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“Shriram Transport Finance Company Limited Conference Call”

November 11, 2011



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**MODERATORS: MR. UMESH REVANKAR
MR. PARAG SHARMA
MR. SANJAI MUNDRA**



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Moderator: Ladies and gentlemen, good day and welcome to the Shriram Transport Finance Company Limited Q2 FY' 11-12 earnings conference call. As a reminder for the duration of this conference 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 any need assistance during this conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Umesh Revankar, Deputy Managing Director of Shriram Transport Finance Company Limited. Thank you and over to you Sir.

Umesh Revankar: Hello everyone, I am Umesh here, along with team. I have Sanjai, Mr. Sundar and Kelkar from Accounts and Parag from Finance. Friends, since this particular quarter we had lot of uncertainties, global issues and our local issues. In that uncertainty, I think we feel that we have done quite well. The business has been reasonably subdued but we are able to have a good mix of our lending and able to increase our interest income by around 20% over the last year and as far as the CV industry is concerned, in India the CV industry is going flat on heavy vehicles. First six months was a marginal increase of 5% was there, but there is a good increase in LCV and smaller vehicles, that means rural market is doing quite well.

Second half also it looks little subdued for us because the IIP numbers today what has come has shown very marginal or very less growth of around 2% and it is lowest in last two years. So that is likely to put pressure on the existing commercial vehicle owners and new demands are likely to be little less. However the rural market is still good and that is likely to witness bigger demand. On regulatory issues we are yet to get clarification on securitization part and there the committee is yet to give the report and only after that probably we will have some kind of clarification on the securitization guidelines and only after that the market is likely to pick up. Till then the cost of fund will have an issue bearing on our overall cost.

Otherwise we had some issues like ban on mining which had impact in one of our geography and sector of lending and we had to write off around 60 Crores because of that. Otherwise we feel that business is quite good and we should be able to do well in next two quarters but however we will be very cautious in our lending. Our LCVs we have reduced by 5% so that the asset quality is not reduced and also we have increased mix of used and would like to increase the yield. So next two quarters our focus would be more focused on yield management as we expect further rise of interest cost and as far as money supply is concerned, we are able to manage our liability side well and we have so far have done quite well in raising resources. Next two quarters would be able to handle it quite well.

Once these securitization guidelines come and once we are able to raise the money there, probably we should be able to have better margins that side also. I think that is the brief and we should be able to go for question answer straight.



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Moderator: Thank you so much Sir. We will now begin with the question and answer session. We have the first question from the line of Prashant Shah of Vantage Securities. Please go ahead.

Prashant Shah: Thank you very much Sir. Just wanted some more clarification on your loan loss provisions, which went down significantly during the quarter. Could you provide some guideline on this?

Umesh Revankar: See, we had exposure to mining segment. In mining segment there are two kinds of vehicles that are being used, one is a dumper and tractor tipper and another one is the multi-axle vehicle. Here this tippers and dumpers are used for mining basically bringing the iron ore fines from hills to the foothills and from foothills it will go to the port and that were export activity. Two years back, Karnataka government banned the export. So our customers, who are retail customers, who were engaged in this activity, they got affected but they were able to migrate themselves to different areas and still able to manage like they went to neighboring Andhra and Goa but sudden ban of mining itself in Karnataka, that is immediately after the monsoon because the monsoon two months mining activity do not take place, but immediately after the monsoon there was a ban. So four months continuously our customers did not find business and they started surrendering the vehicle and requesting for some write offs and some of them they have repossessed. We felt that there is not much of future left in this particular geography especially in Karnataka and some parts of Goa and these vehicles, since been used for mining for two to three years, it had bigger depreciation and we also could not sell the vehicle into same belt because once the total industry itself has failed, it is unlikely to revive. So we slowed it to a different territory, different geography and because of that we had hit on our resale activity also. So we decided, this is all standard assets, even though last two they had affected, they have been able to pay us and they were standard but instead of taking it out from reducing the coverage, we felt that it is better to write off.

Prashant Shah: But Sir, this was not a recent phenomenon actually?

Umesh Revankar: It is not recent but they were not sub standard, they were standard.

Prashant Shah: Okay and Sir coming to your securitization, you still securitize your high yielding asset value retaining the lower ones on your books?

Umesh Revankar: No, see last quarter we did not securitize. Only 500 Crores we had done.

Prashant Shah: Yes, last quarter was less.

Umesh Revankar: Because the base rate of the bank, earlier we had advantage, since most of this securitized portfolio was PSL; we used to get a rate advantage. This time we did not have this advantage, so we felt that there are other sources of money which is cheaper than the bank source of 10.5 average, so we did not securitize much, only 500 Crores we did.



