"Shriram Transport Finance Company Limited Conference Call"

May 2, 2011

MODERATORS: MR. R. SRIDHAR
MR. SANJAI MUNDRA

Moderator: Ladies and gentlemen, good evening and welcome to the earnings conference call of Shriram Transport Finance Company limited for the fourth quarter and financial year 2010-2011. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. I would now like to hand the conference over to Mr. R. Sridhar, Managing Director for the initial observation. Thank you and over to you sir.

R. Sridhar: Welcome to the Q4 call. This financial year 2011, I would say has been mixed for Shriram Transport. We had a very satisfactory performance during this year particularly, the Q4 had been quite good. During the year, when I said mixed we had good commercial vehicle demand throughout the year the demand for both new as well as old vehicles had been good which had been demonstrated by a strong disbursement growth of Shriram Transport throughout the year and particularly in Q4 and also we faced quite a few challenges during this year particularly in the form of inflation. The inflation had liquidity issues, which had become scarce and also the interest rate continues to raise. Raising of interest rate and the liquidity restrictions had posed a challenge for lending organization that is NBFCs and bank, which had been impacted but creditably Shriram Transport anticipated the consequences of inflation well in advance even in the preceding financial year 2010 and we had initiated a few actions like raising more fixed rate loans and during financial year 2010 and continued the same in 2011 also and consequently I would say that during the year, we have not faced any liquidity issues. On the contrary, we have been carrying substantial resources in the balance sheet. So we have not faced lack of resources for lending. Similarly on the interest rate scenario as we have anticipated and changed I would say that we have managed the impact of hike in interest rate creditably. During the year, we also came out with few issues of retail, which one is listed bonds, which we have done during the month of May, which evoked excellent response from the investing community and the issue of 500 Crores was over subscribed during the first day itself. Similarly we came with Unnati fixed deposit scheme, which continue to receive good response. The company had plans to launch two subsidiaries which we had been talking about even in the earlier year and this year I am very happy to inform you that both the subsidiaries became operational during the month of October, the first subsidiary came in to existence which is another NBFC, which is Shriram Equipment Finance which had about five and a half months of operation during the current financial year and during this five and a half months it had lent around 650 Crores and this company is operating in 92 locations and looks forward to a wonderful year during financial year 2012.

Similarly on the auto mall front, we inaugurated our first auto mall on 26th of February, the union home minister Mr. P. Chidambaram inaugurated our first auto mall in Chennai and second auto mall got inaugurated on 30th of April in Vadodara, so we are planning to open the other two auto malls, which are in the construction stage New Delhi and Mumbai in the current month of May, so overall I would say that the environment has been managed beautifully and the company has posted very good growth in income, net interest income, profit after tax and almost all the important critical parameters including return on asset and return on an equity. I would say over all it has been a satisfactory year and we look forward to the year with continued growth of 15-20% in 2012 also and it is also important to mention few other challenges which had come in the form of some changes in the regulation, which has been introduced by our regulator Reserve Bank of India. The first one which had come in quick succession during the current calendar year starting from January was a provision of 25 basis points on standard assets which we had provided around 55-56 Crores during the quarter ended December and we continue to provide every quarter after that on an incremental basis, so this had been a new provision which has to introduce for NBFCs for the first time in this Quarter. The second one is not pertaining to us, but it is pertaining to the NBFC industries priority sector withdrawal for gold loan. Though we are not doing any gold loan we do give gold loan on behalf of our Sister company Shriram City Union Finance, so to that extent this prior sector withdrawal makes a small impact. The third one which has been introduced by Reserve Bank of India is very significant which is increase of capital adequacy from 12 to 15% for all deposit accepting NBFCs, earlier non-deposit taking systemically important NBFC have been prescribed with a capital adequacy of 15% whereas the deposit accepting asset finance companies like Shriram Transport was given 12% so we have been asking for reduction in the risk weight so that we can leverage little more, but on the contrary the Central Bank has introduced and aligned the capital adequacy of deposit taking with non-deposit taking which has taken up by surprise. So these are all some of the regulations, which had come and there is one regulation, which was to have been introduced pertaining to securitization has not been introduced so far and we understand now that the Reserve Bank of India has set up a committee under Mr. Usha Thorat, former Deputy Governor of Reserve Bank of India and so I think they will look at comprehensively. With these initial remarks I leave the forum for any questions and we would be very happy to answer. I have with me Mr. Sanjai Mundra my colleague who is in charge of investor relation and also Mr. Sundar is the head of accounts with me so I leave the forum for your questions.

