“Shriram Transport Q4 & Annual Results FY 2011-12 Conference Call”

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Moderator Ladies and gentlemen good day and welcome to the conference call of Shriram Transport for the Q4 & Annual Results of FY2011-12. As a reminder, for the duration of the conference, all participants' lines are 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 the conference call you may signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Umesh Revankar. Thank you and over to you sir.

Umesh Revankar Hello, everybody. This is Umesh. I have with me Mr. Parag, Sanjay and Sundar. This year we have witnessed several upside and also downside in our business. People who have been following us for the last three, four quarters they know that we had some blips especially in mining segment, so we had some write-offs in the second and third quarter. We have overcome that and the economy was also going slowly. The GDP growth is less than 7 and IIP numbers being low. We have been very cautious throughout the year. In fact we have reduced our LTV by 5% to 10% on various products and segments. That made our loans little stiffer in the sense getting loans from Shriram becoming little stiffer. For example, a person who wanted to take a loan on 2 lakhs, earlier, if he had to put 60,000 as the margin, our margin requirement went up by Rs. 10,000 that is Rs. 70,000. So margins increased to see that we have a good resale value in case of economy going further slow. That is one of the reasons and also we felt that the customers need to really put his money stake into the business so that his EMI burden comes down. More we advance on the asset then his EMI goes up and his ability to service the loan becomes difficult. So, this very conservative method we used in our lending this year.

In spite of that we have grown in used vehicles i.e. our niche segment; we grew by 5% on our lending. In our niche segment, our presence is strong and we continue to be a major player there. And on new vehicle we did lose some market share but we always feel that new vehicle is not our niche segment. And we are very happy to service our existing customers not really trying to acquire more customers from the market. Throughout we remained very conservative in the last financial year. That resulted in moderate growth in our profits. Our annual profits were Rs. 1,308 crores against Rs. 1,217 crores. This is the consolidated figures and including Shriram Equipment and Shriram Automall, put together.

I should highlight here the performance of Shriram Equipment Finance. We created a separate subsidiary out of our business, means that we had business in one of the verticals which we carved out to make it a separate subsidiary company because the ticket size was bigger there and the depreciation was higher. So, we wanted a specialist person who understands the market and the business to manage this business. So, we had the best possible, I should say, person that Mr. Pratap and he has done wonderfully well. Last year, they have disbursed 1,800 crores and we have made a profit of 51 crores approximately in that business.

And the Automall business also has done very well even though it is yet to view profit. It has reduced the loss from 13 crores last year to 38 lakhs and the fee income generated there was around 55 crores. So, this business is likely to do very well in the coming year, because many customers, individual fleet operators, companies are offering the exchange facility which we are giving through auction or through one stop. So public is recognizing this fact that this company is really helping us. In fact, it won a prestigious CV Apollo Award for fleet enabling and that's a credible performance for the company which is just one year plus. In fact we started Shriram Automall basically to help Shriram Transport Finance Company in getting the used vehicle business into the control of Shriram Transport Finance Company and price discovery to be transparent, entire transaction to be smooth. In fact, Shriram Automall is doing that plus it is also helping the industry as a whole. In the coming year, you can see lot of activity in Shriram Automall.

As a standalone basis, STFCs profit went up for the year from 1,229 crores to 1,257 crores, a marginal increase, but we are quite happy with the progress what we have made in the last year and confident that things will be much better this year. First half of this year doesn't seems to be very encouraging, but the second half looks quite encouraging because a lot of road projects have come to a particular level of implementing and getting it started. Around 1 lakh crore worth Road projects have come in, and government is likely to push in infrastructure projects very quickly. Even in the Power side we are given to understand that government is quite serious in implementing the big projects. So, this will help both infrastructure activity and road transport.