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- Prashant Shah:** But Sir, still your securitization income went up as compared to last year your securitization income was higher when you securitized much more last year, in Q2FY'11?
- Umesh Revankar:** Yes, that is last year securitization. That is last March, we did 6000 plus Crores securitization. That income is still flowing.
- Prashant Shah:** Okay, main part of the reason for this increase in securitization in this quarter was it is still flowing from the past?
- Umesh Revankar:** You are right.
- Prashant Shah:** Okay and Sir just coming to your operating heads, your operating head went down by 12% but year-on-year basis you have increased your head count, how did you manage to do that?
- Umesh Revankar:** We have not increased the head count. Head counts have actually come down.
- Prashant Shah:** But head count compared to last September?
- Umesh Revankar:** Yes, when you take QoQ because Q4 was 16900 numbers, it has come down to 16500. Actual debt has come down and past we have controlled on that overall because we have not added many head counts in the last seven to eight months.
- Prashant Shah:** Yes, correct. In this quarter I think you added only 82 people?
- Umesh Revankar:** Yes.
- Prashant Shah:** Thank you very much Sir.
- Moderator:** Thank you. Our next question is from the line of Deepti Chauhan from Asit C Mehta Investment. Please go ahead.
- Deepti Chauhan:** Thank you sir. Just have some questions basically in terms of growth in the disbursements, just wanted to know basically given that till the first half we have done 12% growth YOY in the disbursements, what is your expectation for the full year and secondly, given the uncertainty prevail from the securitization, just wanted to know that we have so far done some amount of securitization, at least in the first two quarters. How much can this go up to for the full year, say for example, for the first two quarters we have done somewhere close to 659 Crores of securitization. So just wanted to know for the full year how much can this number go up to?
- Umesh Revankar:** First of all, as far as the business is concerned, as I was briefing you, we have put a control on LTV and we are trying to have not much of exposure asset lending wise and that could bring down our growth rate to around 10%, 7%-10%. So we are looking at average growth rate of 10%



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in the next two quarters. As far as securitization is concerned, right now we are controlling ourselves not really to have much of securitization because of the rates prevailing because the minimum rate, which the banks are offering is the base rate. So we are not any advantage over securitization and there are other sources of money, which can be a little lower than the securitization rates. So unless that is substantial advantage for us, we may not go for securitization at all.

Deepti Chauhan: Are we saying that the advantage issue is which we were getting in on the securitization from the actuals of 150-200 bps, now you no longer receive it because of the increase in the interest rates?

Umesh Revankar: Yes, that is the fact. That is the reason we are not going for that.

Deepti Chauhan: Okay and just to clarify, this 10% growth you said it should be in the AUM or are you expecting 10% growth in the disbursements over the next two quarters?

Umesh Revankar: It is the disbursement but it will also grow along with that.

Deepti Chauhan: Sure, but given that securitization is not going to happen now, assets in the management will also include your off the book assets. So if we have to basically see that if we do not do any further securitization, of course the amount of securitized book, which you have right now will gradually keep reducing. So you will have to bank only on the fresh disbursement which you make to the new and the old CV vehicles for achieving this particular growth which you are targeting, is that correct?

Umesh Revankar: No, AUM includes both, on the fund of book. So any growth in balance sheet it will have increase in AUM also. So our lending growth will be around 10% over the previous year.

Deepti Chauhan: All right sir, clear, thanks.

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

Srinivas Rao: Thank you Sir. This is Srinivas here. My question is more on the current state of the CV market and secondly on your experience on the auto mall now, that has been there for some time. From the CV market, what is your view, the CV market has obviously slowed down. Are you seeing any fall in transactional volumes in new CV considering that you want to ramp up a bit in the short term for the better yield; that would be my first question?

Umesh Revankar: In fact we are trying to make inroad into rural market. But many of this CV, what we found is, it is becoming a more of a rural market oriented and going into deeper rural, the rural income is growing. So we felt that it is difficult to focus on the rural market where the overall involvement



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is healthy and that particular segment is doing quite good. So that is the one focus and on the new we are not planning to grow. We are remaining flat, same as last year. So that should give us a better yield and as far as auto mall is concerned, this particular quarter we made a small profit of 93 lakhs and we have made a total fee income of against 7 Crores in the previous quarter. So auto mall has picked up. The auto mall's basic activity is giving a platform for people to buy and sell and we are able to really attract people to come to us. The auto mall has three different divisions, one is auctioning, where vehicles are auctioned, it could be institutional vehicle or individual vehicle and the second point is new look where vehicles are refurbished and sold at our price and third one is the one stop where the vehicles are registered through the intra net and that too kiosk electronic machine vehicles can be selected and purchased. It will easily use vehicle activity in our premises and it will help us to increase our preponed vehicle lending. So that is the idea and things are happening as per our idea and we are able to increase our volumes in used vehicle by creating that activity in our office place and in our auto mall place. So overall the auto mall business and opportunity and scope looks quite good.

