



“Shriram Transport Finance Company Limited Q2  
Earnings Conference Call”

**October 29, 2009**



**MODERATORS    MR. R. SRIDHAR – MANAGING DIRECTOR, SHRIRAM  
TRANSPORT FINANCE**



**Moderator**

Ladies and gentlemen, good evening and welcome to the Shriram Transport Finance Q2 Earnings Conference Call. As a reminder, all participants will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of the today's presentation. If you need any assistance during the conference call, please signal an operator by pressing "\*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sridhar of Shriram Transport Finance. Thank you and over to you, Mr. Sridhar.

**R. Sridhar**

Good evening. Welcome to this call.

So let me first give an overview of the quarter, the commercial vehicle industry where in we are present in a large manner has been improving and we are able to see a revival in the sale of the new commercial vehicles during this quarter. And from October, the sales of large commercial vehicle is increasing the enquiries at our offices as well as the dealer points are increasing, so we are looking at a considerable improvement in the sentiment in the commercial vehicle industry which has started about few months back and now it is gaining momentum. So because of this change, the disbursements during the quarter had been quite strong.

You are aware that from October 2009, the problems started not only for the country, but also the global slowdown and meltdown and all that and from there, we have come to almost near normalcy during this quarter in terms of disbursements. So during this quarter, our disbursements have been quite strong and the assets under management had increased to 25,800 crores around 26,000 crores. The main strength of the organization has been the liquidity.

The liquidity for the company has been quite strong, not only from the institutional loans, but also on the retail front. And I would like to mention here the success of the maiden listed bond issue which the company came out during this quarter in the month of August, where in we came out with the 500 crores listed bond issue with the Green Shoe option of another 500 crores which received excellent response, in fact on the first day itself it was oversubscribed about 10 times and retained about 1000 crores and then refunded the balance. So this has ensured that we remain strong in both the retail as well as banks and institutions space. And since we are originating the priority sector loans, we continue to remain strong in the securitization market also, which was little dampened in the past, now it is reviving. So our securitization transactions also gained their momentum during this quarter. The interest rates remained soft and we were able to access loans near to single digit during this quarter and we expect the interest rates to harden in the coming months.

Regarding asset quality, it continues to remain stable with a very-very negligible marginal deterioration in the gross NPL, but we have, as a company policy, we have made voluntary provisions for non-performing loans, aggressively, so that we take the coverage ratio beyond 70%. We wanted to do it by March 2010 actually, but we have done it little earlier so that is



very heartening. All these things with the yields for our truck loans have remained stable with interest rates coming down, we have been able to record an interesting performance during this quarter.

Apart from that one important new initiative which we have started in the past which is trading in second-hand trucks, we were aware that the new vehicles are sold through dealers who are working for the principal truck manufacturers but when it comes to second-hand trucks, the trading of second-hand trucks is actually handled by the brokers, who are individuals spread across the country. So Shriram Transport being the largest commercial vehicle financial in the country, we thought that when we are growing from the current level of 25,000 to the higher level, it is necessary that we retain the supreme asset quality which we have built all these years, in the future also when we grow to bigger size. So we thought that in order to retain the assets quality, this is necessary that we you know correctly price the second-hand trucks, which is the valuation aspect. So we wanted to actually get into the second-hand, the facilitation of second-hand truck trading, which takes place between two individuals at their remotes and then they come to us for financing.

So in that objective, we started the Truck Bazaar, which are physically being organized at different branches at least once in every month and these Truck Bazaars have evoked good response from the truckers and we facilitate a meeting of buyers and sellers and ultimately, the buyers get finance also if their credit is good. In that process, we are also able to charge a fee from the truckers for the facilitation service and that is gaining momentum, the number of transactions which we are able to do has been going up. And this quarter, our fee income in this activity has moved up from about 6 crores in the last quarter to about 9 crores, roughly about 9 crores during this quarter and we expect that this activity to continue to grow in a big way in the coming months.

So what we are doing is, this Truck Bazaar, we want to grow, so instead of doing it physically in each branch and one day in a month, which becomes physically very difficult, so we are making electronic Truck Bazaar within our braches so that it can happen throughout the month. So we are branding this and then making it in our branches, which will be launched from next month throughout the country in a gradual manner, it will be implemented. So with the Truck Bazaar being brought in an electronic format to our branches, we expect more transactions to happen. And we are also briefing up our capability of auctioning of trucks in a big way. We are also planning to build the warehouses and we are also launching refurbished branded trucks. So in the trading of trucks, which we started in a small way through Truck Bazaar gaining momentum and receiving a lot of response from the truckers, so we are expanding that and we are catering to all segments of the commercial vehicles. This is going to give us probably sizable width.

