



“Shriram Transport Finance Company Limited Conference Call”

July 27, 2011



**MODERATOR: MR. UMESH REVANKAR, DEPUTY
MANAGING DIRECTOR**

Moderator: Ladies and gentlemen, good day and welcome to the Shriram Transport Q1 FY'12 earnings conference call. As a reminder for the duration of this conference all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you 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. Thank you and over to you sir.

Umesh Revankar: Hello everybody. Probably you will be hearing a different voice today; Sridhar is out for another business call. The first quarter of this year had lot of uncertainties because of inflation figure and also RBIs frequent increasing of rates and also some uncertainties on RBI policy. In this scenario, I should say, we have done reasonably well, our disbursement has increased from Q1 of last year 3,973 crores to 4,784 crores i.e., 20% increase over Q1. If you look at the disbursement and AUM, the AUM has also increased by 22% to 36,997 crores i.e., approximately 850 crores net increase. The breakup of advances of new and used, the preowned has increased by 19% and new has increased by 32% and if you look at the lending of Q1 used CV has increased by 11% and new CV has increased substantially higher by 67%. The NIMs are stably maintained; I should say it has increased over Q1 of last year from 7.85 to 7.91. The total income has slightly increased to 14,654 millions, to 13.87%. There is substantial increase in securitization income due to last year Q4 huge securitization. The fee from trading is passed on to our subsidiary, Shriram Automall. The operating income has increased by 20% to 862 crores from 713 crores. The profit after tax is 347 crores against 288 crores; it has increased by 20% year-on-year. NPA there is a slight increase of 2.66 against 2.5 by 6.4%. Our coverage ratio we have maintained above 80%, which is our company's policy- to around 82%. We have done a small securitization of 166 crores. The ROA numbers have been maintained at 4.3% against 4.24%. The ROE is 27.36% against 28.99% of last year. Other profit and loss accounts, our subsidiary Shriram Equipment Finance Company has made a profit of 7.5 crores in Q1. The two Automalls are already functioning and other two Automalls we are immediately opening maybe in 15 days' time. In Automall we have earned an income of 7.5 crores. If you look at the industry, the vehicle sales has increased in spite of downward outlook by the market. The heavy vehicle sales have increased by 7.5% over last year. The LCVs have increased by 27% over last year. The Q1 has been reasonably good for vehicle sales. Q2 outlook we are eagerly waiting for the numbers but it is likely to be little sluggish from the figures what we hear; however, the overall economy of our truck business has been quite good and is expected to remain good for the rest of the year.

Moderator: We will now begin the question and answer session. The first question is from the line of Rachana Doshi from SPA Securities Ltd., please go ahead.

- Rachana Doshi:** Two quick questions regarding your interest income and interest expense. If I have to compare it year-on-year as well as quarter-on-quarter vis-à-vis the increase in your AUMs, I am seeing a decline in your interest income. How does this fair well, I mean has there been a shrinkage in your core yields?
- Umesh Revankar:** This is because of the securitization income. If you look at securitization income it has gone up substantially.
- Company speaker:** What we can do is that we can add the securitization income for the total revenue and then calculate the net interest income wherein there is a substantial increase compared to the previous year.
- Rachana Doshi:** No, I argue on that front; despite there being no securitization rather insignificant securitization in this quarter your income from securitization is showing a huge jump of almost 50%.
- Umesh Revankar:** If you look at the Q4 last year we had a huge securitization.
- Company speaker:** We did around 6,000 crores of securitization in the last quarter and the income from that starts flowing from the current quarter only and hence there is a substantial increase in the securitization income.
- Rachana Doshi:** Okay, so am I understanding it correctly that there has been some regrouping or reclassification in your interest income to securitization income?
- Umesh Revankar:** No, securitization income starts flowing from following months and not the same month, so this quarter you have substantial income coming out of it.
- Rachana Doshi:** Okay, but my core question still remains as to your interest income on the book account, I mean on the book balance sheet income despite the securitization income growing healthily your core interest incomes are showing a decline, could you please explain this.
- Company speaker:** Your question, if I understand right is that you are saying the yields on the balance sheet is coming down compared to the previous quarter, right?
- Rachana Doshi:** Right.
- Company speaker:** See, the reason is that higher yielding asset we have securitized in the month of March resulting in the fee income, yield wise it is a shift in off balance sheet and what remains in the balance sheet is a slightly lower yielding asset resulting in a lower yield on balance sheet portfolio.