Srinivas Rao: Thank you sir. Just one question; how are the second hand truck valued, like-to-like basis, have you seen any fall in the values due to high interest rates and diesel prices or that has not been the case?

Umesh Revankar: When inflation is there, new vehicle prices go up and new vehicle prices goes up, used vehicle prices also go up but as you rightly put it, very old vehicles, which are little obsolete in technology, where the consumption of diesel is high, it loses its value. So typically resale value goes up but the very old vehicle it loses its value. So it has a both mix. So newer vehicles will have a better resale value but very old vehicles will lose its value.

Srinivas Rao: My question was sir that compared to the last year for a four-year old, let us say TATA truck 1618, this year the same truck of the same vintage, as in same with a four-year old truck as the value held up from that perspective?

Umesh Revankar: No, typical one year depreciation would be there otherwise I should say prices would have gone up to the extent of the inflation and new vehicle price increase but the same if it is 15-16 year old vehicle, it will lose its value.

Srinivas Rao: Honestly, thank you so much.

Moderator: Thank you so much. The next question from the line of Manish Choudhary from Citi Group, Please go ahead.

Manish Choudhary: Hi, I just wanted to check, your total employees have reduced this quarter. Would you please comment a more little bit more in detail, what was the reason behind the loss of employees?



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- Umesh Revankar:** It is not exactly loss of employees. Some employees we have moved to our auto mall activities and some employees we did not replace because we felt that when there is uncertainty we need not increase the head count and our operational efficiency also has improved and our technology implementation and technology utilization has also improved. So with that kind of scenario, we may not really require to add lot of manpower in the near future.
- Manish Choudhary:** Secondly, on the funding side, you said that securitization is really not a very good option at this point in time, are you doing a little bit more on the CV market what are the other alternative sources of funding?
- Umesh Revankar:** Parag will answer it.
- Parag Sharma:** Typically we are not there in commercial paper market. We normally go in for two year or three year bonds and that is what we have been looking at for last six months. We will not be in CV market.
- Manish Choudhary:** What would be the average cost of funding?
- Parag Sharma:** These three-year bonds are doing at roughly around 10.5, cheaper. 10.5 should be the cost.
- Manish Choudhary:** Thank you.
- Moderator:** Thank you so much. We have the next question from the line of Abhishek Kothari from Way2Wealth. Please go ahead.
- Abhishek Kothari:** Sir, in the current quarter where you have securitized, what has been the spread in comparison to last quarter?
- Parag Sharma:** The securitization what we have done in September was at 10.5, that is because of as Mr. Umesh was telling it is more to do with the base rate of the bank. That is the hit they had. It is in line with the movement in the base rate of individual banks.
- Abhishek Kothari:** Overall what has been the spread during the quarter alone?
- Parag Sharma:** It is around 8%.
- Abhishek Kothari:** Okay, what would be your guidance on construction equipment business?
- Umesh Revankar:** Construction equipment business, right now we are going very steady. We are really not increasing our volume and we have created a separate niche segment for ourselves and that niche segment was moving quite well and our presence there is well appreciated and that being around



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120 Crores per month steadily and this quarter we made a profit of 12 Crores in that particular business.

Abhishek Kothari: Any guidance?

Umesh Revankar: Here we will be going very steady because we would like to be extra cautious in this segment because it is new to us and also we feel that Indian economy being a little slow, we need to be very steady.

Abhishek Kothari: That is it from my side. Thank you.

Moderator: Our next question is from the line of Mahrukh Adajania from Standard Chartered. Please go ahead.

Mahrukh Adajania: Hi Sir, what would be your mix between LCVs and HCVs, any rough mix?

Umesh Revankar: Out of 100 I should say HCV will be around 30 and LCV will be around 35, number wise. Value wise it will be 50 and 30.

Mahrukh Adajania: So, HCV will be 50 and the rest will be 30.

Umesh Revankar: Yes.

Mahrukh Adajania: Okay, and if the new securitization guidelines are enforced, then how would you take it forward, having seen a rate neutral environment. Currently you are not securitizing also because there is no rate advantage. In case the guidelines are enforced, and anyway bilateral deals will come under pressure?

Parag Sharma: Securitization guidelines, yes, uncertainty is there and for current six months we have not done much of securitization; we have been borrowing from other sources. If guidelines do come and security about bilateral deals, that is assignment, then we will have to go to other sources of fund, if the demand is not there for assignment paper. We will go for conventional bank borrowing like term loans, cash credit and bonds.

Mahrukh Adajania: Thank you Sir.

Moderator: Thank you so much. Our next question is from the line of Nitin Saigal from Bridger Capital. Please go ahead.

