



Gets you going

“Shriram Transport Finance Company Limited Q1
FY09 Earnings Conference Call”

August 1, 2008



Gets you going

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**MODERATORS: MR. R. SRIHAR - MANAGING DIRECTOR,
SHRIRAM TRANSPORT.**

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Moderator:

Ladies & gentlemen, good evening. This is Eish, Chorus Call conference operator. Welcome to the Q1 FY09 earnings conference call for Shriram Transport Finance Company Limited, hosted by Four-S Services. As reminder for the duration of the presentation, all participants are in listen only mode. After the presentation there will be an opportunity to ask questions. Should anyone need assistance during the conference call they may signal an operator by pressing “*” and “0” on their telephone. At this time I would like to turn the conference over to Mr. R Sridhar – Managing Director, Shriram Transport Finance Company Limited. Thank you and over to you sir.

R Sridhar:

Good evening, welcome to the Q1 conference call of Shriram Transport Finance Company. Yesterday we have declared the results. On going through the results you will find that we have reported robust growth in our numbers. This is in the backdrop of the slowdown and sluggish in the new commercial vehicle (CV) sales, in particular, in the CV industry which has been continuing for more than a year. And the other factors of inflation, interest rate hike and there is liquidity crunch which we anticipate in the days to come. So, in the backdrop we are quite satisfied with the performance of the company for the first quarter.

The revenues have grown more than 70% from Rs 480 crore to Rs 835 crore and we have excellent growth in profit, which has moved from about Rs 74 crore to Rs 143 crore. This is on account of the excellent growth we have been able to achieve in the disbursements and the assets growth and also the asset quality. So, if you take the disbursements, we have achieved 40% growth as against last year's Rs 2,000 crore. We have achieved a disbursement amount of Rs 2,800 crore. And most of this growth, what is happening, is most of the growth has come in our niche segment, that is, used commercial vehicles and the assets under management has also seen a substantial increase. As for the asset end of last year, it was Rs 13,300 crore, which has moved to Rs 20,600 crore, which is represented in 55% growth.

The asset quality has remained intact. And we have the other parameters, like, yields have remained stable. We have expanded our network during this quarter by another 20 branches. So the total branches have moved up from 430 to 450. And we have also been increasing the employees to meet the future planned growth. We have now more than 10,700 people, which has moved from 9,684. So, substantial increase in manpower is also being planned. So, going forward we are confident that we will be able to achieve reasonable growth in spite of the challenges, which we are facing not only Shriram Transport but the entire industry, being present in the niche segments of small truck owners and second hand trucks.

We have had the challenge of competition, getting into this state in a big way. But today, we find that not many companies have expanded its presence in this segment. And we have been the only major financial company. And in order to expand our asset growth, we have innovated by increasing the vehicle profiles, you know, from truck financing company have moved to a commercial vehicle finance company. So, today we finance all vehicles, which are plying on the roads used for commercial purposes. So, that is the one thing we have done. We have also

introduced innovative types of products. So, as the truck owners keep paying these installments, they are eligible to borrow further money within the LTV. And we have also developed a new partnership, like the one which we have with Axis Bank. Ashok Leyland, we are exploring couple of more partnerships. All these partnerships are intended to get the truckers operation efficient. So, through these partnerships we have been able to increase the asset growth. But if I have to find out one significant achievement of Shriram Transport, it is the partnership with the private financiers.

So, today we have exceeded more than 500 people. The partnership with the private financiers' scheme is doing very well and we are expanding this experience to other regions from the South. So, we are confident that in the next two years we should have substantial private financiers' partnership, which will be a big and very strong channel for us to increase our asset base from here. The relationships and confidence, which we have in our business has helped us mobilise financial resources from the banks and institutions. So, today we have a strong set of bank and institutions which have been lending. So, we continue to enjoy the privilege of our customers being classified as priority sector. So, that gives us an opportunity to raise resources through securitisation. So, all these things since it continues and we being present in the niche segment we are confident of reporting reasonably good performances, good growth in the coming quarters. With these initial remarks I would now leave the forum for questions and I would be very happy to answer.

Moderator: Thank you, sir. We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touch tone telephone. Participants are requested to use hands set while asking a question. Anyone who has a question may press "*" and "1" at this time. The first questions come from the line of Mr. Chirag Shah of Emkay Global.

Chirag Shah: Good evening everybody. I just logged in slightly late. I would, just if you can repeat it again, if you can repeat for me. My first question would pertain to NPA level. What kind of NPA levels you have right now? And what is your view on that. Are you finding any stress building up in the systems as far as NPAs are concerned? And if not necessary in NPAs but in case of the erratic default pattern have emerged?

R Sridhar: See, that asset quality, which is our obsession remains intact, I would say. That there is a marginal increase compared to March 31, 2008 - from 1.5 per cent it has moved to 1.65 per cent - the marginal increase. But net NPA has come down because we have increased the provision. We are not able see any significant change in the delinquency level in our segment. So, we are pretty confident of the asset quality going forward, and we have a track record of a stable credit loss for every long time, which is around 2%. That is the range we see and we should be within that - subject to the economy, you know, performing reasonably well. So, I do not think there is any concern for as in the asset quality area.

Chirag Shah: Okay, so you are not witnessing any issues in terms of, not even any kind of erratic patterns you have witnessed, you know, maybe in some pocket, which is the part of the business cycle - but nothing out of the normal business cycle?