- Rachana Doshi:** Right. So, if I have to compare, could you put a number to what were your yields last quarter, corresponding quarter last year, and this quarter?
- Company speaker:** See, it will be easier if we discuss on the NIMs part; NIMs will be a better indicator rather than going on balance sheet off balance sheet yields. If you see the NIMs on an AUM basis the current quarter it is 7.91% compared to the previous year of 7.85%.
- Rachana Doshi:** NIMs would be on your total AUMs, right? That is including your on and off the books?
- Company speaker:** Yes correct, it is on the total AUM basis.
- Rachana Doshi:** All right. Would it be possible to share what is the securitization spreads you have seen in this quarter, I mean have there been steady, have they declined, what exactly has been the behavior there?
- Umesh Revankar:** This quarter we have done very small securitization number of 166 crores, normally securitization is more in the end of the year so we will not know the trend right now.
- Rachana Doshi:** How have the spreads on the securitization behaved in this quarter, i.e., the quarter gone by?
- Umesh Revankar:** This quarter we have done very small securitization, about 166 crores, so that does not give an indication.
- Rachana Doshi:** Is there any unbooked securitization income that has come through in this quarter for you, I mean what was the unbooked amount that was held on the balance sheet?
- Company speaker:** It is 3,000 crores compared to 3,600 crores in March end, so still there is an unbooked income of 3,000, which will be booked over a period of next two to three years.
- Rachana Doshi:** Right, there has been shrinkage in your borrowings book and how does this compare with the growth; I mean what kind of funding mix have you seen, could you provide some clarification there?
- Company speaker:** This quarter per se we have not borrowed much. We did large scale borrowing in March quarter, so we had securitized that time and we are continuing to use those for the current quarter, so there have been no significant borrowing this quarter.
- Rachana Doshi:** What is the trend, that we would see in the borrowings in the coming quarter?

- Company speaker:** Securitization will pick up during the yearend only, we have done one public issue of bonds, we expect to do one more by yearend and in between we will be doing regular bond placement and some loan with banks.
- Rachana Doshi:** Can I assume that your borrowings should go in tandem with your AUM loan growth target that you have given for the year?
- Company speaker:** Yes, it will grow with that.
- Moderator:** Thank you. The next question is from the line of Ashish Sharma from Enam Asset Management. Please go ahead.
- Ashish Sharma:** I just wanted to get a sense on going forward what will be your securitization policy with respect to the confusion that RBI is supposed to come with, the new guidelines on PSL. Are we preempting and not doing securitization or we continue to operate in an environment where we assume that it has been allowed. How are we going to go forward in FY'12?
- Umesh Revankar:** I think the PSL status there is no issue as far as securitization is concerned and as far as the securitization guidelines are concerned we are waiting for the final draft policy.
- Ashish Sharma:** But this lower securitization in Q1 was a function of company's policy or we preempted that we do not want to ...
- Umesh Revankar:** Normally the demand for securitization is at the end of the year depending on the requirement of the bank and in Q4 we had a huge securitization and we had substantial money with us, so demand for securitization will come at the end of the year, we cannot readily predict that trend right now.
- Ashish Sharma:** And anything read between the spike in the gross NPA sequentially; is it a Q1 phenomenon, anything to read about from that?
- Umesh Revankar:** To some extent seasonal, yes, but we cannot really read much; Q1 normally it is little slow but, it will pick up over the period and I do not think there will be a substantial increase.
- Ashish Sharma:** So, the outlook per se remains stable, we do not see any spike; we do not see any pain areas?
- Umesh Revankar:** No, we do not see any stress.
- Moderator:** Thank you. The next question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao: My question also relates to the gross and the net NPA increases, which seem to be reasonably significant both on sequential and year-on-year basis. Would you kind of throw some light as to a) is it more, I am assuming on the used CV portfolio because the new CV portfolio probably would have not seen any much seasoning. Is that a fair assessment?

Umesh Revankar: It is not really that way. In fact, the NPA, our way of doing business is depending upon the kind of followup and our ability to meet the customer end and collect the money, so new and used does not make big difference and seasonally sometimes there will be some spike and it could be that is what we see and hopefully we will be able to rectify in the coming quarters.

Srinivas Rao: On a related note we have seen the freight rates have kind of, not moved up, in fact they have been probably trending down marginally on key routes, I mean I am an auto analyst and I am probably asking on the other side of the balance sheet, but have you seen any, I mean is it your feedback would it be on similar lines that profitability and the margin for truckers has come down?

Umesh Revankar: Yes, to some extent it has come down for the freight rate has not really moved because the diesel price has increased, so margins have come down and they are able to manage because they have seen the diesel hikes earlier, there is always a lag period between diesel price hike and the freight increase, slowly the new vehicle sales will come down and number of vehicles on the road will be reduced and as that happens the freight rate goes up, so there is always a lag of one or two months and sometimes it can extend up to three months, but meanwhile the truckers manage to have a profitable route and manage their business quite well.

Srinivas Rao: Have you seen any dip in the transaction volumes not for you but generally in the market for used CVs and now that you have opened your Automalls I am assuming you will have a better sense of that dynamic and on a related note any light you could throw on a geographic basis if there is any slowdown or less slowdown in north versus east or west or things like that?