Nitin Saigal: Hi guys. The question on how you are thinking about the cycle. You have been through a lot of cycles and preserved asset quality throughout basically every cycle. I was wondering, given this long growth going to this cycle and the regulatory changes that you are seeing, in your mind is



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this different than any price slowdown and what are the differences you are seeing across your customer base when you are looking at this cycle compared to past cycles you have been through?

Umesh Revankar:

This particular cycle has been very small as though very difficult to really make an assessment because the 2008-2009, when there was a downtrend, it was long after time, it was after may be around seven to eight years we had a cycle coming and it lasted around eight to nine months in India, that impact, but this time this cycle has come too quickly. So very difficult to comment, but personally if you look at macroeconomic things in India, the rural economics is still doing good. The industrial productions have slowed down. So they should not impact us much because the agricultural production and rural economy is quite healthy because may be they are little lucky, the inflation has increased the food and better price realization by rural folks have put more money into them. So their buying power, purchasing power has been increased and the overall, the rural economy in India looks quite good. So we are betting on that economy to help us running our business quite well and 70%-80% of our business, our vehicles are used for agricultural produce and transportation of rural requirement.

Nitin Saigal:

So given you mentioned that you will be more cautious for now and tightening LCVs, what would you have to say in order to get more comfortable and start being more aggressive once again with loosening LCVs and sort of resuming back on the historical growth path, what would you as management like to see is it that suggest the regulatory clarity, is it something else from the data you are going to focus on before deciding to step up to grow it again?

Umesh Revankar:

Two major things we would like to see, one is government spending more on infrastructure and boosting the infrastructure because government spending and government action and activities for the last one and half, two years have been very minimum and that has really impacted the infrastructure activities whether it is the road or power, which are the most important for Indian economy has never been invested or never been pushed by the government. Once that happens, there will be momentum in the overall activities and that also push the industrial production and industrial production will push demand for the CVs. So, if infrastructure activities get pushed, then automatically there will be demand for CVs and construction equipment and once that demand comes up then all other sectors will look good.

Nitin Saigal:

Okay, so these are the two things or are that one of the two?

Umesh Revankar:

Yes, one is I was talking about the infrastructure and second is the industrial production.

Nitin Saigal:

Okay, finally do you foresee anything in the regulations that on your end would require additional equity capital?



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- Umesh Revankar:** I do not think we require. Our capital adequacy is quite healthy at today our capital adequacy 23.8, so I do not think any requirement is there.
- Nitin Saigal:** Great, thank you, all the best.
- Moderator:** Thank you. Our next question is from the line of Arvind Subramanian from IDFC Mutual Fund. Please go ahead.
- Arvind Subramanian:** Hi, sorry I might have missed the earlier part of the call. What is the exposure to Bellari, total exposure post providing for this write off?
- Umesh Revankar:** Post write off will be less than 0.5 I think, overall it was 1%, now it will be 0.5.
- Arvind Subramanian:** What was the loss you incurred, 60 Crores was the loss, so what is the percentage compared to the overall loan? For example, how much loss did you experience for a particular vehicle?
- Umesh Revankar:** Particular vehicle, it will average around a lakh of rupees per vehicle.
- Arvind Subramanian:** This is largely because you had to actually shift it to another location, is that Sir?
- Umesh Revankar:** Yes, you are right, because same location there was no demand and the business itself had come to a standstill, so we had to shift to a different state and sell it.
- Arvind Subramanian:** And if you could throw some light on who are some of the other operators in this region in the CV and construction equipment?
- Umesh Revankar:** In this region almost all the competitors are there, so I cannot really pick up and say who are big.
- Arvind Subramanian:** Okay, fair enough, that is it from my side, thanks.
- Moderator:** Thank you. Our next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.
- Anand Laddha:** Hello sir. Just want to get sense, currently if you are to borrow from bank, at what rate of interest would you be borrowing?
- Umesh Revankar:** Would be around 11%.
- Anand Laddha:** Okay, so still if it was securitization, it would be 15 bases lower than current borrowing from bank?