Other new initiative, which we have started, which we are planning to start is equipment financing. This equipment financing we are starting as 100% subsidiary in Shriram Transports and this should be on the ground by beginning of next year that is January and start operations in a month thereafter. The senior level executives are likely to join next month and we should



be starting our operations very quickly. This equipment financing, another activity which we are planning to start and since the country is witnessing and planning to do a lot of infrastructure activities, it is going to be a huge demand and since the major financiers have left the space due to the global meltdown raised the scope for gaining a lot of market share. So we are now entering this space at the right time and with the new management team in place, we are hoping that we should be gaining market share very quickly in this space. Other important activity which the company has been doing is in the private financial space. So the private financial space, we have already 500 odd franchisees that we are growing that channel sale. Now we are launching a privilege based franchisee scheme and these people are set with brand another technical software support and backend is taken over by us. It is also growing. So all the new initiatives are put in place by the company very sharply and all these are going to give these results in the year 2011. So with this initial brief, I leave the forum for questions. I request to avoid the repeat questions and make the questions very short, so that more people get the opportunity.

- Moderator** Thank you very much. We will now begin the question and answer session. At this time if you would like to ask a question, you may press “\*” and “1” from your touchtone phone. Please use only handsets while asking a question. Our first question comes from the line of Abhishek Kothari from SPA Securities Ltd. Please go ahead.
- Abhishek Kothari** Sir, the borrowing has come down below 10%, so what is the guidance for H2.
- R. Sridhar** See there is a belief that interest rates bottomed out and there is the likelihood to move up. We have been able to get it single digit now, so I feel it is likely to go up in the next one year, it should move up by 2% to 3%. That is what the prediction is.
- Abhishek Kothari** So we will back to that 11%-11.5%?
- R. Sridhar** That is what we believe, so it is better to raise funds immediately so that your cost will be lower.
- Abhishek Kothari** So any plans of fundraising right now?
- R. Sridhar** Debt is always being raised by us, but now we are...
- Abhishek Kothari** No, I mean on the equity side?
- R. Sridhar** Equity that yesterday, we had passed the resolution you would have seen, a 1000 crore fundraising.
- Abhishek Kothari** Okay.
- R. Sridhar** That is enabling resolution which we have passed.
- Abhishek Kothari** Okay. And sir, what was your yield in old CV financing for this quarter and new CV financial?



**R. Sridhar** The yield would be around for old vehicle, it is around 19%.

**Abhishek Kothari** Okay. New?

**R. Sridhar** New vehicle would be around 14%

**Abhishek Kothari** 14%?

**R. Sridhar** Yeah.

**Abhishek Kothari** Sir, what is the amount of portfolio securitized in this quarter?

**R. Sridhar** Around 1200 crores.

**Abhishek Kothari** And Q1?

**R. Sridhar** Q1 was 200.

**Abhishek Kothari** Okay. And sir, the cost to income ratio has declined substantially, in this quarter, actually note that is the reason you have been able to show such a high profit. So do you feel it is sustainable in the coming quarters or would you see rise in that?

**R. Sridhar** That now I think we are getting the benefit of scale, so I think it should get sustained.

**Abhishek Kothari** Okay.

**R. Sridhar** Even if there is an increase, it should be very marginal, so we should be below 25%,

**Abhishek Kothari** That is it from my side, if I have it anything I will come back again.

**Moderator** Thank you Mr. Kothari. Our next question comes from the line of Mr. Ashish Sharma from Enam AMC. Please go ahead.

**Ashish Sharma** Can you just provide a breakup of your disbursements pre-owned and new CV, because your press release didn't provide that?

**R. Sridhar** Yeah, we normally do not provide this detail, but it is 3500-3600 crores of which 2900 is old vehicles, 700 Crores.