Umesh Revankar: See, whenever new vehicle sales come down the used vehicle prices go up over the period and as the used vehicle prices go up the transactions become little less slow because there will be less sellers and even buyers also will be less, so it is seasonal and within two to three months it gets corrected, so it cannot be a long-term trend. Right now, there is a little slowdown in used vehicle buying but I feel it will be corrected in another two months as the season starts, normally from Ganesh Chaturthi the season starts and demand for the vehicle will go up. Geographically south has been little slow especially in the mining belt because of lot of issues in mining exports; Karnataka and Andhra Pradesh there is a slowdown in

transportation because most of the mining export to the port was done through the truck and there is some kind of slowdown and Orissa also there is slowdown. Overall, the mining belt is hit badly and there is a slowdown.

Moderator: Thank you. The next question is from the line of Prashant Shah from Vantage Securities. Please go ahead.

Prashant Shah: Your investment book has declined 51% year-on-year and 76% sequentially, why such a big decline?

Company speaker: See, March when we did large securitization whatever money was borrowed was kept in mutual and liquid fund and also fixed deposit with banks and that has been utilized in the current quarter and that is why the decline.

Prashant Shah: So, that would explain the large jump in your cash and bank balances in this quarter?

Company speaker: No, that is different.

Company speaker: We had come out with an NCD issue in the end of June wherein we have mobilized 2,600 crores, which has come in and which was parked in escrow account from 30th June and post the allotment, which was made on July 14th we have retained 1,000 crores and the balance 1,600 crores was repaid to the investors.

Prashant Shah: You said your fee income had declined to zero, you said you passed it on to your subsidiary, which subsidiary you mentioned, I just missed out?

Umesh Revankar: Shriram Automall.

Prashant Shah: Your other income has increased significantly...

Company speaker: As explained whatever investments we had made in the end of March we had invested close to 6,000 crores in mutual funds and fixed deposit, which were subsequently closed in mid May or something and hence whatever was the interest has been calculated on other income.

Prashant Shah: Okay. Coming to your Automall business, from the Automalls has it been able to generate any additional lending opportunities for you?

Umesh Revankar: Yes, Automall is giving us lot of lending opportunity mainly because the vehicles transacted there will be very transparent with competition of proper documents and that

immediately gives the opportunity for financing, so we have been using that opportunity quite well.

Prashant Shah: Are you targeting any particular number from Automalls per year?

Umesh Revankar: It is too early to say but it will be a too small addition to our big volume, but definitely it will be significant over the period.

Moderator: Thank you. The next question is from the line of Chirag Shah from Emkay Global Financial Services Limited. Please go ahead.

Chirag Shah: As you indicated there is a sharp jump in your loan portfolio lending as well as asset addition for the new vehicles vis-à-vis actual numbers being much lower if you look at wholesale billings. How would this happen if you can help us understand and there is a sharp slowdown in your used vehicle lending in the quarter with the numbers that are shared by you, can you throw some light over there?

Umesh Revankar: See, what is happening is slowly because of diesel price increase there is a demand for superior technology vehicles, which consumes less diesel so people are going for newer vehicle or new vehicle. When I say newer vehicle, which is firsthand within three or four years of sale and new vehicle, so new vehicle demand is increasing and also because we are getting into the small vehicle financing, small vehicle segment, which we were not there earlier especially these one tonner vehicles like Tata Ace the sale of those vehicles have increased substantially and we have a significant presence there because most of the drivers when they want to become owner they go for a smaller vehicle first before graduating into bigger vehicle and also because of hub and spoke model there is a huge demand for small vehicles because big vehicles do not enter into city and supplying into city you require smaller vehicle, so the small vehicle numbers are increasing vis-à-vis the bigger vehicles, so as those numbers are increasing and we have bigger presence in small vehicles, so our numbers are also increasing in our book.

Chirag Shah: So, is it that a large part of this 67% growth number you shared is coming because of small vehicles?

Umesh Revankar: Most of them are small vehicles and also passenger vehicles, which we have started lending for the last two to three years.

Chirag Shah: And the slowdown in the used vehicles only 11% lending growth you indicated it would be low and I do not think this kind of number would have been there in last eight or ten quarters for you, it will be more than that except for the downturn period that we had?

- Umesh Revankar:** It is not that, we are focusing on used vehicle also but as increasing number of people are slowly getting into new or newer vehicle, as people's aspiration goes up we need to meet that aspiration, so many of our customers are upgrading themselves into new vehicles, so there is a slow change in the demand from the customers because of the diesel price increase and I feel in future also there will be more demand for new vehicles. Many of our customers would move for new vehicles and that is the trend we see.
- Chirag Shah:** Has there been any instances of increase in delinquency for you because NPA provision could be technical, you may not necessarily be able to recover money in a quarter where you might go into NPA but has delinquency on rise because we have heard that delinquencies are increasing in some pockets, so what is your experience?
- Umesh Revankar:** Some pockets, yes, there will be some increase due to seasonal businesses and also in some pockets as you rightly said like in mining pockets there have not been many business opportunities. So I was mentioning earlier that Karnataka, Andhra Pradesh and Orissa these are the three states where our mine export policies have undergone a change and Central Government has also levied additional tax, which is going slow and because of that we do see some stress in this area but our portfolio is small there, so we may not be really largely hit.
- Chirag Shah:** And how would you be affected by this new RBI requirement on Asset Under Securitization side?
- Company Speaker:** See, the policy is yet to come; whatever draft policy talk was about minimum ceiling and 10% holding of the securitized loan amount we will wait for the final policy to come but with seasoning becoming norm we will have to wait for the asset before we securitize, so that should not be too much of a problem.
- Chirag Shah:** It could be a tactical problem for a year till the base effects gets created?
- Company Speaker:** See, the book is pretty large 36,000 odd crores is the total AUM, with on books it will be close to around 25,000 so we should not have problem.
- Moderator:** Thank you. The next question is from the line of Rahul Bhangadia from Lucky Securities. Please go ahead.
- Rahul Bhangadia:** I have some very basic question on securitization. When you securitize an asset and you collect the installments on behalf of whom we have sold it to. Does the interest income go through your books or you book only the difference between the value of the asset and the selling value, how do you go about it?