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- Parag Sharma:** See, base rate for most of the banks have moved to around 10.75; 10.75 to 11 is what should be the borrowing rate for us. Securitization will give them the priority sector benefit, so that can still be typically borrowed at base, which is 10.75, but demand uncertainties are there.
- Anand Laddha:** Okay, if you directly borrow from bank, you will be borrowing at 11%, which is quite similar to the base rate.
- Parag Sharma:** Correct.
- Anand Laddha:** Okay, and sir if you can just tell what is the capital investment in construction equipment business?
- Umesh Revankar:** 260 Crores
- Anand Laddha:** Okay, and sir typically what is the spread one expects from a construction equipment?
- Umesh Revankar:** Right now it is between 5-6 units.
- Anand Laddha:** And we are doing only new equipment or we are doing both?
- Umesh Revankar:** It is 80:20, right now 80% is new, 20% is used.
- Anand Laddha:** Sir, what would be the spend on the used vehicle in this case?
- Umesh Revankar:** It will be 200% basis points more than the new.
- Anand Laddha:** And what could be on the new then?
- Umesh Revankar:** New is around 16 and used is around 80.
- Anand Laddha:** Thanks, that is it from my side.
- Moderator:** Thank you so much. Our next question is from the line of Rohit Shimpi from SBI Mutual Fund, please go ahead.
- Rohit Shimpi:** Good evening sir. Apart from the specific issue which we saw in the mining affected regions, are there any other general asset quality issues that we have seen, anywhere in the portfolio?
- Umesh Revankar:** Right now we do not see anything because general economy is quite good, rural economy is good, so we do not see any disturbance.



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- Rohit Shimpi:** And for your customers the freight availability and rates are still at satisfactory levels, despite the costs etc., going up?
- Umesh Revankar:** Yes. Freight availability is quite good and the freight rates are moved after detail price increase but only thing is since other input cost has gone up and labor cost, driver cost has gone up, the margins have not really improved. So, since margins have not improved, there is no positive mood to really acquire big fleet or assets.
- Rohit Shimpi:** Okay but not enough yet to worry on asset quality.
- Umesh Revankar:** Yes.
- Rohit Shimpi:** Okay, thank you so much.
- Moderator:** Our next question is from the line of Rishendra Goswami from Locus. Please go ahead.
- Rishendra Goswami:** Hi, just have couple of questions. One is on the AUM since it is trending down now what do you see the levels by the end of FY'12?
- Umesh Revankar:** No, AUM has grown up by 1000 Crores in the last quarter, so we should be able to have a rate of 40.
- Rishendra Goswami:** I am just talking about the off book AUM?
- Umesh Revankar:** Our securitization portfolio will run down from 16-12, it will come down. That is in case if you do not do further **(indiscernible) 34.56**.
- Rishendra Goswami:** And just on the securitization income side, because that will also be trending down, as you would not be securitizing much so where do you see the quarterly run rate by the end of the year?
- Parag Sharma:** Close to 2000 Crores will come for the entire year.
- Rishendra Goswami:** 1800 Crores to 2000 Crores for the year. When does it actually end, if there are no further securitization and income recognition?
- Parag Sharma:** See it is an inverted cone, so it will take two to three years to end but what happens is at the end of 2013 the amount will come down drastically. So maximum amount will be taken to income in the next year; 40% at least will go to the income next year.
- Rishendra Goswami:** Which is FY'13?
- Parag Sharma:** Yes.



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- Rishendra Goswami:** So, that will again be in the range of 1800 – 2000 Crores?
- Parag Sharma:** See, current year, first quarter we had taken to income around 550 Crores and the current quarter it was around 480 Crores and the subsequent two quarters will be 900 Crores put to the six months, and post that it will be around 350 Crores per quarter I would say for the next four quarters.
- Rishendra Goswami:** 1200-1400 Crores type of.
- Parag Sharma:** Yes.
- Rishendra Goswami:** Okay, got it. And one more question on the ROA side of the business, let us assume that there would not be much securitization going on further, so where do you think the incremental ROA of your core business lies?
- Parag Sharma:** See, now the income is flowing from income representing the income from securitization but going forward suppose if we reduce our business through securitization but it will start rising on books. So it should be in the range of around 4% I would say.
- Rishendra Goswami:** Okay, so even without securitization you think ROAs could be healthy?
- Parag Sharma:** It should be healthy, yes.
- Rishendra Goswami:** Okay, thanks a lot.
- Moderator:** Thank you. Our next question is from the line of Jigar Valiya from OHM Group. Please go ahead.
- Jigar Valiya:** Good evening to everyone. Sir, you mentioned that we incurred Rs.100000 per vehicle loss for that KTK portfolio. So this loss has been accounted where, is it like reduction from other income?
- Parag Sharma:** No, it has been part of the expenditure. Provisions I will write off.
- Jigar Valiya:** So that 230 Crores includes 60 Crores of write off?
- Parag Sharma:** Yes. It includes this component of mining write off also.
- Jigar Valiya:** How much would that be sir?
- Parag Sharma:** Total write off during the quarter was around 120 Crores out of which the mining write off was typically around 60-70 Crores.