Moderator: The first question is from the line of S Natraj from Quantum Advisors. Please go ahead.

S Natraj: Could you give a sense of what is the kind of leverage that the transport operators are currently sitting on and how much effect the interest rates could have on their operations and their profitability, overall macro sum up would be really helpful.

R. Sridhar: The current trend in the commercial vehicle operator the viability is quite good. There is no problem, the freight rates have moved up also during the year, so I don't think there is any problem in terms of viability as far as we are concerned and the industry is doing well, if the viability comes into question then that will show up in the demand for new vehicles, so for the demand for new vehicles have been continuously remaining still, that clearly indicates with viability is okay.

S Natraj: And as far as your existing customers go, how much are the leverage on average basis would be on the balance sheet on the freight operators side?

R. Sridhar: See our customers are all single lorry operators, I don't think they will have any balance sheet for us to evaluate, what indicates viability for us is the regular collection. Our delinquency and our collection percentage will indicate whether these people are in the earning mode or not.

Moderator: The next question is from the line of Chirag Shah from Emkay Global. Please go ahead.

Chirag Shah: Are you witnessing any kind of stress levels in terms of your collections vis-à-vis three months ago point one. Point two is also that we are surprised by the way truck demand is shaping up in plus six months they are still in higher teens (ph) kind of number across industry level. You where indicating you expect some kind of slow down to happen, so can you just share your outlook over that?

R. Sridhar: I still maintain that it is a cyclically industry so it has to catch up the other cycle, but as I mentioned earlier also no one can predict how and when it will happen, but going by the interest rate hikes and the liquidity, fortunately the liquidity is quite good even now, these two are the things, which could trigger, so far it has not happened its well and good. So we have to wait and see in the next three to six months.

Chirag Shah: And on the delinquency side any stress level you have observed in terms of your collections, dealing collection any kind of events you have observed.

R. Sridhar: No that indicates clearly NPLs and write offs if you see, there is no abnormal changes there; it is as per the original earlier trend. There is no deterioration.

Chirag Shah: And even fright availability from truck operators?

R. Sridhar: That is there, that indicates the demand also. The demand is quite good. So everything is okay as of now.

Chirag Shah: So it's like we are still waiting for that cyclically adjustment to happen, but it's not happening.

R. Sridhar: We don't know it can happen three months, it can happen six months, it may happen nine months. We do not know.

Moderator: The next question is from the line of Manish Choudhary from Citigroup. Please go ahead.

Manish Choudhary: First in terms of securitization the proportion has gone up pretty shortly over the last couple of years, any particular trend that we should look into it, is it the new level that you are comfortable with or what is the thinking behind this?

R. Sridhar: From 2009 April till 2011 March, these two years we have been anticipating an inflationary trend and consequently an interest rating increase, so Shriram transport felt that with 50% of bank loans, which are repriceable we have an interest rate risk so we wanted to change that and mitigate those risks. So we raised more fixed rate loans, one of the easiest form of raising fixed rate loan is securitization apart from the NCD issues we have done fixed deposit and all that. So we have used this in the last two financial years, earlier we have been doing only new vehicle loans, now we are doing old vehicle loans also and because of that the volume has substantially moved up, last year we did 8750 Crores now around 10,000 Crores and this has helped us in many ways. One is it has reduced the borrowing cost in that process it has at least helped us maintain the NIMs instead of it coming down. Second it has strengthened the ALM, there are many other benefits because of securitization that we have done, but going forward we also felt that since the guidelines are likely to be changed so we have done this and in the current year we will look at the interest rate scenario and liquidity scenario and then take a decision. We would be comfortable with around 25-30% of our total assets in securitization. So that is the trend we will be maintaining. Sometimes it could be higher and sometimes it could be lower, but going forward we would be around 25-30%.

Manish Choudhary: You mention on NIMs being stable, are on the presentation though the gross price seems to have come down quarter-on-quarter is that because of a mix shift or are that because of calculation on balance sheet assets instead of AUM.

R. Sridhar: Its mainly because of if you calculate the NIM on the balance sheet it is because of securitization. So many assets have moved up and some high yielding assets would have moved up, but overall on the NIM basis if you compare year-on-year it has moved up it has not some down. So that is what I mentioned that we have used the securitization to not only maintain the NIMs, but also expand the NIMs, if you look at March 2010 and March 2011 on an AUM basis it has moved 24 bases point.