- Company speaker:** What we do is that we take the debt only. Supposing we finance the customer, say Rs. 1 lakh and we are supposed to charge 20,000 from the customer over a period of say two years and till this entire asset including the receivables we realize Rs. 1,10,000, so typically this 10,000 only is the differential income that we are supposed to get and that only comes into the P&L. We do not take 20,000 and treat the 10,000 as interest expenditure.
- Rahul Bhangadia:** So, basically the profit that you make on the sale is what goes through your P&L, the interest that you collect on behalf of the buyer does not go through your P&L?
- Company speaker:** Yes, it does not go through.
- Rahul Bhangadia:** Okay. On the street is it a monthly collection mechanism or quarterly collection mechanism as far as your collections are concerned?
- Company speaker:** 100% monthly collections only.
- Rahul Bhangadia:** Then in that case I just have a small question on the balance sheet that has recently come out. As per your balance sheet your interest income from financing activity is roughly about 3,500 crores and your interest accrued but not due on loans was 976 crores, which is almost a little more than may be 27%, 28%, and that is almost a little more than three months. So I just want to understand interest accrued but not due should not be three months in case you have a monthly collection cycle?
- Company speaker:** You are referring to the current liabilities, right?
- Rahul Bhangadia:** Yes.
- Company speaker:** See, the current liabilities of 900 crores or whatever is coming- we are present in the retail mobilization of retail resources, we mobilize deposits as well as debentures wherein there is an option for the customers to either go in for a monthly interest payment or cumulative, so 1 lakh supposing if you invest at the end of say three years he gets back 1,40,000 or something, so this 40,000 we recognize in our book as an interest accrued but not due. So, this 900 crores is nothing but entire component payable to the customers on maturity, so it has got nothing to do with the lending.
- Rahul Bhangadia:** The other question was, now you have your off the book this thing is close to 15,000 crores, 14,700 crores, now this 581 crores what will be the average duration of this off the balance sheet book?
- Company speaker:** Close to three years will be the maturity period for the entire off books.

- Rahul Bhangadia:** Is it fair to assume that the securitization income, which is 580 crores that you have booked in this quarter, is a proportionate amount, which you would probably book over three years for this quantum i.e., 14,700, is that right?
- Company speaker:** Assuming we do not do further securitization. This amount will gradually come down; it will be an inverted cone. Let us say 600 crores has been booked in the current quarter, next quarter it will be around 500 crores and the subsequent quarter may be 400 crores and it will gradually start declining but assuming we keep securitizing this may be more or less the same. If you refer to our March balance sheet there was an unbooked deferred income of around 3,600 crores so that has come down to 3,000 by virtue of this 600 crores being booked in the current quarter, so going forward 3,000 whatever is there as on 30th June will keep coming down based on the amount being booked.
- Rahul Bhangadia:** This 3,600 that you said is the part of the loans and advances on the asset side or the current liabilities?
- Company speaker:** In current liabilities if you see the securitized deferred income will be there.
- Rahul Bhangadia:** Yes, that is 3,600 crores.
- Company speaker:** That is the income part that we are supposed to book over a period of three years.
- Rahul Bhangadia:** Okay, and then what is the 3,680 crores that is there on the current loans and advances?
- Company speaker:** We are doing primarily the par transaction. If you understand securitization, there are two sorts of par securitization, one is premium component and the other is par. In premium if you go back to the example of 1,20,000 the entire 1,20,000 is sold to them and we realize 1,15,000 or something and it includes the interest components also but when it comes to par transaction we realize only the Rs. 1 lakh, the differential Rs.10, 000 comes over a period of time, to recognize that we create an asset in our books to the extent of that Rs. 10,000 and as and when we recover from the customer it gets reduced, on the income side also it goes to the income.
- Rahul Bhangadia:** So, basically then this amount in the current asset is your part of the asset value gain that you are getting?
- Company speaker:** Correct, it is recoverable from the customer; we are holding it on behalf of the investor.
- Moderator:** Thank you. The next question is from the line of Jubin Vora from Nirmal Bang Securities. Please go ahead.