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- Jigar Valiya:** Okay, so the balance is for this and the other difference is for the standard asset provisioning.
- Parag Sharma:** Yes, provisioning for our securitized portfolio as well as on books NPAs also it is there.
- Jigar Valiya:** Okay, and sir earlier during the call you mentioned about yield management to be a focus for the company, so if you can elaborate more on the what levers are we looking to explore for the Q3, Q4?
- Umesh Revankar:** No, what we do is normally we try to have a good ratio of new and used, that is a mix of new and used and new vehicle business is subject to competition from banks and other companies who are basically into new vehicle financing. In used vehicle the competition level is little less and as you go little rural you will be able to charge a little higher rate. So we have decided that we will be more in used and more in deeper rural so that we get a better yield there and reduce the new vehicle component a little so that we focus on higher yield.
- Jigar Valiya:** Sir largely between used and new, not so much change that we are expecting between the product mix, product mix certainly LCVs and all...
- Umesh Revankar:** Product mix, LCVs will have a better yield, so definitely product mix would also be there as a part of it.
- Jigar Valiya:** Okay, in Karnataka, I assume we had around 200-250 Crore exposure but that 1% of book it is whatever is the balance we have around half (ph) percent is there any more provisions or write offs expected, in terms of resale?
- Umesh Revankar:** Right now these are standard assets. We are not very sure; we will not be able to comment right now. Some of the customers, because some 30% of the mines are now being allowed to run, so some of them who have long-term contract and permanent contract and all are able to run, but still they will not be able to make comment right now on that immediately.
- Jigar Valiya:** So but in October and all we are not having much of repossession and transfer to other states and sell?
- Umesh Revankar:** Not much in October, because October I told you that 30% of the mines have restarted in Bellari and Goa there is some standstill because some committee has been formed and they are visiting Goa and looking at legal and illegal mines issue, next month they are likely to give report if it comes positive then things should be okay otherwise there could be some issues in Goa.
- Jigar Valiya:** Sir, one question is on the securitization side. Q1 we did around 200 Crores securitization 166 Crores and Q2 we have done 490 Crores so if you can explain in terms of the yield available between Q1 and Q2?



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- Parag Sharma:** Both the deals are coming at around 10.5%.
- Jigar Valiya:** Sir, last question from my side is on the interest rates cycle you did give some perspective from the 2008-2009, during that time just wanted to know did we have any quarters where we saw QOQ decline in terms of disbursements?
- Umesh Revankar:** We did not have a big decline, but one quarter we were very slow and there was a slight decline compared to the previous period.
- Jigar Valiya:** At best there is a case of one off or a flattish or a marginal decline probably that may happen, but otherwise because of the base effect and everything typically as far as the AUM is concerned there has always been a growth?
- Umesh Revankar:** Yes.
- Jigar Valiya:** Thanks a lot Sir.
- Moderator:** Thank you. The next question is from the line of Ajitesh Nair from UBS Securities. Please go ahead.
- Ajitesh Nair:** Thank you. Sir, just wanted to clarify you mentioned that 1% of portfolio that you mentioned has been impacted, does it include Goa exposure as well?
- Umesh Revankar:** All, when I say 1% or I should say vehicle and value terms it could be around 1.5% to 2% of all India AUM I am talking about.
- Ajitesh Nair:** 1.5% to 2% so roughly about 750 Crores?
- Umesh Revankar:** They are involved in mining activities.
- Ajitesh Nair:** Sure, how much will the Goa exposure be?
- Umesh Revankar:** Goa would be small. We have only one branch right now. So it should be very small insignificant. It may not have big impact, but some of the vehicles, which have moved from Karnataka to Goa that would be there, so that we need to really assess because, see all our customers are retail customers. They move from one place to another place. They do not want to stuck to one particular place and so it is difficult to give number.
- Ajitesh Nair:** That was helpful. Thank you.
- Moderator:** Thank you. The next question is from the line of Sainath Ramanathan from 3I India. Please go ahead.



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- Sainath Ramanathan:** Thank you Sir for taking my question. I think most of our questions were around the construction equipment during in Karnataka. I think you have answered most of it. Thank you so much. We have nothing from our side.
- Moderator:** Thank you. Our next question is from the line of Smira Rao from Equity Master. Please go ahead.
- Smira Rao:** Sir, I have a question you mentioned that you reduced the LCV ratio. Have you faced resistance from repeat customers or these just the new customers?
- Umesh Revankar:** It is all new customers. Normally, whenever we do becomes strict on the lending it is only to the new customers. Existing customers, known customers we continue with existing policy.
- Smira Rao:** Great. Thanks. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Mahrukh Adajania from Standard Chartered. Please go ahead.
- Mahrukh Adajania:** Sir, just wanted to check that and just wanted to reconfirm what will be the impact of new guidelines of RBI on the NPL classification. Of course it does not change your base asset quality, but in terms of one-time hit there could be a one-time hit right, if you changed your NPL recognition norms?
- Umesh Revankar:** The guidelines have not come to us. Only thing it is draft guidelines. One of the guidelines is that 180-days to 90-days moving, so we are quite confident that this is not come into force immediately and if it comes the RBI will give us long time, may be three years to implement the same. But if at all it comes into effect at any point of time, we may have in that by higher provisioning but actual credit clauses may not be there, so we should be able to write back over the period.
- Mahrukh Adajania:** How would your gross NPL look like then and what would be the level of gross NPLs?
- Parag Sharma:** We would suggest that once the guidelines come in then we may be able to comment on this. As we stand at 180-DPD we have got a gross NPA of around 2.7%, but it is difficult for us to comment right now. We are not very clear whether it will be a 90-day DPD or the association as well as the company has been representing to RBI, so whether what will ultimately come whether it is 90-day or 120-day we are not very sure so it is premature to comment on the gross NPAs post the regulation.
- Mahrukh Adajania:** Right. Thanks.