- R Sridhar:** No, not at all.
- Chirag Shah:** My second question would pertain to again, you know, you are also financing new CVs to existing customers. We see that the last four years were wonderful years, if we exclude the current year for the new buyers, for the OEN basically. So I think going ahead, probably, from next year it should filter as a very good base for your performances, if my interpretation is correct.
- R Sridhar:** See, your interpretation is quite correct. So, in spite of this we will be having our own, you know, potential to fund at least growing. The number of vehicles, which we can finance between 5 and 12 years - that keeps increasing. Also, the value of the vehicles is going up because new types of vehicles are coming in. So, the addressable potential of second hand trucks, which we can be funded keeps growing. So, even if we double our assets under management in the next three or four years our market share, that is, the penetration from the current 20 or 25%, will not get double because the potential is increasing. So, we can move to only maybe 30-35 - on one-fourth to one-third we will move. Even if we double our assets and management, the potential to fund is quite good.
- Chirag Shah:** My last question would be just to understand how you, that, if you look at the banks who are withdrawing themselves from different places in funding - have you seen those customers coming to you for new or used vehicle finances? Or that customer base if not even it, are you not addressing those customers even right now?
- R Sridhar:** Yeah, we are only addressing the small truck owner. We are not addressing medium and large truck owners.
- Chirag Shah:** No, even bank.
- R Sridhar:** The withdrawal of banks from these segments will only help some companies, which are already there in that segment. It will not help us.
- Chirag Shah:** Okay. And do you fear a shift is happening...forming the customer profile that you addressed right now? Shifting to new vehicles in the medium-term had it next six- to nine months because what we understand is that the second-hand vehicles market is very strong, which is in a way very good for you. But this is also partly because of their demand for they are not preferring new trucks.
- R Sridhar:** No. See, the second-hand truck owners, if the entry started due to buying second hand trucks, then at some point have time, it may be five years, it can be 10 years-15 years later, they will gradually upgrade to new trucks. That is the evolution which we are encouraging. All the people will not be buying new trucks. It would be, in a year some people, so that the need also is addressed.

- Chirag Shah:** What I am trying to address is that this notion that the sudden demand in the second-hand market and the number that you are showing is because buyers are not preferring new trucks and they are demanding more and more used vehicle truck in the range of four to seven years.
- R Sridhar:** That is also one of the reasons.
- Chirag Shah:** Okay, thank you very much.
- Moderator:** Thank you, Mr. Shah. The next question is from the line of Mr. Ashish Sharma of Enam AMC.
- Ashish Sharma:** Yeah, good evening sir. Congratulations on the excellent set of numbers. My first question pertains to securitisation income this quarter. We have the net close to Rs 82 crore. Just wanted to understand the portfolio securitised is Rs 391 crore. If you compare it with the last quarter, you can sequentially in Q4 we had booked a securitisation income of Rs 51 crore on a portfolio securitisation of Rs 1,109 crore. So, is it because that incremental like income is coming in this quarter?
- R Sridhar:** Yeah, that is, see, it depends on also the month in which you do in a quarter. Suppose, you do it in the month of March, which is fag end of that quarter. The income would be less even though the amount of securitisation done is Rs 1,100 crore, that is, if it is done in March it could result in a lower side. So, it is the pattern where the income recognition is on amortisation basis
- Ashish Sharma:** Okay.
- R Sridhar:** Based on the tenure of the contract, so, it would be absolutely perfect. But you cannot develop a model because the timing of the securitisation contraction within that quarter, it is going to be at fag end of the quarter, the income will be less if it is at the beginning of the quarter. So, last quarter everything was at the end because of March. So, this year this Rs 390 crore was on April 2, so you have huge income of this portfolio itself coming year. So, it will be excluded.
- Ashish Sharma:** Just want to understand what is the outstanding securitisation portfolio as of June 2008, sir?
- R Sridhar:** June 2008 – Rs 4,200 crore.
- Ashish Sharma:** Rs 4,200 crore.
- R Sridhar:** Yeah.
- Ashish Sharma:** And somebody asked on the asset quality? Can we have the actual figures/number gross NPA and net NPA, sir?
- R Sridhar:** Percentage you want?
- Ashish Sharma:** No, sir, actual values.

- R Sridhar:** Value is Rs 272 crore gross and net is Rs 145 crore.
- Ashish Sharma:** Okay, and sir, this one question on the operating environment for NBFCs. I mean, in the last three-four months what we seen is that the chance of rating agencies pertaining to leverage and regulatory issues thrown up by RBI has changed. I mean, would that imply that you consciously slow down your loan book growth. I mean, already in Q1 you have seen 60% having, you have earlier said we would like to target Rs 300 million even by 2010. I mean, are we on track or will this become conscious strategy of reducing the growth we are witnessing in the specific segments?
- R Sridhar:** Absolutely. We are not deliberately trying to slow, you know, we have normal growth.
- Ashish Sharma:** Okay.
- R Sridhar:** Which is based on the human resources and the financial resources. That capability is being fully exploited. So we have a budget and we are going as per the budget. We slightly exceed the budget, that is all.
- Ashish Sharma:** Okay and any chances that this year may be the operant sheet strategy would be higher because just to utilise the capital more effectively.
- R Sridhar:** Actually, we face a lot of challenges you know in terms of liquidity, rate of interest and inflation. So, the strategies will not be for a year you, know, it could be for a month and depending upon the situation our strategies will change. But ours is only company you know which is amortising this securitisation gain. We have nothing to lose, whether to keep it on the balance sheet or securitise it. So, our objective of more securitisation would be to raise more resources. So, if placing of resources is a constraint on the balance sheet we would not hesitate to securitise more. So, absolutely all the avenues will we have been, you know, planning for any eventuality. So, we are geared up to meet any challenge.
- Ashish Sharma:** Okay sir. Thanks a lot, sir.
- Moderator:** Thank you Mr. Sharma. The next question comes from the line of Mr. Anil Kelani of DSP Merrill Lynch Funds.
- Anil Kelani:** Yeah, good evening, Mr. Sridhar.
- R Sridhar:** Yeah.
- Anil Kelani:** Question - somewhat similar to the question asked earlier, in the terms of the overall operating environment of the company, especially given the fact that with a slight slowdown in economic activity for the truck operators and environment of rising costs be it fuel cost or be it interest cost for the truck operators, do you see any kind of, you know, not actual slowdown but some kind of pressure on our business, sir, in the next, may be six to nine months?