- Jubin Vora:** I wanted to understand the guidance that you would be having for the following year and with the interest rates going up do you feel there would be more of heavy vehicle sales and the UCVs and MCVs and based on that would there be more disbursements of your basically interest and everything?
- Umesh Revankar:** With the increase in rate the heavy vehicles may be impacted in a sense it may get postponed. See, as the GDP growth is 8% the freight increase has to be 1.5 times at around 12%, so with this kind of a freight movement you need additional vehicles but people are likely to postpone heavy vehicle buying but as far as small vehicles are concerned they may not be really looking at the industrial goods transportation, they will be looking more at the agricultural goods transportation and also what you call the support systems to bigger vehicles. So small vehicles will have good demand and it will continue to be there with what it looks like and heavy vehicles there could be postponement but ultimately it will catch up.
- Jubin Vora:** With the interest rates rising up would you feel that there might be chances of NPLs increasing over a period of time?
- Umesh Revankar:** No, for the present portfolio the old rates are continuing because it is a contracted rate. For the new lending, which we will be doing, from now there will be some interest rate, which we are passing on to them and our customer being a businessman he understands at what rate he is taking and whether it is viable to take at a particular rate then only he will be taking loan, so I do not think there will be increase in NPL because every trucker we feel is a businessman and he calculates his installment payable and what is his net earning and he takes his decision, so I do not really think because of this there will be increase in NPL because it is not a very sudden thing, he plans it much before, before taking loan itself he knows his liability and payments.
- Jubin Vora:** In the funding process could you just give me a small breakup of what is your disbursement into heavy vehicles and into small vehicles and if I am not mistaken you have also started with passenger vehicle, so could you just give me disbursement of your revenues from the percentage allocation to these business?
- Umesh Revankar:** I can say roughly 40% we lend it to bigger vehicles including new and used and balance 60% will be all small vehicles, passenger vehicles, tractors, and also construction equipment.
- Jubin Vora:** So, you do not see a slowdown in small vehicle segment?

- Umesh Revankar:** Yes, I personally do not see any slowdown there because demand in the rural is quite high and right now the rural economy is booming and there is a huge revenue, what you call income growth in rural belt mainly because of good road connections and communication systems available, so because of that there will be a robust demand from the rural belt.
- Jubin Vora:** So, in the small vehicle segment that you have just mentioned about 60% that would be comprising of smaller trucks and stuff like that, smaller cargos and including the passenger vehicle also?
- Umesh Revankar:** Yes, you are right.
- Moderator:** Thank you. The next question is from the line of Deepti Chauhan from Asit C Mehta. Please go ahead.
- Deepti Chauhan:** Just wanted to know, as you had mentioned earlier in the call that you are starting to see that there is a lot of demand being witnessed from the new vehicle segment and going forward also you think that this trend is going to continue. Now, given the fact that the new vehicle segment is basically a lower yield kind of a segment, so if this trend continues for the whole year should we see our yields also moving down then?
- Umesh Revankar:** I do not think there will be substantial change because our customers, they graduate from used vehicle to new vehicle, they will still not be going to the competitor and we are able to charge and pass on higher rates to them, so there may not be a big change but there could be a slight mix of new and used and probably a small decrease.
- Deepti Chauhan:** So, right now if you are saying that a used segment is almost close to 75% of the AUM should we see this going down or should this be there?
- Umesh Revankar:** It is 70-30 right now, it can be 65-35 but still our segment would be small new vehicles and for small new vehicles the interest rates are reasonably good, it is not very highly competitive, so our yield would be still good in new vehicles.
- Deepti Chauhan:** What are the yields, which you charge for the new vis-à-vis the used CV vehicles?
- Umesh Revankar:** The entire range varies between 14 and 19.
- Deepti Chauhan:** Used will be somewhere in the range of 19%?
- Umesh Revankar:** It will range between 16% and 19%.
- Deepti Chauhan:** And new would be in the range of 14% or 15%?

- Umesh Revankar:** 14% to 18% because some of the small vehicles we will be still charging high and in rural belt we will be charging little higher because servicing cost will be higher, so it gets spread across.
- Deepti Chauhan:** I want some guidance on – are we continuing to maintain our disbursement guidance of somewhere around 20% to 25% as we had indicated in the beginning of the year and secondly any guidance on margins where do we see because first quarter, we did see an improvement in the margins because of the surplus liquidity. Should we continue to see this kind of improvement in the margin for the whole year?
- Umesh Revankar:** As far as lending is concerned the first quarter we grew by 20% and we hope to grow at least 10%-15% throughout the year, we will not be able to really predict 20%-25% right now, so 15% is something which we are confident of because in used vehicles the vehicles are already there in the system, it does not wait for the new vehicle to be sold, so we would be able to have a bigger market share of used vehicle and also geographically we are well reached now and we are also planning to go more into rural belt, this will ensure that we will be growing at least at 15% and as far as the margins are concerned as I just explained to you it depends upon the new and used vehicle mix. It can have a little impact if you go into more new vehicles but still since our customers are mostly small vehicle customers and may be most of them would be graduating from our own used vehicles there will not be much pressure on rates and there will not be much competition in our segments.
- Deepti Chauhan:** Also, if we talk about securitization, is there possibly some amount of number, which you can quote as to how much is this amount of securitization, which we are expecting to do for the whole year; last year we did somewhere around 30% odd of the book but then just wanted to know for FY12 what is the sort of number we are looking at?
- Company speaker:** Last year we did 10,000 crores of securitization and this year based on what the final guideline is we will have to take a call and also the base rates of most of the banks are up now, they are hovering at around 10%-10.5%. Whether it is wise to do securitization or we do bond placements which can be slightly cheaper we have to take a call. I think if guidelines are favorable, we should be able to get better rates; we should be able to do around 6,000-8,000 crores of securitization.
- Deepti Chauhan:** Do we continue to receive the benefit, earlier we used to get somewhere around 200 bps of benefit on securitization, does that benefit still continue?
- Company speaker:** With the base rates up the benefits have gone down.
- Deepti Chauhan:** How lower is it right now?