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- Moderator:** Thank you. Our next question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.
- Srinivas Rao:** Thank you very much. Just three questions; first could you comment on the vehicles which have been sold of in different territory, would it be more in other mining belts like Orissa or Rajasthan? That would be my first question. Second, why are the yields of LCV better? Any particular reason for that and finally you mentioned your focus will be to manage the yield on a) LCV and b) rural. That would also mean lower loan growth considering that the ticket size would be smaller?
- Umesh Revankar:** Right now the mining impact is not there in other part of the country. There was a small issue in Telangana belt when they imposed a transport ban in that coal belt of Telangana so it had an impact and thermal power company had an issue and there the upfront. As far as Jharkhand, Bihar and other mining activities there not much of problem was there and Rajasthan they do not have much of mining activity, the way on commodity, it is more on granite so it is not mining ban has really not impacted the other parts of the country. As far as LCV and the used vehicles are concerned small ticket size yes, and because it is small ticket size the yield is higher because typically the smaller the ticket size yield will be higher because small ticket size management becomes a little costly for other company as a competitor who are in that business so the yields would be always higher there and since we have good branch network across India and reach we will be able to manage it with less incremental cost.
- Srinivas Rao:** Thank you. This was helpful. Thank you.
- Moderator:** Thank you. Our next question is from the line of Hiren Dasani from Goldman Sachs. Please go ahead.
- Hiren Dasani:** Thank you. Just to understand are you seeing some yield compression on the assets which are there on your balance sheet?
- Umesh Revankar:** No, existing yields compression will not be there. Because that should be accepted with the rate since all our lending rates there will not be any compression on it.
- Hiren Dasani:** What are your overall lending yields today on the book?
- Umesh Revankar:** On the NIM side it is around 8%.
- Hiren Dasani:** What about lending yields I am saying?
- Umesh Revankar:** Lending yield will be around 18%.
- Hiren Dasani:** 18% that is blended, new and old and incremental will also be about 18%?



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- Umesh Revankar:** It should be at 18%, we are trying to push it little upwards.
- Hiren Dasani:** Correct if I am wrong in my understanding, but in your investor update you are saying that interest income is about 967 Crores for the quarter and if I kind of annualize that interest income on your on balance sheet loans then I come to a number of about 16.5% kind of a number?
- Parag Sharma:** See what we are mentioning is 18% is the truck portfolio and what is pulling it down is our other assets which also includes the fixed deposits and other investments which we make short-term there will be a negative carry for it. So on the overall it will be around 16.5% to 17%, but truck portfolio if you see the yields will be around 18%.
- Hiren Dasani:** But I am saying that this 947 Crores or 968 Crores of interest income that would include interest on the loans as well as the interest on the fixed deposit and all?
- Umesh Revankar:** Correct.
- Hiren Dasani:** I am dividing the total interest income by the loan book only which is on the balance sheet loan book, so even then I am getting a number of about 16.6%?
- Sanjai Mundra:** Hiren, this is Sanjai here. Just give me a call after this call. I will explain you.
- Hiren Dasani:** Okay. Thank you.
- Moderator:** Thank you. Our next question is from the line of Devam Modi from Equirius Securities. Please go ahead.
- Devam Modi:** Sir, just wanted to know what is the sort of flow we are looking at from securitization that RBI saying that there will be almost zero securitization post FY'13? On securitization front what is the flow that you are looking at in terms of total AUMs and what is the amount of securitization that you will be looking at doing because as it is there is a lot of regulatory uncertainties right now or based on the earlier market account are we saying that securitization is probably dropped to very low levels post FY'13?
- Parag Sharma:** Securitization guidelines are **(indiscernible) 53.00** if the guidelines do not come I think banks will continue as per the old guidelines and we can still do may be between 4000 and 5000 Crores of securitization in the current year. If the guidelines do come and they have to follow and we have to follow in fact seasoning norms, holding norms then we have to look at the cost benefit. Cost benefit is not there then we will go for other sources of fund raising. It can be commercial bank term loans and cash credit. We will have to take a call at that point of time.