**Ashish Sharma** What were the disbursements for Q1, sir?

**R. Sridhar** Q1 was 3200.

**Ashish Sharma** What was the split, sir?

**R. Sridhar** That is 600 and 2600.



- Ashish Sharma** Okay. And absolute figures for gross NPAs and net NPAs as on September 30<sup>th</sup>?
- R. Sridhar** You want in the form of rupees?
- Ashish Sharma** Yes sir.
- R. Sridhar** The gross NPAs are around 470 crores.
- Ashish Sharma** 470 crores?
- R. Sridhar** Yeah, and net is 130.
- Ashish Sharma** And can you just give sense or guidance on your AVM growth for this year? I mean earlier we assume we were not giving guidance because environment was not clear. But for at least for FY10, now what sort of internal target on AVM growth you are looking at, sir?
- R. Sridhar** We are looking at around 25% growth this year. So we started off with around 23. So I think we should end up this around 29 to 30.
- Ashish Sharma** Thanks a lot sir, that is it from my side.
- Moderator** Thank you Mr. Sharma. Our next question comes from the line of Aditi Thapliyal from Noble Group. Please go ahead.
- Aditi Thapliyal** Mr. Shridhar, two questions, first off, I think it is a question that have given some color on, but I would appreciate if we can have some more idea on the kind of timeline that you are looking at vis-à-vis the capital raising, whether it'd be debt or...?
- R. Sridhar** The debt is being raised frequently and regularly. That is required for our billing. So that there is no timeline there, so that is a regular. Regarding capital, we have very good capital adequacy which is about 16%-17%. So technically, you know we do not require further capital as far as our prudential norms are extremely concerned. Currently it is in between 16% - 17% as against 12% required.
- Aditi Thapliyal** Okay. So basically the board approval is only to fund whatever incrementally growth we can see in the existing truck financing business.
- R. Sridhar** Yeah, existing trucks under, we are also looking at getting into equipment financing, so we may require capital so that is why are going for an enabling resolution and then we will raise that, how much we will raise and all, this we have not been taken any decision.
- Aditi Thapliyal** Okay, alright. And sir what's your Tier I and Tier II capitals as on September 09?
- R. Sridhar** Tier I is around 12% and about 4.5% to 5% is Tier II.



- Aditi Thapliyal** Right. And sir, why is there a decline in operating expenses on a sequential basis, I mean any particular reason for that?
- R. Sridhar** See there are many reasons, but I would say it is mainly because of we are getting the benefits of the scale ...
- Aditi Thapliyal** Just want to check if the skew between the Q1 and the Q2 results originates from the fact that there was perhaps chunky bonus payment in Q1 which isn't there in Q2?
- R. Sridhar** No, no.
- Aditi Thapliyal** And one-time expenses in Q1 versus Q2?
- R. Sridhar** No, no.
- Aditi Thapliyal** No not that?
- R. Sridhar** No, not...Really genuinely the expenses have come down.
- Aditi Thapliyal** Okay, alright. And sir, one last question, how will the provisioning policy for, you changed from here on. Is it going to become stricter, lasts or are we going to you know maintain provisioning coverage around the 71% plus that we are seeing this quarter?
- R. Sridhar** Now the board wanted around two-thirds is the board's decision, so we have to move little above it, so it will get me around that 70%.
- Aditi Thapliyal** Okay, alright. And sir, one last question, what is your outstanding securitized book as on '09, September '09?
- R. Sridhar** 5500 crores.
- Aditi Thapliyal** Okay alright. That is it from my side, thank you.
- Moderator** Thank you. Our next question comes from the line of Vikas Roongta from Reliance. Please go ahead.
- Vikas Roongta** I wanted to understand what's your view on the recent RBI policy on the securitization?
- R. Sridhar** You know my view is that new guideline is likely to come, but that is specifically I had mentioned that it is only applicable for banks, not for non-banks. And it is mainly talking about one year seasoning of.... that are being sold.
- Vikas Roongta** Okay.