Company speaker: We used to do securitization of roughly around 9%-9.5% with a base at 10.25-10.50, and bond placements for two years, three years running at around 10.5 and benefit is really not there.

Moderator: Thank you. The next question is from the line of Aparna Karnik from DSP Blackrock. Please go ahead.

Aparna Karnik: I have a couple of questions; one is in the presentation you mentioned the interest cost average has gone down from 8.33% to 7.33% on a year-on-year basis and this I think is calculated based on the average total assets. So, I just wanted to understand that – you also mentioned base rates of banks are very high etc., so how actually you have been able to reduce the interest cost and secondly if you could give us actual in increment or average interest cost on loans how was it different from quarter-to-quarter basically?

Umesh Revankar: Two things, one is we have not done any great borrowing in this quarter, we had last securitization in the month of March and we are carrying forward the excess liquidity what was there. Incremental borrowing will be at around 10.5 and we feel that if we have to borrow in say Q2 it will be at a higher cost than what we had last year but because we have not borrowed in the current quarter it would have slightly dipped down.

Aparna Karnik: Okay, actual borrowing cost would have gone up on a quarter-to-quarter basis....

Umesh Revankar: Because we have not borrowed.

Aparna Karnik: Also, in terms of provisioning for the off balance sheet assets like whatever you have securitized how do you do the provisioning for NPAs over there and is that like captured into the NPAs that you provided for on the on book assets. How do you do that?

Company speaker: See, on securitization what we do is that on an estimated basis at the time of securitization itself we assess based on the historical track record what is the probable loss and that is provided for upfront itself and subsequently depending upon the movement of the debtors in different time buckets since most of the assets are securitized to banks only we follow the three month DPD, so if it is more than three months it goes to the debit of the P&L and this is what we normally do.

Aparna Karnik: Okay, but it does not show on the P&L in the provisioning cost, right?

Company speaker: It will be forming part of the provision from write-off; the figure that comes in P&L one of the components is that also.

- Aparna Karnik:** I also want to ask you like when you say that you do the provisioning for the NPAs on the securitized assets typically what sort of percentage you have factored or considered as a possible estimated loss?
- Company speaker:** Around 1.3% is the current thing, which we have estimated.
- Aparna Karnik:** Could you give us like what would be the average yield on the on balance sheet assets and off balance sheet assets?
- Company speaker:** The blended I would say on an AUM basis the average yield for the quarter will be around 18%.
- Aparna Karnik:** If you just take the net interest income and the net income from securitization, two-third of the income is coming from securitization and only one-third is coming from on balance sheet, but if you look at the AUM 60% is on and 40% is off, so it is difficult to reconcile such a large difference....
- Company speaker:** Higher yielding assets have been securitized in the month of March and also in September 2010 and what we are keeping on the books is slightly lower yielding assets, it should be around 14%-15% is the yield on the asset that we carry on the balance sheet and what we have sold would be around 19%-20% and hence there is a difference in the working.
- Moderator:** Thank you. The next question is from the line of Shrinath Krishnan from IDBI Mutual Fund. Please go ahead.
- Shrinath Krishnan:** This time Your new vehicle disbursement has been pretty robust, so has there been a market share grace with regard to new vehicle financing. If yes, where is it coming from, are you getting the market share from an organized sector or NBFC or banks how is it happening there?
- Umesh Revankar:** Actually our new vehicle increase has been in small vehicle segment and passenger vehicle segment, which is growing; last year it grew at around 25% and q-o-q if you look, this quarter also it has increased by 25%. So I think we are gaining from increased sale of vehicle rather than getting it from the market share of others.
- Shrinath Krishnan:** With regards to yields to LCVs or small vehicles and large vehicles how is the differential like for new vehicle lending?
- Umesh Revankar:** Normally quite huge. Banks lend for heavy vehicles at around 12-13 and small vehicles they will be lending at around 15-16 and we would be always 2% more than them.