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- Devam Modi:** With regards to the off book AUMs in case of the rise of NPAs in those AUMs like for example there was a tranche which was related to the Goa or Karnataka operations and there was a huge write off then how would it effect the off book of the management?
- Parag Sharma:** As far as the company is concerned where our maximum hit can be to the extent of the collateral that we have placed with the banks, so we will not have an impact and we have already got an adequate provisioning towards that off books also. So it will not have an impact on the P&L for any quarter.
- Umesh Revankar:** The margin money in the balance sheet will be affected to that extent.
- Parag Sharma:** But if you look at the other liability side also we have already got a provision of around 700 Crores towards securitization portfolio. So we do not expect that the write off will be as high as 600 Crores.
- Devam Modi:** Thanks a lot. That is it from my side.
- Moderator:** Thank you. Our next question is from the line of Aditi T from RBS. Please go ahead.
- Aditi T:** I think you answered this question in response to question asked by another participant. You said that about 1% to 1.5% of your AUM was in those three mining effected states. Is that right?
- Umesh Revankar:** It is all India.
- Aditi T:** So of your overall all India AUM approximately 1.5% is in the three mining belts?
- Umesh Revankar:** All mining.
- Aditi T:** Right and in these three states what could be the approximate size of your AUM exposure?
- Umesh Revankar:** It will be around 1%.
- Aditi T:** So about 1% of 380 billion and about 600 million has been written off in this quarter. Were there write offs in the mining the related portfolio in Q1 as well?
- Umesh Revankar:** Q1, no. Q1 we did not have write off on this mining portfolio.
- Aditi T:** All right. That is it. Thank you.
- Moderator:** Thank you. The next question is from the line of Jigar Valiya from OHM Group. Please go ahead.



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- Jigar Valiya:** Sir on our secured provisions that we have made for the securitized assets you mentioned around 500 Crores I think it was around 700 Crores and probably it was around 500 Crores during March?
- Parag Sharma:** It was around 550, now it is close to 600 Crores I would say.
- Jigar Valiya:** Just to understand whenever as the securitized portfolio will mature and they will of these provisions will also reverse out.
- Umesh Revankar:** Correct.
- Jigar Valiya:** Provision reversal will be again a part of our provisions only or it will be a reduction in from the other provisioning or will it come in other income?
- Parag Sharma:** Assuming there is further no securitization being done so whatever is the excess provision we are holding and if the particular trend comes to an end and assuming we hold 5 Crores or 10 Crores towards that particular trend if it is not required it will be reversed and taken to the provisions on write off, it will be going to the credit of that account and not to the other income. It will go as an adjustment towards the provision.
- Jigar Valiya:** As a negative provision.
- Parag Sharma:** Correct.
- Jigar Valiya:** Sir generally for our secured tranches what is a good estimate in terms of 2% or 2.7% or something which is like a gross NPA number would that be a fair number to assume?
- Parag Sharma:** Yes.
- Jigar Valiya:** Actually the securitized portfolio would be a better quality portfolio ideally should be lower than that?
- Umesh Revankar:** Historically if you see our ultimate losses have been around 2% to 2.5% on AUM basis and on the books it is around 2.6% to 2.7% and off books it will be around 2.1% to 2.2%.
- Jigar Valiya:** Fair enough Sir, and just wanted to know that in Q1 and Q2 what we securitized are we securitizing more of new vehicles or old vehicles?
- Parag Sharma:** It is a mix only and predominantly new.



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- Jigar Valiya:** Predominantly new vehicles. One last question, just wanted to understand the subvention. We have seen that in passenger cars and earlier, but for the CV markets and we are there that this is if you can highlight how does subvention happen and some perspective on subvention on this?
- Umesh Revankar:** Subventions normally happen in two ways; one is the large pool and another one is the discount given upfront for particular sale of a vehicle in new vehicles, but this happens when there is a pressure on manufacturers to sell more vehicles, so right now manufacturers have not really come forward to give subvention to push their numbers. As far as car is concerned there is an intense competition between car manufacturers so subvention is quite common and also because these banks give a rock bottom interest rate so subvention is the only way for them to earn some upfront income. In CV segment subvention is not really prevalent.
- Jigar Valiya:** Okay. Thanks Sir.
- Parag Sharma:** Can we have a couple of more questions?
- Moderator:** Sure Sir. As I see that there are no further more questions I would you like to hand the call over to Mr. Umesh Revankar for closing comments. Thank you.
- Umesh Revankar:** Thank you everyone. We hope to see you again after next quarter results and hope to give you all a good quarter. Thank you very much.
- Moderator:** Thank you. On behalf of Shriram Transport Finance Company Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.