Manish Choudhary: But from a quarter to quarter perspective from Q3-Q4 did you see any dip in that?

R. Sridhar: Q3-Q4 there is a dip which is mainly arising out of some newer vehicle loans, which has pulled down our yield a little bit since the size is quite large any small drop in the yield also will have an impact and also a little bit of increase in the borrowing cost on the balance sheet assets have happened, so that is why there is a drop in the sequential NIM, but overall on a year-on-year bases it has only improved.

Manish Choudhary: What could be the exchange of drop on the AUM basis on margins in say quarter on quarter in Q3 to Q4?

R. Sridhar: It was from 8.9 last quarter to 8.06 it is around 85 bases points.

Manish Choudhary: And going forward where you expect this stabilize Sir?

R. Sridhar: Its depends on scenario. We would always expect it to remain stable at around 8% that is our claim, sometimes because of aggressive securitization it has moved up that is to our advantage, so we should be 8%, but it is subject to the regulatory and liquidity interest rate scenario because one issue which has happened is because the interest rates have moved up we are also in the regime of base rate. So the base rates have been increased by the banks so earlier even if PLR regime was there used to be an option where PLR minus one, PLR minus two where there, but now base rate there is no minus. So because of that the borrowing cost has moved up even in securitization.

Moderator: The next question is from the line of Jayprakash Toshniwal from Taurus AMC. Please go ahead.

J. Toshniwal: My question is on the securitization do we also charge any collection fee to the banks.

R. Sridhar: No we don't charge.

J. Toshniwal: Sir what would the share of the USCV in the total securitization portfolio.

R. Sridhar: As of now I don't have that break up. We can provide it.

Moderator: The next question is from the line of Aparna Karnik from DSP Black Rock. Please go ahead.

Aparna Karnik: I think my question is also regarding the securitization. The income from securitization that you have booked this time around is 1589 Crores vis-a-vis 5013 Crores last year and if you look at the book on-balance sheet and off-balance sheet book it is around 19,700 on and around 16,300 off, so given that the securitization is more of the newer vehicles rather than the older CVs and assuming that would yield lesser, how do you explain the higher income from securitization on the lower off-balance sheet book?

R. Sridhar: Everything you said is right, but the last statement that we have done more new vehicle securitization is not correct because we are originating about 3000 to 4000 only new vehicles, which normally we used to do, but this year we have done 10,000 Crores of securitization because of large component of used vehicles, that is why it is like that.

Aparna Karnik: Just a related question, again for the full year, if I were to look at it for the spread analysis on slide #8 of your presentation, you have given, the gross spread total, yield on assets last year was around 17%, this year was around 18.5%. The interest cost last year was around 8.29%, this year is around 7.5%, so actually interest cost average has gone down this year. I am assuming this is only for the on-balance sheet assets. If you could also give us some idea of how these numbers would look like for the securitized assets?

R. Sridhar: Securitized, net interest margin would be in double digits. That will be more because the yield is higher, the borrowing cost is low, it would be 8 to 9% and yield would be 21, so it would be around 11 to 12% will be the spread there.

Aparna Karnik: Would be the spread on the securitization?

R. Sridhar: It will be higher than the balance sheet.

Aparna Karnik: And the cost interest would be around 8 to 9%?

R. Sridhar: Around 9% now.

Moderator: Our next question is from the line of Prashant Shah from Vantage Securities, please go ahead.

Prashant Shah: I just wanted one clarification, you said that you have added about 1000 new employees during the quarter. How your OPEX has declined quarter-on-quarter?

R. Sridhar: You want the figure?

Prashant Shah: No, I just wanted to understand it how did you manage to do this sir?

R. Sridhar: The operation expenditure does not contain only the staff cost, it has other costs, one cost is the fixed deposits we are mobilizing, there we are paying Reserve Bank Of India approved brokerage, which is a variable one. Normally the other mobilizations are added to be interest cost. Here we have not done it, so it is variable, which moves up and down every quarter. So it was earlier 37 Crores, last quarter around 38 Crores this quarter it is only 20 Crores, so 34 it look like that. We are planning to remove this from the operating expenditure include this into the interest cost then it will be clear. It is because of variable cost of deposit mobilization.

Prashant Shah: One additional thing, your investment portfolio went up by 100% on both on quarter-on-quarter and year-on-year basis, you did not determine it most able to do this thing? Mobilize the funds in their financing business?

R. Sridhar: No, we have to reduce this. It has gone up because we did more securitization during the last quarter, so it will come down in the current quarter.