R Sridhar: Yeah, I would not say pressure, I would say challenges. The challenge is coming on account of various macroeconomic factors, which is mainly on the resources, financial resources, which there may not be any other available resource, and even it comes it may come at a higher cost. So, all these things are not going to affect our asset quality because all the assets, which I have already funded is not going to be re-priced. So, the operational economy of the truckers will not be affected because interest rates move up. So, if the interest rate moves up we are also increasing the yield, so the new buyers only will have to pay the new interest. So, it will not affect. But what happens if the viability of the trucking operation gets affected? That is the only time (when) our business will get affected. But today, when the fuel price went up, immediately the freight rates have been increased. So, we are not able to see any problem for the truckers in terms of this realisation. Having said that he will also be facing a lot of challenges in the marketplace because of the rising cost everywhere. But fortunately for us since this is an asset, which is directly linked to the economy, if the economy does well there should be no issue. So, we are now projecting a growth of 7% to 8%, which should be sufficient for the trucker to operate profitability.

Anil Kelani: Okay sir, thank you very much.

Moderator: Thank you. The next question comes from the line of Mr. Anand Ladda of HDFC Mutual Fund.

Anand Ladda: Hello, congrats on a good set of numbers. Sir, you just mentioned that you had a tie-up with private financiers since last year. Sir, just wanted to know how many private financiers, so far we had tied up, in terms of total disbursement or total outstanding loan? How much is their contribution?

R Sridhar: Yeah, see we have about, it should be around 520 or 530, that is the number and in the incremental disbursement about 15% is coming through this channel.

Anand Ladda: And sir, I mean going forward what could be this number, I mean, if we are adding.

R Sridhar: It will increase because see even it is the number of people, you know, we are expecting is number of people to go up to 1,000 because there are so many good financiers. So, the issue is today we have about 20% or 25% penetration. Around 75% penetration is by the private financiers. But unfortunately these private financiers are putting their own money, which is not getting refinanced by the banking industry. So, this is the only way it can get refinanced. These two get hooked on to Shriram Transport. That realisation is coming and we are also communicating to them. But if you have Rs 5 crore then you lend Rs 5 crore and then you keep quiet. That is the way they are not able to rise. So, there is limitation, constraint, in terms of the leverage. We are giving that kind of a leverage to these people by channelising banking resources to this.

Anand Ladda: Sir, how much leverage do we allow them?

- R Sridhar:** See, this is, you know, if you have, I mean, Rs 5 crore, that is 10% equity, so we will be putting Rs 45 crore in the tender price.
- Anand Ladda:** So 9x time they are leverage out.
- R Sridhar:** Correct.
- Anand Ladda:** But sir, that, I mean, we are helping them to leverage to certain extent...would that not be increasing the risk on the balance sheet?
- R Sridhar:** No, no, it will not be because they are all people who have been doing this business for generations. And we are also there in the same market. But for the purpose of, you know, certain vehicles which are low ticket and all, the small ticket, so we are asking them to specialise in those vehicles. So, they are doing it, absolutely, it will not have any impact in terms of safety of the money.
- Anand Ladda:** Okay sir, another question sir. You mentioned that apart from you struck in mutual finance, you diversified into other line of business. Now you had become a financier for commercial vehicles. I mean, is it possible to get a break-up in terms of tractor finance, passenger vehicle finance, how much we had in this quarter?
- R Sridhar:** We do not normally do that because these are all, you know, new lines which are still to get to a reasonably good number. So, we should be doing it in due course.
- Anand Ladda:** Sir, I mean probably if you look out, I mean, we have been growing very strongly and if we continue to do this growth, we will require more capital. Is it possible to tell what sort of current capital adequacy and, I mean, do we see, I mean, that we have already leveraged 8 to 9x times?
- R Sridhar:** See, we have a comfortable capital adequacy which is as against 12%, we are slightly more than 15. And we do not expect any capital requirement until March 31, 2010.
- Anand Ladda:** Okay. So what is our TMR right now?
- R Sridhar:** It should be around 12%.
- Anand Ladda:** 12%, okay. And sir, what sort of gearing can we look into the balance sheet?
- R Sridhar:** See, we should be comfortable with 6% to 7% gearing. We should try to maintain that.
- Anand Ladda:** I think right now, sir, we are 8 times.
- R Sridhar:** No. If it is 15, it is 6 to 7 times only now.
- Anand Ladda:** Our total advances as on this quarter and the balance sheet is what?

- R Sridhar:** No, see if you take the capital adequacy of 15 point something, it is only 6 to 7 times leverage.
- Anand Ladda:** Okay.
- R Sridhar:** That is what capital adequacy is, net worth divided by total assets.
- Anand Ladda:** Fine, sir. What sort of growth you can expect in the disbursement for the whole year?
- R Sridhar:** See, last year we did Rs 11,500 crore. But this year, you know, we should add some growth. But it all depends on the next three quarters' macroeconomic factors, which today looks to be very challenging. But we are confident that we should put up a reasonably good growth as we have seen in the first quarter. We have grown 40%. So we should be reasonably growing.
- Anand Ladda:** And sir, on a spread I mean will we be able to maintain the current spread?
- R Sridhar:** All these things, you know, they have been stable in our business, though there are some ups and downs in certain parameters. So, we try to keep the NIMS also intact, credit quality intact, and if those things are okay, the other things keep moving up.
- Anand Ladda:** Sir, we have been aggressively adding employees in the offices, I mean, if you see because of that, I mean, on a sequential basis our operating cost has come down. What could be the reason for that, sir?
- R Sridhar:** See, when we will increase the volumes, you know, substantially, at some point of time you will start making economies (of scale). That is the reason.
- Anand Ladda:** Fine sir. Thank you, sir.
- Moderator::** Thank you, Mr. Ladda. The next question comes from the line of Mr. Vikas Rungta of Reliance Mutual Fund.
- Vikas Rungta:** Hello, sir, good evening and congratulations for these good results. Sir, I wanted to know, as you said just now that you are also giving other kinds of financing, when a used vehicle trucker keeps paying to you and within that LTV you disburse it. So, but, effectively if you see the vehicle is getting older and older and the replacement value is decreasing...but if you still give the loan within the same LTV, would not it be undermining the equity content of the trucker?
- R Sridhar:** No. See, the issue here is that the truck when you lend the money, we calculate the asset cover. You calculate LTV that is some percentage, you calculate assets cover which is roughly about 1.5 to 1.75 at the time of giving money. And as and when you take at the end of 12 months, if you see the asset cover move up to 2.5 or even 3, you have some cushion to lend the money to these people. That is what we do. If the LTV is 60%, if we maintain that 60% after 1 year, how do we say that there is an erosion of equity? It is not. The inflation, you know, today there is inflation, there is a great opportunity to lend more money, because inflation increases the prices of vehicle. The old vehicle prices are always benchmarked to the new vehicle prices.

