle will be less than 18% and there are newer vehicle which we finance, so it can be anywhere between 16% to the new vehicle ranges from 16% to 24%, so there will be at least 50% of used vehicle at around 18% to 19%.
- Jyoti Kumar:** On the new plus 50% of used?
- Umesh Revankar:** Approximately.
- Jyoti Kumar:** That is it from me. Thank you.
- Moderator:** Thank you. We have a next question from the line of Sneha Kothari from Subhkam Ventures. Please go ahead.
- Sneha Kothari:** Sir considering the new PSL guidelines on the securitization wherein foreign banks also need to maintain 40% PSL target, so how you will see the cost of fund panning out in the coming fiscal?
- Umesh Revankar:** Cost of funds should actually come down because there is a pressure on this MNC banks to have PSL requirement asset to be brought, but we cannot immediately say anything on that because it is all in the marketplace we negotiate and find and try to get the best advantage and also sometimes we have to look at win, win situation we cannot be just looking at our win, win situation looking at long term relationship.
- Sneha Kothari:** What is the outlook on the yield spanning out?
- Umesh Revankar:** Yield should be at current level.



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- Sangam:** I had a small question regarding this. Considering that you said that beyond 7.5% you expect that it would be bonus kind of situation in NIMs so with cost of funds coming down do we expect the yields also to come down I mean in terms of passing it on to the customers?
- Umesh Revankar:** We always like to pass on to customer if the situation like very good in the sense we have excess liquidity and if at all we need to reach more customers, but that situation hardly comes, but we believe that customers need to be benefited. In fact if you look at our long history of Shriram we were lending at something like 30 plus interest rates those days when the money lenders were lending at around of 48 plus interest rates so over the period we have brought in a lot of money into the system and we have reduced the cost to the customers, so ultimately our social objectives also have to be met, so we will not make unreasonably high margins in our business.
- Moderator:** We have our next question from the line of Nitin Saigal from Bridger Capital. Please go ahead.
- Nitin Saigal:** On the last conference call you mentioned, you had cut loan to value ratios I think about 5 to 10% across segments, one thing if there is any change on that decision when you would reevaluate that decision?
- Umesh Revankar:** Right now we are continuing with same conservative policy and probably we will look at it in the three quarter if economy changes or if there is lot of positiveness in the atmosphere and business environment otherwise would remain conservative for reasonable long time.
- Nitin Saigal:** You think about changing it in some segments, not all segments that you do uniformly across?
- Umesh Revankar:** It depends on segment wise it will be varying, it should be anywhere between 5 and 10, but it can be some segments we can always reuse it and change it, so mostly October first week we will look at it.
- Nitin Saigal:** Thank you all the best.
- Moderator:** Thank you. We have a next question from the line of Srinivas Rao from Deutsche Bank. Please go ahead.
- Srinivas Rao:** Thank you very much. I wanted to check with your commentary during the entire business cycle is generally sort say better than what normally underlying condition, any particular reason for that, your financials also seemed to do not reflect the macroeconomic slowdown as one would expect and why is that the case and I speak this further at least the industry the entire NBFC four or five big NBFCs who seem to be reporting better numbers than one would expect in the current economic environment?
- Umesh Revankar:** As far as Shriram is concerned we are more into grass root level, micro level and we do not have a direct impact on macro that industrial slowdown so that could be the reason for you to think



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that macro is not reporting well, but micro grass root if you feel that all the activities have remained same over the period and not much fundamental change is there, so there is reasonably good amount of business in micro level and whatever is happening in the macro level the investment not being much there, new infrastructure activity not being there, it is felt mostly in the metro cities, so there is a world of difference between India and Bharat.

Srinivas Rao: On a related note, you mentioned that you allow your borrowers to take more time to kind of pay down the loan, is that something, which we are seeing now happening?

Umesh Revankar: It keeps happening depending upon the various cycles, so we do not really know pick up the time for that, so anytime if we feel that he cannot pay, but he is paying every month regularly, we allow him to pay rather than foreclosing or close his contract.

Srinivas Rao: Fair enough. Thank you so much Sir.

Moderator: Thank you. Ladies and gentlemen due to time constrains that was the last question, I would now like to hand the conference over to Mr. Umesh Revankar for closing comments.

Umesh Revankar: Thank you all the participants. Thank you for all the questions and I hope we could answer reasonably well and we look forward to listen to you again during the after the next quarter results and hopefully we should be able to give better results than first quarter. Thank you very much.

Moderator: Thank you gentlemen. On behalf of Shriram Transport Finance Company Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.