Last year, if you look at the vehicle sales even though there is an 18% growth year-on-year the sale on new vehicle has been relatively flat i.e. around 5% reported by the Young that includes bumper. That means almost flat growth over previous year. The Heavy Vehicle sales represent the economic activity and economic growth. The Smaller Vehicle sales only represent the local movement or redistribution. So, I would like to look into only the Heavy Vehicle sales and then would like to comment on saying that last year has been almost a flat growth for vehicle sales, and thereby the economic condition also were not very conducive for small operators, for whom we have been financing. But, in spite of that, our overall asset quality we could maintain and as per our desired level. However, we could have improved further and would like to improve on that further. But looking at the economic condition I feel we have done a very good job, and going forward we feel that this year should become much better. So numbers I don't wish to give you, because you have it on your table or in hand so probably now it's time for question-and-answer. Thank you very much.

Moderator Thank you, sir. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press '*' and '1' on their touchtone phone. If you wish to remove yourself from the question queue, you may press '*' and '2'. Participants are requested to use handsets while asking a question. Anyone who has a question may press '*' and '1'. Our first question is from the line of Jyothi Kumar from Spark Capital. Please go ahead.

Jyothi Kumar Sir, just a couple of questions. In your opening remarks you said that you are not trying to acquire new customers. Is it because your existing customer side would suffice and basically you would be hoping to find whatever new vehicles they are going to buy or is it just because of the vehicle choice or is it something else?

Umesh Revankar Basically, we are very content finance into our existing customers for new vehicles and that is the basic idea. However, we would definitely like to increase our presence in the new vehicles where the credit need is there. Last year, we had a reasonably big market share in the small commercial vehicle which reduced to some extent this year. Since we had reduced our LTV by 5% to 10% for the customers who wanted to acquire the vehicle they went to the competition.

Jyothi Kumar Okay, let's say if the demand for old vehicle comes back, would you be willing to scout for newer set of customers or even in that case you would still….?

Umesh Revankar Used vehicle business we could be aggressive, we would acquire all the customers. In fact in the used vehicle would like to become more aggressive this year and would like to acquire more customers. In fact, we have a plan to take into remote rural areas where right now we don't have reach and we are planning to open total 400 rural networks, where we will be positioning our executives. And 150 of such locations are already added into site and we have started the operations. The basic idea is to acquire customer in the rural area, which we feel today economically viable, because most of the rural areas today have road connectivity and also they have mobile for making the transaction and business. Because of this advantage rural areas is attractive and many of the used vehicles are going into rural sale, in the sense after change in hand, the vehicles are moving into rural belt, especially small commercial vehicle which is newly entering into used vehicle segment, earlier that segment was not existing. So identifying that we are aggressively would be adding used vehicle in the current financial year.

Jyothi Kumar So from what I understand you are saying that if it is a new vehicle finance, you would probably limited to with your existing customers but old CVs you will still go out aggressively?

Umesh Revankar You are right.

Jyothi Kumar The other question was your headcounts have been coming off significantly. I think last year it was about 17,000-odd people that currently it is about 15,000-odd people. This is purely from natural attrition and you don't want to add headcount or I mean is it more better operational efficiency or what explains this?

Umesh Revankar Some of them moved to Automall. In fact, they are part of our STFC standalone company initially. When Automall was created, some of them moved to Automall, some of them moved to Shriram Equipment Finance. So, we have reduced by putting them on the specialized activity. So in standalone company it looks as if a number of employees have come down, and some of them are due to technological upgradation what we have done. We had 66 SBUs earlier where we used to doing the credit administration and credit processing, which now we are able to do it in the branch by superior technological connectivity available, and we are also able to print cheque of any bank in our branch and give it to the customer. So this has really made our turnover time of loan processing has reduced, and the number of employees required in the specialist view which we have created also came down. Because of this rationalization we have reduced few staffs. It is at least the productivity of the company or per person has gone up to that extent.

Jyothi Kumar And lastly, given the way the economy is shaping up, how is your view towards the C-segment? Are you still fairly positive or any thoughts that you can share with us on the respective C-segment?