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The new vehicle prices keep moving up because of the inflation and the old vehicle prices are also moving up, so the transactions which we have done last year, this year the prices have moved up, so you have more opportunities to lend. So, we always maintain that LTV, if the vehicle price is Rs 1 lakh, we will get Rs 60,000. If it is Rs 2 lakh, it is Rs 120,000 maximum. So, at any point of time, if you are maintaining that LTV, then there is no issue at all. But if you put in our Rs 20,000 crore to start, if you put the LTV, it would be less than 50%. But still you have more opportunity to sell because many of the people have been paying money and so the LTV issue with regard to safety is constantly being monitored and there is absolutely no need for any concern.

Vikas Rungta: Okay sir, just to re-clarify. It means that whenever someone is asking for renewal or, say, top-up loan, you are assessing the value of the vehicle.

R Sridhar: Yeah, value of the vehicle, yeah.

Vikas Rungta: Okay, and then as per that you are disbursing the increment, sir.

R Sridhar: Correct, sir. We have our own grids the value of different vehicles at any point of time, that will be monitored by the sanctioning authority and then if there is a cushion, then only further loan will be given.

Vikas Rungta: Sir, my another question is for this incremental disbursement of this Q1 FY09, what is the average LTV, and has there been any significant change in underwriting standards for CV old as well as new?

R Sridhar: So far no but because the future looks to be little challenging, we are looking at it, we are thinking whether we need to make any changes.

Vikas Rungta: Okay, sir can we share the average LTV of incremental disbursement?

R Sridhar: See we give guideline to the branches that it should not be more than two-thirds that is 56%.

Vikas Rungta: This will be, sir, for the old vehicle?

R Sridhar: Old vehicle.

Vikas Rungta: And for the new one?

R Sridhar: New vehicles, it will be higher, it would be between 80% to 90%.

Vikas Rungta: Okay, sir. My another question is since we will be relying more and more on, say, private financiers for incremental disbursement, relatively, so would not we will entail moving towards like DSA model with more bit of risk sharing?

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R Sridhar: DSA is the person we will just source and go away and take the money. But here we are dealing with the businessman. We have already been in that business for quite long generations. And those who put the equity, those who do work and also will share profit and loss, so, this is different from DSA or DMA, which the banks have that model and the model, which we have put up is absolutely different from that. That is, putting equity is one major difference. DSAs do not put their money and then profit and loss sharing is not there in DSA. DSA gets a fee and then matter is closed. So that is the fee-based model and this is the fund-based model, where it is the partnership that the employee and employer concept, so totally different.

Vikas Rungta: Sir, what is your risk-reward ratio for this private financier basically.

R Sridhar: See, that we cannot share because of... no we cannot share with that is between us, you know, it is the business proposition. So, in view of the competition, we cannot divulge that.

Vikas Rungta: Okay sir, thank you.

Moderator:: Thank you Mr. Rungta. Participants are requested to limit their questions to two per participant during the initial hour of Q&A session. The next question comes from the line of Ms. Poonam Sharma of IDFC Mutual Fund.

Poonam Sharma: Hello.

R Sridhar: Yeah.

Poonam Sharma: Sir, most of my questions have been answered but what would be that the reasonable rate of growth that are you talking about as far as balance sheet is concerned because we have seen that sequentially balance sheet has grown by just about 2%, so what is the kind of growth that you are looking at?

R Sridhar: See, our assets growth is what gives us income that we expect you want sequential growth?

Poonam Sharma: No, for the year I want.

R Sridhar: For the year we should grow by more than 50%.

Poonam Sharma: By more than 50%. Also, sir as you said that the liquidity, the environment is slightly tough, interest rates are up and liquidity is tight. So, what about your borrowing, incremental borrowing, that you are doing? How much of it would be floating? How much of it will be long term? What about the incremental borrowing that you are doing? What is the profile there?

R Sridhar: Yeah, see. Our borrowings come from three major resources, one is retail where we access retail fixed deposits and debentures.

- Poonam Sharma:** Yes, perfect.
- R Sridhar:** The other one is from the banks and institutions, which is coming by way of term loans, cash, credits and other facilities.
- Poonam Sharma:** Yes.
- R Sridhar:** The third major source is securitization, which we sell portfolio. In all these three we happen to be the largest in the country. We have a wide range of banks and institutional relationships, wide range of mutual funds and quite a good number of banks, which have been buying our portfolio. And also we have been a strong franchisee in the retail market. And we have been there for 30 years. There also we happen to be the largest in the country and have a few lakh depositors. So, all these three contributors of resources, and we have anticipated this kind of situation in the country well ahead, and we have done our role. So, today we have activated all these three segments.
- Poonam Sharma:** Okay.
- R Sridhar:** So, I would say you know we are comfortable in raising money as of now. But if there is a total liquidity tightness, which is there because we enjoy our priority sectors status and all that, we should be okay. So, I do not think we will be facing a very difficult situation unless the whole situation becomes very difficult.
- Poonam Sharma:** Okay.
- R Sridhar:** So, we should be reasonably okay.
- Poonam Sharma:** Okay. And also, sir, being in this business and a very-very niche segment, what is that one factor that your customer is most sensitive to because we have seen even when the interest rates are going up there doesn't seem to be a real-real slowdown as far as your disbursements are concerned. So, what is that one most important, you know, macroeconomic factor which leads to slowdown in your kind of business - just for us to keep.
- R Sridhar:** Viability of his operation only, which is on account of the freight earnings. So, the freight rates that are straightaway linked to GDP.
- Poonam Sharma:** Okay, thank you so much, sir.
- Moderator::** Thank you Ms. Sharma The next question comes from the line of Mr. Kumresh Ramakrishnan of Deutsche Asset Management.
- Kumresh Ramakrishnan:** Hello, good evening sir, and congratulations.
- R Sridhar:** Yeah.