- R. Sridhar** And retaining, we had 10% of the portfolio originator. So even if it is implemented for NBFC, I do not think it will affect us in anyway.
- Vikas Roongta** Okay. Sir, if it is implemented for the NBFC, so as of now, sir, you are getting 100% of your book? So in that case, you may have to retain 10%.Your capital adequacy would be impacted to that extent?
- R. Sridhar** See that itself, we are also providing you know cash collateral for that, so we can do over-collateral and all that, but it is you know we have to strategize it once the exact regulation is out that up now we only know some macro-information. Apparently, we see that it may not make significant impact on our operation, so even if it is implemented for NBFC.
- Vikas Roongta** But sir, if the one-year guidelines come then you might have to...
- R. Sridhar** We have a huge portfolio of different queries. So one year portfolio, we have huge, which we can sell.
- Vikas Roongta** Okay. Sir, if you can please let me know 90 plus GBD in pre-owned and new CVs?
- R. Sridhar** 90 days, we do not have, we are only talking about 180 days.
- Vikas Roongta** Okay. Normally you do not disclose the 90 plus GBD?
- R. Sridhar** Yeah. It is not relevant for us.
- Vikas Roongta** Okay, thank you sir.
- Moderator** Thank you Mr. Roongta. The next question comes from the line of Abhishek Kothari from SPA Securities Limited. Please go ahead.
- Abhishek Kothari** Sir, just a follow-up, what was the yield on securitization portfolio for Q2 and Q1?
- R. Sridhar** The securitization portfolio, because it is for lenders you know we normally do not disclose that. It is lower than 9%.
- Abhishek Kothari** Lower than 9% on both the cases, Q2 and Q1?
- R. Sridhar** Q1, I do not have, but Q2 is less than 9%.
- Abhishek Kothari** That is a yield on securitization?
- R. Sridhar** Yeah.
- Abhishek Kothari** Okay, and sir, NIM guidance for H2?



**R. Sridhar** It should be stable around that 7% to 7.5%.

**Abhishek Kothari** Thank you sir.

**Moderator** Thank you Mr. Kothari. Our next question comes from the line of Aruna Bharathi from Pari Washington. Please go ahead.

**Aruna Bharathi** You have talked about growth of about 25% actually going forward. It will be useful if you can just give us a split in terms of, a rather rough sense of, in terms of between your new vehicles and the old vehicles financing?

**R. Sridhar** See, always our portfolio in new vehicle is around 25%. Old vehicle is balanced, that is how we have been growing all these days, but in the last six months commencing from October. There was a little bit of new vehicle slowdown in the country, so it has come down and then the new used vehicles were higher. But now it has come back to the original level. So I think it would be around 25-75.

**Aruna Bharathi** Okay, in terms of growth?

**R. Sridhar** Yeah same way, it will also, see the growth also, since we are, whatever disbursements we are doing, it will be in 1:3. So it will also be in the same ratio.

**Aruna Bharathi** Okay, sir, that is it from my side, thank you.

**Moderator** Thank you. Our next question comes from the line of Megha Gupta from Birla Sun Life. Please go ahead.

**Megha Gupta** I wanted to get a perspective from you on the ALM profile.

**R. Sridhar** ALM is always comfortable for us, because we have been borrowing for 3 to 5 year loans and lending also similar and since most of our loans are used vehicle, which are not as long as new vehicle loans, so actually we borrow long and lend little short, so the ALM is always very comfortable. And as a policy, we do not borrow anything short and use it in our business. So it is never done.

**Megha Gupta** Sure, and sir, therefore average tenure of liability?

**R. Sridhar** Both will match.

**Megha Gupta** Then it as such would be in between around 3.5 to 4?

**R. Sridhar** Correct.

**Megha Gupta** Okay, thanks sir.



- Moderator** Thank you Ms. Gupta. Our next question comes from the line of Krudent Chheda from Value quest Research. Please go ahead.
- Krudent Chheda** What is the size of our loan book?
- R. Sridhar** It is near to 26,000 about 100-150 crores less, 26 --
- Krudent Chheda** And out of this 5500 is securitized loan?
- R. Sridhar** Correct.
- Krudent Chheda** And in terms of revenue, can you give me breakup of how much of our revenue is from lending to old vehicles and new vehicles?
- R. Sridhar** That breakup we do not have, maybe we have to, if you can send a mail then we may see whether we can give that breakup.
- Krudent Chheda** And what is the cost of funds?
- R. Sridhar** Cost of funds is you know incremental is now coming down, it has been around 9-9.5. During the quarter, it had been about 9.7.
- Krudent Chheda** Okay. Going forward this will increase?
- R. Sridhar** Yeah, that we do not have any control.
- Krudent Chheda** And sir, one more thing, maturity of your revenue would be coming from financing old vehicles, because...
- R. Sridhar** Correct.
- Krudent Chheda** And this NIMs of 7-7.5, is it sustainable or...?
- R. Sridhar** Definitely sustainable, we have been sustaining it for a very long time and since we have been in the niche business, we are the only organized lenders in this and that demand for old vehicle loans had been quite high and we are actually not in a position to meet the entire demand. So beyond us, there are hosts of private financiers who are actually catering to the remaining demand. So there is enough scope for bringing more institutional credit and meeting those demands. So I do not think there is any pressure on the yield, absolutely on the second-hand vehicles.
- Krudent Chheda** Sir, what would be the market share in this old vehicle financing?
- R. Sridhar** Around 20%-25%.