Umesh Revankar I personally feel anything above 7% GDP growth will increase the C sale especially the heavy vehicles. Smaller vehicles will keep selling, because in India there is some kind of ratio mismatch on the heavy and small. Any developing country if you look at the ratios are 1:3 or 1:4 because heavy vehicles are used for end-to-end, hub-to-hub transportation. And the redistribution is done in the smaller vehicles. In India, we always had 1:1 and now it is 1:1.5 on Heavy and Small. So it is likely to become 1:3 that means Smaller Vehicles will keep selling even when the Heavy Vehicle sales are less, but if the Heavy Vehicle sales increases there is a multiplier effect and even the Smaller Vehicles sales will become much faster. So there is a huge opportunity if GDP growth goes beyond 7 or 7.5 for both Heavy and Smaller Vehicle sales to go up.

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

Prashant Shah Sir, just wanted to ask you, you mentioned that in your opening remarks saying that for Small Vehicle operators the economic conditions were not conducive during this year for various reasons. However, we get different line from your competitors and other banks who are servicing the small operators. They are saying that they are quite bullish on the prospects of rural markets. So what is your view on that?

Umesh Revankar No, I think you have taken it wrongly. I did not say. I generally said that for the customers it was a little tougher condition, not exactly small. Small Vehicle customers as owners are doing quite well and that segment is growing, and many of the drivers who want to become owners for stand they are buying Smaller Vehicles. And many of the captive segments are also buying; captive segments like vegetable vendors, fruit vendors, they are buying on their own, vehicles. So that segment Small is doing quite well.

Prashant Shah Okay and sir your total disbursement for this full year was down by 2%, means we can say that they were more or less flat. Would this reduction in LTV extent most of these low disbursements or reclining disbursements?

Umesh Revankar Yes, it almost explains, I should say 90% of the reason is because of that, and may be partially because some of the segments we stopped lending like mining-related not that direct mining even the mining related industry we stopped lending, so that explains both. And also some of our business we have shifted to Shriram Equipment, because earlier it was a part of our business. Now, this full disbursement of 1800 crores what we have done in Shriram Equipment would have been a part of STFC had we not had a separate subsidiary company.

Prashant Shah And sir coming to your Mining business, you are fully return of all the delinquent loans related to the mining bench?

Umesh Revankar Yeah, especially the Supreme Court ban when it came to Bellary that area we focused in the first quarter and the second quarter we also had some exposure in Goa. There also we have to finish by this time.

Prashant Shah Sir, how would you explain your quarter-on-quarter jump in the gross NPAs and the provision expenses?

Umesh Revankar Basically, we lend to retail customers and whenever economy goes slow, some of them just move to one bucket high, so it happens. We are confident we will get back to normal.

Moderator Our next question is from the line of Ashish Sharma from Enam. Please go ahead.

Ashish Sharma Sir, just wanted to get some sense on the NIM outlook for FY13 and also on the growth, what is the realistic number of growth for FY13?

Umesh Revankar As a management policy and philosophy we would like to maintain a minimum of 7 NIM because we feel that 7% NIM gives us the solidity and also comfort of feeling with the customer base with whom we are dealing. That is the retail small customers. So as far as growth is concerned it all depends upon the GDP growth. If GDP growth and the IIP number improves, our growth can be as much as probably double the GDP growth.

Ashish Sharma Sir 15% nominal GDP growth sort of a number you are looking in terms of AUM growth for 2013?

Umesh Revankar Yeah, if the GDP growth is 7.5%.

Ashish Sharma And you mentioned that the normalized NIM you are looking is around 7%. Do you think that 7.5% is not the bottom, I mean, we can expect 7.5 is for the full year, if you look at quarter, it was 7.24%. Do you see that NIMs will further be in depression in the first half?