Kumresh Ramakrishnan: Sir, just one question. Now this pertains to private finance business. Now, just wanted to know, I mean, the assets which have booked through the private financier route - are these the off-balance sheet items or, I mean, are they booked in the balance sheet of the company?

R Sridhar: Balance sheet.

Kumresh Ramakrishnan: Is it in the balance sheet of the company?

R Sridhar: Yeah, straightaway.

Kumresh Ramakrishnan: Okay. And the other thing is that on these assets, I mean, who has the collection responsibility I mean is it?

R Sridhar: Collection is done by the franchisee.

Kumresh Ramakrishnan: So, everything is done by them.

R Sridhar: Yeah.

Kumresh Ramakrishnan: Okay and is there any kind of, say, first clause cover or something which they give you?

R Sridhar: Yeah, the 10% is there, you know, equity.

Kumresh Ramakrishnan: Okay, thank you so much.

R Sridhar: Yeah.

Moderator: Thank you. The next question comes from the line of Ms. Neha from SSKI.

Mr. Pathik: Hi sir, this is Pathik.

R Sridhar: Hi Pathik. How are you?

Mr. Pathik: Sir very good. Sir very impressive results, I must say.

R Sridhar: Yeah.

Mr. Pathik: Congratulations.

R Sridhar: Thank you.

Mr. Pathik: Sir, I had two questions. First was what is your cost of funds for this quarter and what is your marginal cost of funds right now?

R Sridhar: See, the cost of funds fortunately has not moved up in the quarter. Till June 30, there was no change. So it was around 11%. And the increase has come in the first week of July. So most of

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the banks and the institutions where we have floating loans they have communicated to us that it is moving up by 0.5 in some cases, 0.75 in other cases.

Mr. Pathik:

Yes.

R Sridhar:

Fortunately for us it is around one-third of total loans are flexible, floating loans, so that will block. And now again RBI has increased the CRR, REPO and all that, which will be effective from August 30. So, we expect another round of (rate hike), already the banks have started, I have seen in some newspaper and.

Mr. Pathik:

Yeah, there was increase by 75 basis points.

R Sridhar:

We will be getting a communication that it will again go up. So, we expect that our cost of funds, from 11% will move up to maybe 11.5% maximum, during this quarter. So, we have already increased our lending rates. So, that we will be able to maintain the NIM.

Mr. Pathik:

The issue is - are you matched? Is there an issue of floating versus fixed ALM mismatch or is it all reasonably matched for you to be able to...because you might have to increase rates more than the cost of fund increase, right?

R Sridhar:

Yeah, that happens. See, now the issue is, for us there are two advantages - one is advantage and another is disadvantage - both are there. But in our Rs 20,000 crore only 30% is floating. So, 0.5 or 0.75 goes up. The impact on the total portfolio is only 0.25.

Mr. Pathik:

Correct.

R Sridhar:

So, if I increase on the new loans 0.5 that would cover NIM. And the disadvantage is that the assets side is totally fixed, you cannot re-price. So, within that constraint we are trying to increase the new lending. And since we are growing very fast, since our disbursements and asset growth are robust, we do not anticipate any significant impact on the NPA.

Mr. Pathik:

So, you will say there will be some compression in margins but you will make up by volumes. Is that what you would say?

R Sridhar:

No. See, we try to increase the lending rates so that we compromise on the volume. And having said that we cannot keep on increasing the lending rates.

Mr. Pathik:

That was my next question. So, I want to know how much you keep can on increasing beyond the point the truckers also will not be able to pay, right?

R Sridhar:

Yeah. So, viability is the one, which we will estimate and evaluate. So increasing, so today we are impacting is take on pay. So if interest rates increase is take on, payment comes down. And what happens is if his costs are going to increase? Then he is going to increase his freight.

Mr. Pathik:

What is your lending rate now, sir? What is your lending rate now?

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- R Sridhar:** It varies from age to profile of the vehicle. But average old vehicles are between 18% to 24% depending upon that. So, the average would be around 20%. And for the new vehicle also is there. So, we get around 18 -18.5% blended yield.
- Mr. Pathik:** Okay. And my second question was on the whole gearing thing. There is no, I believe, that the issue is only for non-depositing taking NBFCs that is not for deposit taking NBFCs, right?
- R Sridhar:** No, we are all classified as asset financing companies. So, the deposit question does not come. It is only systematically important NBFC which are not effect financing companies where the capital adequacy has been increased to 15%. But for us we are classified as asset financing company. Ours is 12% and for commercial vehicle finance companies. We have been asking the Reserve Bank to reduce the risk rate in line with the housing finance company, which is under consideration.
- Mr. Pathik:** Sir, the last question is on this provisioning. I believe we spoke earlier but I just missed it. There is some exceptional provisioning in the previous quarters for service tax, around, in which quarter was that, first quarter or the fourth quarter?
- R Sridhar:** No, it has been continuously, because we had moved from hire purchase to loans. Because hire purchase contracts have an impact of service tax. But when it was introduced we had already outstanding assets of loans. Those loans we have been providing service tax. But those loans have got expired. So, our provision, you know, for service tax is stopped from this quarter. So, till last quarter, there were provisions.
- Mr. Pathik:** Of how much per quarter?
- R Sridhar:** It varies from each quarter. It could be Rs 10 crore it could be Rs 8 crore, and it could be Rs 5 crore. Okay, but each quarter we have been providing and this quarter there is nothing.
- Mr. Pathik:** So, if you have to look at your provision, say, on the first quarter of last year, Rs 56 crore, Rs 8-10 crore would have been because of this service tax and quarter Q4 has been lesser because of the portfolio was running off. So, must have been at least Rs 5 to 6 crore?
- R Sridhar:** Yeah, definitely.
- Mr. Pathik:** Okay, yeah fine sir, I think that is it. And I think the ROE is exceptionally strong...it was 30%.
- R Sridhar:** Yeah.
- Mr. Pathik:** That is very good, sir.
- R Sridhar:** Thank you.
- Mr. Pathik:** Okay sir, take care.