- Krudent Chheda** 20%-25%. Okay, thanks a lot sir.
- R. Sridhar** Yeah, thank you.
- Moderator** Thank you. Our next question comes from Kumaresh Ramakrishnan from Deutsche Bank. Please go ahead.
- Kumaresh Ramakrishnan** Sir, this is regarding your new initiative which you outlined and where sir that you are planning to get into CV financing. Now I just wanted to understand if you can just outline in terms of what plans do you have in terms of you know what kind of look can we expect to see in you know in the first 12 months of you getting into this business? And also in your view, I mean, are there skills that you have you know in the used CV financing where you are the market leader which you can actually replicate in the CV financing business, so are you seeing any kind of synergies in this business which you are getting into?
- R. Sridhar** Yeah, see, without synergies we will not be entering this business, but the CV financing offers us extraordinary potential to grow and being a largest commercial vehicle financier, we were looking to expand our product profile. So we thought that this is one area where we can enter and because of infrastructure growth which is likely to be there, in the next 2-5 years and also the vacuum in the financing space after the global slowdown and many of our truckers moving us you know upgrading themselves as subcontractors, offers us extraordinary potential to gain market share in this space. So that is why we are getting into it. And since we will be funding bankable customers we thought that we should bring in different set of management teams, so we are assembling the top management team. And infrastructure is already there of Shriram Transports, the technology is already there, the liability strength is already there, the treasury is already there. So all these things are the synergies and the customer base is there, but we can sit in the geography and look at different kinds of customers. So with this, we think that in three years' time, '11, '12, and '13, we should be able to build a book of about 6,000 crores minimum. And if possible, we can build even higher. And in this business also, we should be able to have a ROA of around 2.5% easily because the net spread of this business should be more or less equal to what we are getting in the commercial vehicle financing business because here the loss and the expenses are likely to be less. So we will be able to easily consolidate both these. And so with 6000 crores, we expect in a three-year period, this company to make 150 crores packed in 2030, this operation, that is the plan.
- Kumaresh Ramakrishnan** Okay, okay thank you so much.
- Moderator** Thank you. Our next question comes from the line of Ajinkya Dhavale from Motilal Oswal Securities. Please go ahead.
- Ajinkya Dhavale** I have two questions; consistently we are keeping a very high level of cash balances on the balance sheet. And that is having some impact on our margins of spreads at the net level. Is it a kind of strategic decision or what kind of, are we going to keep higher cash levels as a policy, learning lessons from the meltdown? And second question, cost to income, which has



consistently been at 30% has dropped to 22%, and you said that we are driving benefits of economies of scale, so is this 30% cost to income going forward is going to come down which will compensate for the margins?

**R. Sridhar** See the cash balance is higher, as you rightly said, it has been because of the experience we faced in the month of October and we are getting used to few initiatives and I think that so much of cash balance will not be there. But having said that some amount of cash balance will be there, because in a large business like this where we deal in only money, we need to keep a little bit of cushion and provide for that cost, so there is no other alternative, but we do realize that we are keeping more cash so we would like to bring down that, but it would be definitely less than what we are holding now, but it will not become zero, but some cash we will be carrying. There is no alternative to that, it is unavoidable. The second question is on the cost to income ratio, as I said that during this quarter, we have actually you know centralized many payments which have otherwise been handled through the branches. That is one of the reasons and also generally, due to large scale operations, we are getting some economies here and there. All this put together have brought it down and I do believe that from, the 30 levels are history now and we should be around 25 and less, that is the future. That is what I believe.

**Ajinkya Dhavale** Right, so is it fair to assume our basic principle of 2.75% to 3% somewhere there ROA will continue, but structure will change in terms of better efficiencies and lower margins.