- Shrinath Krishnan:** So small vehicle lending would be around?
- Umesh Revankar:** Around 18% for us.
- Shrinath Krishnan:** In the new vehicle segment the small vehicle you lend is around 18%, right?
- Umesh Revankar:** Yes.
- Shrinath Krishnan:** Lending for new M & HCV would be....
- Umesh Revankar:** 14%.
- Shrinath Krishnan:** LCV is growing fast so the yield could be a positive mix in fact, isn't it?
- Umesh Revankar:** Yes definitely.
- Moderator:** Thank you. The next question is from the line of Bunty Chawla from Shah Investors. Please go ahead.
- Bunty Chawla:** What is your outlook for the FY'12 as the interest rate cycle; can impact the CV demand, what will be the AUM growth in FY'12?
- Umesh Revankar:** As we were answering the earlier question we hope to increase at least by 15% over the last year. Interest rate increase would get passed on to the customer and we feel that they are business people they understand the increase in rates and they absorb in their business and ultimately we have passed on to the ultimate user of the trucks.
- Bunty Chawla:** What is your view on provisioning, because 168 Crores as you are providing in this quarter, it is highest in last three to four quarters, we can see?
- Company Speaker:** The credit quality is still intact, not an issue and if you observe in historical also we have been hovering around 2.5% in the gross NPAs and we expect that to continue in the quarters to come also, so the provisions and write off is more of a accounting treatment so, this is what we probably anticipate, that for an entire year as a whole we should be having a hit to the P&L of say 600 to 610 Crores, is our estimate.
- Moderator:** Thank you. The next question is from the line of Amandeep Goraya from Finquest. Please go ahead.
- Amandeep Goraya:** Sometime before you mentioned this mining segment like in Orissa, Andhra and Karnataka, can you please quantify what would be your exposure?

- Umesh Revankar:** Our total exposure in these mining belts should be around 200 Crores to 250 Crores.
- Amandeep Goraya:** What percentage of your borrowings are fixed and variable?
- Company Speaker:** 80% of our borrowing will be fixed largely because of securitization and bond placement.
- Amandeep Goraya:** Out of this what would be the quantum that would get matured in three months or by this year end?
- Company Speaker:** Overall securitization outstanding roughly 14,000 Crores. One-third of that should mature in the current year and bank loans also for a maturity of three years which is 15,000 Crores to roughly around one-third of that also will get mature in the current year.
- Amandeep Goraya:** What proportion of that employee cost linked to business or variable?
- Company Speaker:** More than the operating staff, the field staff only are driven by the incentives, but if you take the total employee strength of say 16,500 employees, 8,000 employees are being paid based on a fixed component as well as a 40%-50% will be the variable cost. So if you take on the overall total staff cost may be around 10%-15% will be the variable.
- Amandeep Goraya:** Lastly one thing, in this year the NPAs what would be the quantum of recoveries if any during the quarter?
- Company Speaker:** Quantum of recovery what was written off in the previous year we had for around 2.5 Crores in the current quarter.
- Moderator:** Thank you. The next question is from the line of Samit Vardak from Axis Holdings. Please go ahead.
- Samit Vardak:** When banks buy the securitized assets who takes on the risk, is the risk transferred to the banks?
- Company Speaker:** All our securitization deals whatever we have done so far is fulfilling the two sales criteria wherein it means that the risks and reward entire thing is passed on to the bank or the investor, purchaser whoever has purchased the portfolio and what the originator that is Shriram is the first and second loss component, hit enhancement, that is the maximum hit, the company will take.
- Samit Vardak:** So typically how is the breakup?

- Company speaker:** Suppose if you securitizing say 1 Crore portfolio based on the rating agencies stipulation, based on the historical track record and also the existing pool that we intent securitizing. They stipulate say 10% is in fair amount of credit enhancement that the originator needs to give to the bank and to get a triple A rating and this 10% that is Rs.10 lakhs will be kept as first loss and second loss with the same bank as an FD and this is the maximum amount of recourse that the bank has got on the portfolio.
- Samit Vardak:** If you can help me with this number, if the off balance sheet book, if it was on balance sheet, what would be your capital adequacy ratio?
- Company Speaker:** It should be around 19%..
- Moderator:** Thank you. The next question is from the line of Jigar Valia from OHM Group. Please go ahead.
- Jigar Valia:** I have a question on the provision, if I understand that when you do securitization during March, whatever your assumed provision on that particular account you book it upfront and that forms the part of the current liabilities as well as part of the provision breakup, but I see from March the overall provision is lower as compared to December and even June quarter is higher provision as compared to March. If you can have the breakup of the provision that would help?
- Company Speaker:** This we can send a separate mail to Mr. Mundra he will reply to this particular thing.
- Jigar Valia:** Just to understand academically, since much of the securitization transactions are largely bilateral transactions and (indiscernible) 56:02 assignments, but we also have something called PTCs and all. In case of PTCs the interest income would come as other income and not as a part of interest income, income from operations?
- Company Speaker:** Whatever PTCs we are subscribed to which is minuscule, which is appearing in the investment that comes as an other income, but that will be total what if you maybe holding it will be around 50 Crores or something, but what we have sold through the press route, that also comes as an interest income only.
- Moderator:** Thank you. The next question is from the line of Parun Joshi from 3i. Please go ahead.
- Parun Joshi:** Just a couple of quick questions, one if you could give us some, you mentioned that the incremental borrowing would be around 10.5% at this point of time. If you could just tell us what is marginal borrowing rate would have been in the last quarter in the March quarter,

and correspondingly also tell us what rate increases have you implemented across your portfolio both used and new in this current quarter vis-à-vis the last quarter?