- Moderator::** Thank you. The next question comes from the line of Mr. Bala Naidu of Goldman Sachs. Please go ahead.
- Bala Naidu:** Hi, Mr. Sridhar.
- R Sridhar:** Yeah.
- Bala Naidu:** Sir, two questions. One, could you tell us from the new branches which were added in the last two years, what percentage of disbursements should have come?
- R Sridhar:** See, our branches are not, you know, virgin branches, where you go and find a new territory and open. See, we are there in a particular place. You take, for example Bombay. In Bombay we have got 15 branches. But it is not that you open a civil branch and then look for business. It is already in Chembur branch, the business is growing and we opened another branch because our assets under management in that particular Chembur has gone up beyond a particular limit and in that we find that there are lot of customers from Sivri. So we opened a branch in Sivri and shifted all these. So, every branch, if you see, even if it is one year old, you will have substantial assets under management because it has got shifted from the nearby branch. So, the new branches, which are opening are not in a new geographical center. It is all opened in the same geography but for being present till the retail asset space. We have constraints in terms of the number of customers we can handle in a particular week. So, we create more offices, so that each branch manager does not go beyond at least Rs 50 to 60 crore of asset center management. This effectiveness in collection and recovery and customer relationship is intact, that is why. So, 30 new branches are not new additions to new territories. But having said that some things like Northeast and all that...we have been expanding. So, it could be some of them there.
- Bala Naidu:** Sir, if I have to ask the question in a different way...of the Rs 28 crore of disbursement, how much came from new locations?
- R Sridhar:** That I do not have answer to, what per cent, that I can workout and tell you.
- Bala Naidu:** Your guess would be what sir, 10% or 5%.
- R Sridhar:** I cannot guess.
- Bala Naidu:** Okay, one last question on what is the securitisation yield you are getting on the Rs 390 crore which you securitised in Q1?
- R Sridhar:** The securitisation is slightly lower cost than what I borrow from on the balance sheet. There would be a slight difference of around 1%.
- Bala Naidu:** So, about 10%.
- R Sridhar:** Yeah, correct.

- Bala Naidu:** Okay, thank you, sir.
- Moderator::** Thank you, Mr. Naidu. The next question comes from the line of Ms. Madhuchandra Dey of Kotak PMS.
- Madhuchandra Dey:** Sir, I have two questions. The first question is, in the first quarter we have seen a nearly 55% growth in disbursement for old vehicles, whereas it is pretty muted for new vehicles. Is that because of any macro-phenomenon that the rise in overall rates, etc., has not really impacted the old used vehicle market because the dynamics are pretty different? And the second question is, if the monetary tightening from the central bank continues for some more time, at what kind of a yield would you think that there will be some problem in terms of delinquency and actual user demand will start getting impacted, which will impact your disbursement.
- R Sridhar:** See, we are consciously not growing our new vehicle loans. New vehicle loans, we would like to keep it at around 25% to 30% of total loans. So, that is why we do not grow the new vehicle quarter-on-quarter, year-on-year, if you see, it will be stable unless the total disbursement grows. So we would like to grow the used vehicle business which is our mix segment and that would be 70% to 75% of our total loans. That is one answer. The other one is on the viability. The interest rate in this segment of small truck owners who buy secondhand trucks as I told you is only catered to by Shriram Transport. No other organised NBFC or bank is in this space. So, there is huge demand, which has not been, you know, financed by any major financier. So being the only financier who can raise the large amount of money and pump into this segment, we ourselves have got only 20% to 25% penetration, which means this industry still is in the grip of the unorganised segment. And naturally, because of that the interest rates are hovering at a higher rate due to the gap in demand and supply. And so whatever be the interest rate, the truck owners have no alternatives but to borrow. Having said that we have been continuously working in the last 30 years to improve the credibility of the trucker so that you are able to borrow at cheaper rates. That has been the mission and objective of Shriram Transport and I would say that we have achieved this in a very significant manner in the last couple of years. Having said that, the viability of the trucker may get affected if the interest rates move beyond 24%.
- Madhuchandra Dey:** Okay, so since your blended yield would be around 20%.
- R Sridhar:** So, we have lot of scope.
- Madhuchandra Dey:** So, you still have significant headroom to raise (rates) without affecting the dynamics of the business, am I right?
- R Sridhar:** Correct.
- Madhuchandra Dey:** And sir, the second question is slightly a thing which I want to clarify. Is there a limit on the kind of leverage that you are permitted, if you do, by the regulator, is that 6.3 times or something?