**R. Sridhar** Correct.

**Ajinkya Dhavale** Is it the way we look in future?

**R. Sridhar** Look, margins will not be lower, the better efficiency will give you little higher profit. So I do not think margins will be under pressure.

**Ajinkya Dhavale** Okay. Thanks a lot.

**Moderator** Thank you Mr. Dhavale. Our next question comes from the line of Atul Bhole of Tata Mutual Fund. Please go ahead.

**Atul Bhole** I have questions regarding the private financiers business, what is the book size there, yield and can you outline the growth potential in the private financiers business?

**R. Sridhar** The growth potential is enormous that is why we have entered this channel of finance, because in second hand finance apart from us, we hold about 20%-25% market share, the balance is held by the private financiers, who are catering to around 75%-80% and these people have no leveraging capability and that is why we got into partnership and slowly these assets will find a way to our balance sheet in the larger plan. So the potential to grow is three times the current size, so if you take 25000, it could be 75000, is the size which these people will be managing, which is the possible as of now, which is a dynamic moving target, so it will keep growing. So the potential is enormous and as of now, in our total portfolio, we should be having about 10% of our portfolio coming from this channel. And in the future, it may move to 15% or 20% is



our idea, that more growth will come through this route. So if this came, we are able to identify and control and monitor these private financiers properly. The growth would be quite high.

- Atul Bhole** Okay, and yields and NPAs in this business are similar to main business in this?
- R. Sridhar** No, the yields are slightly higher and finally when you come to net spread after sharing all that, it should be more or less equal to our existing business.
- Atul Bhole** Okay, okay sir, thank you.
- Moderator** Thank you Mr. Bhole. Our next question comes from the line of Sunaina Da cunha from Birla Sun Life Mutual Fund. Please go ahead.
- Sunaina Da cunha** Out of the total cash balances that you are having in your book currently, how much of this is in numbers
- R. Sridhar** 1200 crores.
- Sunaina Da cunha** And you said that going ahead you were looking at schemes to reduce the cash, what will be the average level of cash that you are looking to maintain on a steady state basis?
- R. Sridhar** Around 2000-3000 crores, we should keep for the size of our operation. It is very same.
- Sunaina Da cunha** Okay. That is it from me, thank you very much.
- Moderator** Thank you Ms. Da cunha. Our next question comes from the line of Ashish Sharma from Enam AMC. Please go ahead.
- Ashish Sharma** Yeah, just a follow-up question again, sir. As you know, the last year disbursements, total disbursement for Shriram Transports was close to 11,600 crores. We have already done close to 6900 crores in first half, I mean last year we didn't see any year or year growth in disbursements, are we looking at, at least 10%-12% disbursement growth for this year, sir?
- R. Sridhar** Definitely. This year, it is clearer than last year, from October the two quarters we were in deep difficulty. But now the commercial vehicle industry is growing itself. Opportunity is quite. Delinquencies are stable, yield is quite okay. There nothing prevents us from growing.
- Ashish Sharma** So 15% would be a relating figure?
- R. Sridhar** 15% to 20%, we should grow.
- Ashish Sharma** Okay. And second would be, I mean it is just like a technical portion, just for clarification, your loan book on balance sheet gets adjusted with repayments also for the year also, what sort of repayment, I mean, we should be assuming I mean, because if I take loan book for last year and add that disbursement for this year, I have to adjust for the repayments also.



- R. Sridhar** Yeah it would be around 5000 to 6000 crores per annum. That is the portfolio which will run down.
- Ashish Sharma** Okay, yeah fine. And just one more clarification, the net interest margin which is mentioned in the presentation, this is net of securitization income, sir, 6.45 for first half?
- R. Sridhar** Oh it doesn't include.
- Ashish Sharma** Net of securitization income only?
- R. Sridhar** Right, yeah.
- Ashish Sharma** Thanks a lot, sir.
- Moderator** Thank you Mr. Sharma. Our next question comes from the line of Vikas Roongta from Reliance. Please go ahead.
- Vikas Roongta** Sir, I just wanted to understand in construction equipment, what would be your strategy, would it be with old construction equipment only?
- R. Sridhar** No, no, see the equipment not much of old set because lifecycle is very short, unlike commercial vehicle, but having said that, there will be old equipments also. So we will be looking at B and C type of customers, we will not be going to the higher-end customers. We will be also looking at both new and old equipments that would be our strategy, so it will not be way off from commercial vehicle, but having said that in commercial vehicle, the old component is quite high that may not be the case with construction equipment. So we will be doing more of new and some used as well.
- Vikas Roongta** So what's the mix we are looking post 2-3 years down the line here?
- R. Sridhar** See that would mainly be driven by the weighted yield that would be our target. And we will have to look at what is the total size of the used equipments and all that. So that information we do not have at present.
- Vikas Roongta** Sir, you said that you would be more or less maintaining the same NIM, so in construction equipment...
- R. Sridhar** Last NIM, I was talking about spread.
- Vikas Roongta** Right, I am sorry, you mentioned about the spread.
- R. Sridhar** Net spread, yeah.
- Vikas Roongta** So even like seeing what all your competitors and all, they are working at very lower spread.