Prashant Shah: So basically we can consider it is a basic for collateralization. Okay fine, thank you very much sir.

Moderator: Our next question is from the line of Ashish Sharma from Enam Asset Management, please go ahead.

Ashish Sharma: Just wanted to get a sense on what you feel, how is the earning profiles of these sales operators, our customers will impact in case of a fuel hike or when very remote facility of a diesel deregulation, will there be some pressures for the operators?

R. Sridhar: Any increase in the fuel will be passed onto the consumer only, there could be time lag between the increase and passing on. For a small operator segment where we are catering to, our customers are not getting any contract they are all freelance truckers, who are operating on a cash and carry basis, so if the fuel price goes up they will charge a new rate, but the shipper or the transporter who is the fleet operator, they will have to face the problem. So our segment is insured against this, so absolutely there is no problem, but for your information we have now more than Rs. 50 diesel price, but for the last 30 years we have been in existence when we started off with Rs. 3 diesel price. Every time it has moved up we have been surviving and passing on, so our truck operators have been able to increase the freight rates accordingly and move on, so this operating cost is not an issue at all.

Ashish Sharma: Just wanted to get a sense in case, the profile, their ability to service the EMI would not be impacted, the increase in prices would not but in case complete deregulation happened there would be some impact.

R. Sridhar: There will be an impact to that extent their take home will come down a little bit, but it should stabilize in short time because deregulation means daily it will keep changing, so there will have some fluctuations and volatility, but it should settle down over a period of time.

Ashish Sharma: Another question is on your outlook of growth, is there any slowdown anticipated in going forward, what is basically the outlook on growth for Shriram Transport?

R. Sridhar: We are confident of growing 15, 20%, which is very, very healthy at this level of assets and I am not able to see any slowdown or sluggishness in commercial vehicle demands. Shriram Transport as you know we are predominantly in the old vehicle segment, where there is no cyclicality. So in the new vehicles there is cyclicality, fortunately for us in the old vehicle, there is no fluctuation. So we continued to be positive and bullish we would be able to grow 15 to 20% comfortably.

Ashish Sharma: Fine, just one more data point, in the earlier question, you have talked about the brokerage paid for raising to deposit, you mentioned that the 20 Crores was the amount for the quarter. What will the full year amount for that?

R. Sridhar: Full year amount would be 96 Crores.

Ashish Sharma: And the right at this point would be taking it as a part of your interest cost and remove it from OPEX.

Moderator: Our next question is from the line of Zeenat Kerawala from Dalmia Securities, please go ahead.

Zeenat Kerawala: I just wanted to ask you that to what extend the basic has impacted the income for securitization and going ahead what is your guidance for the NIMs?

R. Sridhar: There was a difference of around 150 to 200 basis points between the rate at which we can borrow in balance sheet and the rate at which we can borrow on securitization, because the base rates have moved up, this gap has narrowed to 100 basis points now. So that is the one impact because there is a rule that you cannot lend below the base rate that is the impact. So we do not have exactly the quantified amount of impact, but in terms of rate the difference is now 100 basis points.

Zeenat Kerawala: Since the collection fees is not charged by HDFC, what do you thing going ahead base impact would be passed to the bank in terms of collection fees?

R. Sridhar: Now I understand that people are talking about collection fees, so we will also discuss with bank and check whether that is possible so that it will improve but we have been told that this possibility is not there but we do understand many people are asking. So let me check with bank whether this possibility is there if it is there then it makes sense to connect that because we are anyhow servicing the portfolio will check, we will do that.

Zeenat Kerawala: If collection fees would be passed on to the bank then up to what extent there would be a relief on the NIM for Shriram.

R. Sridhar: We are taking the expenditure on the expenditure side. We are only showing the net income from securitization in the P&L. So that is coming as income and the expenditure is mixed with all other expenditure in our P&L debit. We do not have the breakup of expenditure of securitized portfolio and our balance sheet portfolio that is not there so we are now with your question we would explore that possibility of collecting the fee then we can set it off against the expenditure incurred for collecting the portfolio, only take the net into P&L.

Zeenat Kerawala: The fee income from trading of trucks reduced by 23% to around 62 million. What do you think, going ahead what would be the scenario?

R. Sridhar: It should have improved but fortunately the implementation of our auto mall got delayed due to unprecedented monsoon rains. So we are hoping that this year everything will get in place and we should we able to do more transaction.

Zeenat Kerawala: The auto mall when this would be incorporated and we can go ahead with auto mall thing then by what time it would be break even?