- R Sridhar:** 8.33 because capital adequacy is 12%.
- Madhuchandra Dey:** Okay, you add is 12%.
- R Sridhar:** 8.33 but capital adequacy of ours is 15.6%. So, we are only grow to only 6 times.
- Madhuchandra Dey:** Okay, so you are allowed to go up to 8.33, right.
- R Sridhar:** Correct.
- Madhuchandra Dey:** Okay, thank you sir. And one last small question. In this particular quarter, if you could quantify for us, what kind of fund-based income did you generate from this private financier, which has been booked in your P&L?
- R Sridhar:** Readily it is not available. I would ask my investor relations people to send the mail to you if you can send a mail to us.
- Madhuchandra Dey:** Sure sir. In just a sense of that, means, you have booked a fund-based income of Rs 752 crore. So what percentage of it could have come from this?
- R Sridhar:** It should be around 5%.
- Madhuchandra Dey:** Okay, thanks a lot and all the best sir. Thank you.
- R Sridhar:** Thank you.
- Moderator::** Thank you Ms. Dey. The next question comes from the line of Mr. Kamal Raimawala from JP Morgan.
- Kamal Raimawala:** Yeah, hi sir. My question is actually on your yield on interest earning assets in your comparing FY08 with FY07 and then going in to Q1 FY09. The yields have actually declined. Can you explain why?
- R Sridhar:** See, the yield, what we contract with the customers for a particular asset has not come down but it is the lower yielding assets (that) comprise most of the loans in a particular quarter. It will have an impact, for example, five-year-old vehicles will have a particular rate, six-year-old vehicle will be higher, seven-year-old vehicle will be higher, eight year-old vehicle...like that. So in a particular quarter, if more lower age vehicles are funded, then your yield will have an impact, which is very very marginal, it could be 3 to 3.4%, like that.
- Kamal Raimawala:** Sir, this is year-on-year that I am talking.
- R Sridhar:** Yeah, so that is the reason. It is only the profile of the vehicles, age profile of the vehicles, which have an impact on the yield.

Kamal Raimawala: Okay. And sir would you have an idea in the economy, the CV (commercial vehicles), segment pre-owned CV segment, what are the kind of delinquencies? Are they going to rise in the future?

R Sridhar: See, the commercial vehicle is an asset, which is, you know, earning asset and it is directly linked to the economy of the country. So, the commercial vehicle industry has been meant to be a good repayment, you know, to the people. And you would have seen in some of the companies, which have put their money into commercial vehicles have done very well including Shriram Transport. So I do not think the commercial vehicle industry will have more delinquency. But, you know, prediction by many of the analysts that (delinquency) will go up slightly in the days to come in line with the general increase in the delinquencies and other retail businesses. But those businesses, which have huge delinquencies are personal loans particularly short-term on the credit cards, those borrowers and commercial vehicle borrowers cannot be compared and in commercial vehicle loans, which is all assets backed. There is an asset, which can be taken back, and then sold and you can realise money. So I do not think it will have significant increase.

Kamal Raimawala: Sir, what about your competitors? You said that you are the largest player but are there any other banks like ICICI, etc., who are doing this kind of business?

R Sridhar: Many of them are there in the commercial vehicle financing space and what we are doing is slightly different. It is a niche segment, segment of asset, which is second-hand truck and segment to customer which is small truck owner.

Kamal Raimawala: Right, sir, in the secondhand segment space, I am talking about.

R Sridhar: Secondhand everybody is financing but not small truck owners. So, our strength is customers, not the asset. The asset everybody is financing, everybody is financing secondhand but nobody is funding small truck owners.

Kamal Raimawala: Would you know if their delinquency rates are going up?

R Sridhar: No, I cannot comment on that.

Kamal Raimawala: Okay, thank you sir.

Moderator:: Thank you. The next question comes from the line of Mr. Amit Premchandani of Deutsche Bank.

Amit Premchandani: Yeah, hi sir. Just a small question. What is the percentage of operating expense in percentage of advances?

R Sridhar: Operating expense percentage of advances.

Amit Premchandani: Sir, generally what is the OPEX part of the...?

R Sridhar: See, our, on an average, asset it would be around 2.5%.

Amit Premchandani: 2.5%, and what could be the credit loss over this cycle for the business?

R Sridhar: Our cost-to-income ratio is around 30%.

Amit Premchandani: Yeah, and that is it. Another question. What would be the credit loss over the cycle for your business?

R Sridhar: 2%.

Amit Premchandani: At the top of the cycle, how about, can it go at the bottom of the cycle?

R Sridhar: No, it is an average loss for a very, very long period. We have been losing around 2% of what we contract in the credit loss.

Amit Premchandani: Okay sir, thank you sir. That is it.

Moderator:: Thank you. The next question comes from the line of Mr. Ajinkya Dhawale of Motilal Oswal.

Ajinkya Dhawale: Hello, good evening sir. Just most of the questions have been answered. One data point. Can you give me the unamortised portion of the securitised income, which is there in the balance sheet?

R Sridhar: Around Rs 400 crore.

Ajinkya Dhawale: Around Rs 400 crore. So that will flow through in P&L over the next 2 to 2.5 years.

R Sridhar: 3 years.

Ajinkya Dhawale: 3 years' time period. Okay, that is it sir. Thank you.

Moderator:: The next question comes from the line of Mr. Abhishek Kothari from SPA Securities.

Abhishek Kothari: Congrats on the numbers, sir. Could you tell me what kind of securitisation portfolio are you looking out for the year? I mean, total in terms of value?

R Sridhar: See, we normally do securitisation of new vehicles, which we lend in a particular year, which is roughly estimated to be around Rs 3,000 to Rs 3,600 crore. That is the securitisation we will do in a year. That is what we have been doing in the past years. This year, since there are a lot of challenges, we have kept a minimum of Rs 3,000 crore to Rs 3,600 crore but nothing prevents us from doing more.

Abhishek Kothari: Yeah, that is correct.

R Sridhar: Yeah.

Abhishek Kothari: Okay. And sir, what will be your cost of funds for the year given the current market situation?

R Sridhar: No. We already have an 11% cost before these increases. We expect it to move up to around 11.5%.

Abhishek Kothari: That will be your peak, you mean to say.

R Sridhar: Yeah, if there are no further increases. If there is an increase...but it will not go beyond 12%.

Abhishek Kothari: Beyond 12%, okay sir. The other question would be on your construction equipment business. By when can we see that taking place for you?

R Sridhar: See, construction equipment, we already fund. The fund, the contract people who are, you know, upgrading from the truckers. There are a lot of people who go into the contracts.

Abhishek Kothari: With whom are you tying up for it?