- R. Sridhar** No that is, they are all catering to high-end. Big, big contractors, who may be even corporates, so they fund the project as well as their contractors, so that is why it is very, very low, but there are middle level contractors, there are lower level contractors. So if you go and fund them, the yield would be definitely higher.
- Vikas Roongta** Who would be your potential competitor in this segment in organized market?
- R. Sridhar** I do not think we have because this construction equipment area has always been catered to by banks and some NBFCs. And today, I feel that the SRIE is leader and L&T Finance is there, TATA Capital is there. The banks have left the space, so it would be a place where NBFC will be dominated. So we will be entering that space also.
- Vikas Roongta** Okay. Thank you, sir.
- Moderator** Thank you Mr. Roongta. Our next question comes from the line of Rahul Bhangadia from Lucky Securities. Please go ahead.
- Rahul Bhangadia** Yeah, sir, I just wanted to confirm that 6000 crore target that you set in three years, that is for the equipment financing business, you said, right?
- R. Sridhar** Only that.
- Rahul Bhangadia** Yeah that is one, and the second number that you mentioned of about 1200 crores of your cash on the books that is...
- R. Sridhar** Income burden.
- Rahul Bhangadia** Okay, so that is against the cash collateral for your securitization. Is that the way to look at it?
- R. Sridhar** Correct.
- Rahul Bhangadia** Okay. And 15%-20% growth is what you said in the disbursements this year?
- R. Sridhar** Yeah, correct.
- Rahul Bhangadia** Okay, yeah that was about it, I just wanted to confirm these three things. Thank you, thank you very much.
- Moderator** Thank you. Our next question comes from the line of Kumaresh Ramakrishnan from Deutsche Bank. Please go ahead.
- Kumaresh Ramakrishnan** Yes sir, assuming that you are not going to be impacted by the new guidelines from securitization.
- R. Sridhar** Yeah.



**Kumaresh Ramakrishnan** Going forward, what do you think would be the split between let's say on-balance sheet and off-balance sheet assets, I mean would it be the same that you have right now or...?

**R. Sridhar** See we have the flexibility to alter and modify our strategy as and when you know going forward, so we do not have fixed policy, so it is a fundraising exercise. So we have always been a 20% securitized portfolio. There is nothing wrong in increasing it or decreasing it. So that depends on the situation. So it depends on the interest rate movements and guidelines like this you know so many factors are there.

**Kumaresh Ramakrishnan** Okay, but there is no internal target that you have...

**R. Sridhar** Nothing, nothing, we do not have.

**Kumaresh Ramakrishnan** Oh, and just one more question, on the CV financing business which you were talking about, what would be the average ticket size that you have in mind on these assets?

**R. Sridhar** We do not have any such you know firm plan you know once the CEO joins next month we will drop, but it would be lower than the higher end of the market, because we will not be catering to big bulk equipments and all that. So it could be mostly in single digit maybe few additions in the double digit.

**Kumaresh Ramakrishnan** Okay, thanks.

**Moderator** Thank you. Our next question comes from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

**Nischint Chawathe** Sir, the dividend payout was somewhat lower last year, so should we assume that you know now things are coming back to normalcy, so your dividend payout should go back to maybe around 30%-35% ratios that we had seen in the past?

**R. Sridhar** See, we have declared interim dividend yesterday, so I do not know what the final dividend would be that it is a prerogative of the board that they have to decide only when the final results are declared. So I do not think, we are not looking at any policy for the time being, so it has been ad hoc basis, the dividends are being declared. So frankly, I would say that we do not have a policy as of now.