Company Speaker: Can we do the liability side first and September to March half year, last year will it largely securitization and securitization was gone at base rate most of the banks are running at 9.25% to 9.5% that was the borrowing rate for us. That base rate has gone up to 10.5%, so if you do any borrowing now that will be 1% costlier as far as liability is concerned. Coming to the asset side, with you to passing on to new vehicle and used vehicle rate will correspondingly increase by 1%.

Parun Joshi: So we have passed on the 1% effectively that we would have seen. I understand we mostly did securitization but if we were to just look at what normal bank borrowing would have been, how would that have looked for us?

Company Speaker: Securitization was done at 9.25% to 9.5%, regular term loans are coming at around 10.25% to 10.5% that is round about last year, current year with the base of 10.5% term loans would come at around 11% or a 11.25% and securitization will be able to sell to at the base rate.

Parun Joshi: So we have passed on the increase that we have seen to our customer base. The only other question I have sir was around, there was dip in your employees in this quarter 400-500 odd employees reduced, can you just give us a sense of what is going on and going forward what is the sort of trend you are seeing on this, what is driving it?

Umesh Revankar: We have shifted some employees to Shriram Automall, so it is just a change in a role for some of them, so that is the reason.

Parun Joshi: Adjusting for that what we have added, how many employees would we have added?

Umesh Revankar: This quarter we would not added much.

Parun Joshi: Given our guidance of 15 odd percent growth that we expecting in disbursement, do we expect this to be sort of significant additions required or not really?

Umesh Revankar: Significant addition may not be required, but additions are required because our entire business model is the relationship model, we do require foot soldiers to reach out to our customer, so addition would be there, but it may not be very significant because last year we have added around 3,000 people, so this year we may not be really required to add so much.

- Moderator:** Thank you. The next question is from the line of Aviral Jain from Siguler Guff . Please go ahead.
- Aviral Jain:** Could you just explain to me the way income is booked for par and premium based on the structures on securitization that will be really helpful?
- Company Speaker:** As we were telling to previous caller also, it is same. What I have suggested that we will have this offline, it will be easier for us to explain it to you in detail, so what I would request is that you can just contact Mr. Mundra, he will help you in understanding that.
- Moderator:** The next one is from the line of Jaiprakash Toshniwal from Taurus Mutual Fund. Please go ahead.
- Jaiprakash Toshniwal:** I just wanted to have the breakup of total AUM in terms of used CV and new CV?
- Company Speaker:** Out of that 37,000 Crores of AUM, roughly around 10,000 Crores will be new CV and the balance will be used CVs.
- Jaiprakash Toshniwal:** In the new CV what were the smaller CVs, are there 1 tonner and is it specified?
- Umesh Revankar:** Quantum probably would be difficult to say, small vehicle should be around 15% as the portfolio and 1 tonner if you say specifically, we may not be able to give.
- Jaiprakash Toshniwal:** As you said that smaller CV account, new CV account for 18% kind of year what would be the proportion of those portfolios?
- Umesh Revankar:** It will be approximately 15% right now, because small ticket means, because, the numbers are more, number wise it will be much more new, on the bigger one, but ticket size being small on AUM basis it will be around 15%.
- Jaiprakash Toshniwal:** Understood sir, of the 193 billion borrowings of which say 76% is the institutional one; can I have the breakup of 76% in terms of bank and NCDs, anything?
- Company Speaker:** Bank term loans are roughly around 10,000 Crores, as the rate is roughly another 4,000 odd Crores out of which utilized will be around 2,000 Crores. Retail bonds including public issues should be around 5,000 Crores and privately placed will be around 3,000 Crores.
- Moderator:** Thank you. We have last question from the line of Amin Pirani from Deutsche Bank. Please go ahead.



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- Amin Pirani:** This is a link to the portfolio which you securitized, which as you mentioned that in the previous question that you make some provisions for first loss and second loss, since they collect on a monthly basis could you throw some light on how the portfolios have been behaving in the last three to six months, are the loss portions in the various time occurred in line with historical trends have they...
- Company Speaker:** It is in line with whatever is the past, so not much of slippages, but sometimes it keeps moving from one bucket to other but nothing significant, so it is in line with the historical data only, nothing significant has happened.
- Moderator:** Thank you. I would like to hand the floor over to Mr. Umesh Revankar for closing comments.
- Umesh Revankar:** Thank you everybody. Let us hope to meet again over call with better result than the Q1. Thank you very much.
- Moderator:** On behalf of Shriram Transport that concludes this conference. Thank you for joining us.