R Sridhar: We fund our customers directly. We do not tie up with anyone.

Abhishek Kothari: Okay, direct funding.

R Sridhar: The customers require some machineries and vehicles for their construction contract business. So, those needs we do. We should be having on the total portfolio...slightly more than 5% of total portfolio is through construction equipments.

Abhishek Kothari: 5%.

R Sridhar: Yeah.

Abhishek Kothari: Okay, that is nice. And sir, your card business with Axis Bank?

R Sridhar: Yeah, that is growing.

Abhishek Kothari: What percentage has it grown in this quarter? And could you comment on the year target for yourself?

R Sridhar: See, we have already given about 25,000 to 30,000 cards. We want it to be 50,000 by March. So, that we are distributing. And you know, mostly it is a CFR initiative giving the truckers the benefit of a credit card but not much of income will flow through that.

Abhishek Kothari: Okay. The other questions have been answered. Thanks again and congrats on your numbers sir.

R Sridhar: Okay, thank you.

Abhishek Kothari: Yes, sir.

Moderator: Thank you.

R Sridhar: Can we wind up? It is more than 1 hour. Do you have any more questions?

Moderator: Yes sir. There are a couple of more questions. Would you like to take those?

R Sridhar: Okay, actually two or three maximum.

Moderator: Okay sir. Sir, the next question comes from the line of Ms. Sarika Lohra of Kotak Securities.

Sarika Lohra: Sir, can you just give a break-up for your asset liability maturity pattern in your books?

R Sridhar: Yeah asset liability. There is a strong ALM. So, we do match the assets and liability maturities, which is in our case is very, very comfortable because the borrowers, you know, are long term funds and our truck loans are 3 to 4 years only, which on an average will come to about 30 months. So, we have a very strong asset liability match and constantly there is a committee, which looks into it on a periodical basis to see that we do not have any mismatch. So, absolutely no problem on that.

Sarika Lohra: But what will be the liabilities?

R Sridhar: Yeah, that is what, is both, assets as well as liabilities. The assets you know is the truckers. You know, we lend money from their every month the resources are collected. Similarly, we will have to pay interest and all that in this and then there will be maturity of loans, which we need to repay. So, that is what is being matched.

Sarika Lohra: No, other than that the duration I am talking about.

R Sridhar: Yeah, the duration is for the new loans, we give 4 to 5 years. For the old vehicles, we give about 3 to 4 years. So, average would be around 3 years is there, average loan.

Sarika Lohra: Okay and in this did you have any reset clause for the floating rate loans, which you have?

R Sridhar: On the asset side, they are all fixed. On the liabilities there are floating as well as fixed.

Sarika Lohra: I could not get that, sir.

R Sridhar: Asset side you could have re-priced. These are all fixed loans and on the liability side there are both, fixed as well as floating loans.

Sarika Lohra: What would be that percentage?

R Sridhar: Fixed loans would be around 65% to 70%. Floating loans balance.

Sarika Lohra: Okay.

Moderator:: Ms. Lohra do you have any other questions?

Sarika Lohra: Yeah, that is it.

Moderator: Thank you. The last question comes from the line of Mr. Pramod Kumar of B&K Securities. Please go ahead.

Pramod Kumar: Yes sir, good evening and thanks for taking my question. Sir I just have one small query regarding dealer profitability. Sir, as you pointed out that was a most crucial thing for the success of the entire CV business, but with the recent rise in interest rates and of course the fuel price increase, do you see freight actually picking up in line with the increase of the cost?

R Sridhar: No, sometimes it may not be in line but this time, you know, because the fuel price has been steeply increased that Trucker Association took the decision to increase it by 10% to 15%, which covers the fuel increase.

Pramod Kumar: Yes sir, but that is the intent but actually has it been affective?

R Sridhar: Yeah, it has been affected in most parts of the country. But the shippers, you know, the shippers will take time because they will have to go back to the people and rework the contract and renew it. So, till that time, one or two months, they will have to absorb and then it gets implemented.

Pramod Kumar: So, by...

R Sridhar: And when it comes to our truckers, our truckers have no contract. They go to the market and then they get the freight, so.

Pramod Kumar: Yeah, you mean to say that in the spot market the rates have already picked up or?

R Sridhar: Yeah, fixed up, yeah.

Pramod Kumar: And, so, for the shipper it should actually start picking up by September at least.

R Sridhar: Right, correct.

Pramod Kumar: And, however, if that actually does not happen then that would be a very negative.

R Sridhar: No, it will happen. Otherwise why the people will buy the truck?

Pramod Kumar: And sir another small question. What is the kind of down trading which happens from a new truck to an old truck because of increased cost of operations? Will it be in form of higher interest rates or higher fuel cost or other factors?

R Sridhar: See, the new vehicles are mostly purchased by medium and large operators. So, they continued to buy new trucks. And the old trucks after they became four or five years old they sell it and it is picked up by the small truck owners. There will be some shift but medium and large operators come and buy used trucks for the time being because the new trucks we will have to put more capital.

Pramod Kumar: Exactly

R Sridhar: And then buy, so, that is slightly increasing in the old vehicle but we do not address that market.

Pramod Kumar: Okay, why?

R Sridhar: Because we do not fund medium and large truck owners.

Pramod Kumar: Okay, it is only the single truck operators or small truck operators.

R Sridhar: Correct.

Pramod Kumar: Okay, so anyways, thanks a lot sir and best of luck for the future.

R Sridhar: Thank you.

Moderator: Thank you. At this moment I would like to hand the conference over to Mr. Sridhar for any final remarks.

R Sridhar: Yeah, absolutely fine. I really enjoyed the wholehearted and enthusiastic participation. So, I look forward to having a chat with all of you after the Q2 results. Thank you.

Moderator: Thank you. On behalf of Shriram Transport Finance Company Limited and Four-S Services Private Limited that concludes this evening's conference. Thank you for using Chorus Call Conferencing Services. You may now disconnect your lines.