**Nischint Chawathe** Okay, just a related question in terms of capital adequacy, you said you are somewhere close to 15 or 16?

**R. Sridhar** 17 yeah.

**Nischint Chawathe** 17, so what would be you know the comfort level after which you will want to possibly raise capital you know especially, I am trying to relate this with the capital raising or you know the proposal to raise capital and at the same time, your guidance that you would possibly look at 25%-30% growth. So, I mean how do these things relate and you know what would possibly



prompt you to raise capital and you know what is really the thinking behind it, I understand that you know this is at the preliminary stage right now just in enabling resolution, but you know what is the thought process behind this?

- R. Sridhar** See we are producing ROE of near to 30% and since we are growing 20% or 25%. Frankly, we will be maintaining this capital adequacy work. If we are growing only 20% or 25% and at this size of 25000-26000 crores, growing 20% itself is quite good.
- Nischint Chawathe** Yes of course.
- R. Sridhar** So actually for capital adequacy purpose, I do not think we require further capital. We can continue to carry on like this.
- Nischint Chawathe** Okay.
- R. Sridhar** But there are some other considerations on which we are looking to raise capital to bring down our debt-equity leverage and all that. So that is the reason we are looking to raise capital, but at this point of time, we have no firm plan. We are only identifying that there maybe a need of capital in the future, in the near future. So we are getting prepared, so we are passing and enabling resolution to get the shareholder approval and keep it. This resolution will be valid for a year.
- Nischint Chawathe** But any kind of you know if any kind of inorganic plans etc that you are looking.
- R. Sridhar** No, so all these will help us if you are prepared. So we do not rush at this point of time.
- Nischint Chawathe** Okay. So for business in normal course it may not be required, but you know obviously looking at the...
- R. Sridhar** Correct. So we are only getting ourselves prepared for any opportunity in the future. So that you go and raise the money.
- Nischint Chawathe** Okay. Thanks a lot.
- Moderator** Thank you. Our next question comes from Jaynee Shah from Dolat Capital. Please go ahead.
- Jaynee Shah** Sir, I just wanted to understand with respect to the private financiers, you said that they currently form 10% of our book.
- R. Sridhar** Yeah.
- Jaynee Shah** We might move to now 15%-20%, what is the kind of timeframe are we looking at to move to 15%-20%?
- R. Sridhar** Five years.



**Jaynee Shah** Alright sir. Thank you and I just want more data point, I missed the disbursement figures for Q2.

**R. Sridhar** Q2 is 3600 crores.

**Jaynee Shah** What would be the split between old and new?

**R. Sridhar** Old is 29 and the new is 700.

**Jaynee Shah** Right, thank you so much, sir. That is it from me.

**Moderator** Thank you Ms. Shah. The next question comes from the line of Vikas Roongta from Reliance. Please go ahead.

**Vikas Roongta** Sir, you said, just recently that one of the prima-facie reason can be to reduce your debt-equity, so what kind of debt to equity would be overall comfortable?

**R. Sridhar** I am comfortable with the current debt to equity, but it is the question you should ask the rating agencies.

**Vikas Roongta** Okay. So like what kind of debt to equity we are proposing sir?

**R. Sridhar** See that depends on you know company to company, it varies, depending upon the business model and the way asset quality, the number of years you are there. So ours is because of our higher profitability and safety of business. We will be enjoying a little higher debt equity. But having said that if we have to move up our credit rating, we need to bring it down a little bit, it has to be cooled a little bit, that is why we are looking at that possibility.

**Vikas Roongta** Okay, but any specific figure in mind, I know it is...

**R. Sridhar** No, no we do not have any specific figure, as I said, we have no firm plan on anything, we are only getting prepared so that, if it is required we can go and raise it.

**Vikas Roongta** Okay, sir thanks.

**Moderator** Thank you Mr. Roongta. There are no further questions at this time, would you like to add a few closing comments?

**R. Sridhar** Yeah so we are thankful to all of you for participating and giving us an overwhelming response for the call. Thank you very much and I am looking forward to having a chat in the next call for the Q3.

**Moderator** Thank you very much. On behalf of Shriram Transport Finance that concludes this conference. Thank you for joining us and you may now disconnect your lines.