R. Sridhar: This income will move to auto mall and it will come as a subsidiary company's income, on consolidation it will come at HDFC. So the break even and all that if this company is not making any capital expenditure and all it is only a revenue it should break even during the current year if not at least in FY'13.

Zeenat Kerawala: Sir but I think this is on the lease based model so what is the exact the exact lease outflow or if you can just throw some colors on the lease based model volume?

R. Sridhar: We have not still, we have opened only one. We have opened two on lease. We are opening 50 or 60. So during the course of the year we will have some idea on the kind of lease rentals in different parts of the country. There is no one lease rental, there are different orders and different places. It commands different rates so we may not be able to give you right now but during the course of this current financial year we will update you all this.

Zeenat Kerawala: Sir one last question with respect to the Shriram Equipment Finance subsidiary which has been opened if you just throw some light on the target side loan book?

R. Sridhar: We have done in the first financial year ended 31st March, 2011 around 650 Crores disbursement, which left us with around 600 Crores of assets so we are planning to add 2400 Crores of disbursement this year, which would take this company's book to around 2500 Crores by the end of 31st March, 2012.

Moderator: Our next question is from the line of Manish Choudhary from Citigroup. Please go ahead.

Manish Choudhary: I just wanted to followup on this construction equipment numbers. Is that included in your total AUM of 36, 000 Crores.

R. Sridhar: No, not at all.

Manish Choudhary: So that will be separate 630 Crores. The total AUM as of now is 36, 000 Crores does it included in construction equipment at all.

R. Sridhar: Yes, that is there as a vertical in Shriram transport for the past so many years. We have been financing equipment, which are purchased by our truckers. So we are now moving to other contractors also, so those contractors who are not our truckers client will be handled by the subsidiary company so we are not moving any portfolio from HDFC to Shriram Equipment so Shriram Equipment will generate its own portfolio but there is a construction equipment portfolio in Shriram transport which should be around 2500 to 3000 Crores.

Manish Choudhary: This proportion been going up or this will..

R. Sridhar: No, it will not go up very fast because it is only in respect to truckers' contract. So we do not go beyond that and cross that segment and go to general contractors. So it would not grow big but we will be topping it up and it should be around 5 to 10% top of our total portfolio.

Manish Choudhary: This will be in the old vehicles segment that we report not in new vehicle, will that be correct?

R. Sridhar: There will be new equipment also could be there but not much old equipment will be more in Shriram transport. In equipment finance company we have a 80% new and 20% old.

Manish Choudhary: Just one more thing in terms of your liability profile could you give us your mix how much is secured versus unsecured now and what will be the breakup in terms of banks securitization, retail etc.

Sanjai Mundra: The secured will be around on 14,000 Crores on balance sheet and the unsecured will be 5000 Crores on balance sheet, 14 plus 6 on balance sheet and the balance is all securitization so that secured so if you take about 6000 Crores will be unsecured and about 30,000 Crores will be secured.

Manish Choudhary: Sir in terms of funding could you give us a mix of how much is from banks and from mutual funds and insurance company.

R. Sridhar: Banks would be around 20%. Then you have the retail which would be around 15% then own funds would be around 10% that takes about 50%. Around 40% is off balance sheet, which is securitized, which you can again add it to bank, but it is fixed then you have the balance 5 to 10% is from other institution, which includes mutual funds.

Manish Choudhary: What will be the average duration of the funding side now, if you look at banks and mutual fund in the duration there?

R. Sridhar: We are borrowing suppose you take retail we borrow, we can borrow 1 to 5 years some public issue of bonds we have given 7 years, some sub debts are 100 months also there. Securitization is the door to door match so we should be having more than 36 months.

Manish Choudhary: Only for banks and mutual fund that will be relatively all short term or less than one year.

R. Sridhar: No, there also we borrow three years, five year term loans, so everywhere is there we do not borrow anything short and use it for lending purpose, only short term borrowings are your fixed deposits and debentures, one year will be there but that is also we matched to the one year maturity.

Manish Choudhary: What will be the proportion of liabilities maturing within the next one year or so. If you can give us some rough estimate.

R. Sridhar: That I do not have as of now I will tell Sanjay to give it to you.

Manish Choudhary: Ok.

R. Sridhar: Thank each one of you for your overwhelming and enthusiastic participation. Look forward to speaking to you during the next Con Call after Q1 results.

Moderator: On behalf of Shriram Transport Finance Co. Ltd. This concludes this conference call. Thank you for joining us