Umesh Revankar You have to read a little differently. We strive to maintain minimum 7. We have been trying to have a maximum margin by having a proper product mix and the use and new mix. So as and when we feel the NIMs are under pressure then we will try to do more of used vehicles so that our NIMs are above 7. So it is always the market factor that plays a very important role and also the cost of borrowing which was fluctuating in the last year and also with some had the kind of advantage which we used to have previous year on securitization because on securitization we used to have 1% to 1.5% extra cost advantage which we did not had in the last year, and we are not very sure how it will be in this current year. So, NIMs naturally has reduced because of that.

Ashish Sharma And the recent securitization guidelines, I mean how do you read that, I mean, do you think that's positive?

Umesh Revankar Yeah, it looks quite positive, in the sense we can do securitization, but the bilateral has become little difficult. So probably bankers how they are comfortable I am not sure. Maybe Parag would be able to answer that. Banker's issue. Parag.

Parag Sharma Securitization we did 8,000 crores last year and with this new guidelines we are largely doing assignments with the loan book of the bank. If you have to do securitization and if you go to the investment book we have to really look at bank's appetite to take portfolios in their investment book and still hold it.

Ashish Sharma So I mean you have to see whether the appetite from the banks now will be there or not that at this moment it would be tough to …

Parag Sharma Yeah, it will be difficult to comment as of now.

Ashish Sharma Okay, and what is the unorganized gains on securitization as on March 2012?

Umesh Revankar 2,800 crores.

Moderator Our next question is from the line of Jonathan from Equinox. Please go ahead.

Jonathan As I understand that in previous quarter there sometimes when you do a large securitization the way you accrue interest and the interest then comes from that shows upon the income statement is different one is on balance sheet versus off balance sheet and so it can reduce your NIM in the short-term in the quarter that you do securitization. Maybe I am not understanding the correctly, but if that is the case that has happened in Q4 of this past year and can you explain how much it has been affected the NIM?

Management22:43 Current quarter we had done securitization of around 4,000 crores and consequent to that there has been marginal hit on the NIMs on account of this, because around 20 crores of income which we would have otherwise booked had it been in the books has been pushed across and so the next quarter thing will be marginally better I would say compared to the current quarter.

Jonathan Okay. This is always going to happen when you do securitization or it has had to do with when in the quarter you do securitization?

Management25:09 It is more to do with when we do in the quarter. Supposing if you do in the last 15 days or so of the particular quarter then the income gets shifted. But anyway, there will be momentary dip in the particular quarter, but this gets evened out in the subsequent quarters, starting flows back.

Jonathan Okay. Can you give us a little more detail on the way you think about the business growing? Obviously, this year was not a great economic environment for a lot of your customers but if we look over, over a multi-year timeframe of over three or five years, what sort of growth do you expect from this business and why you are able to grow faster than the market or do you think you got sort of the right level of share here?

Umesh Revankar Our niche segment which is in the preowned vehicle where we have a significant presence, there we are planning to grow much faster and further, in the sense, most of the Indian rural markets are today better equipped and that they have become a transport hub. So, some of the vehicles, especially our used vehicles are moving to rural and deep rural. So, we have plans to capture the market there to have an early bird advantage. And we should be able to have a significant presence in the rural and thereby in the preowned vehicle segment. And as per the new vehicle segments are concerned it is more to do with GDP growth and industrial activity in the country. If the industrial activity improves and IIP numbers improves, then definitely we could see Heavy Vehicle sales going up, which will push the overall sales number in both new and used.

Jonathan Okay. And just a last question is on asset quality. As you said gross NPA has continued to rise when you see the PPR or GC things improving. Can you talk about why you expect that improvement and exactly how you see the peak sort of falling?

Umesh Revankar This economic environment being little tough, sometimes the buckets jump and we hope that first quarter is a good quarter for the customers, and we should be able to put additional push on our collection and we should be able to improve it, but it should remain in the range between 2.7 to 3, it will not drastically change.

Jonathan So what does that imply for provisioning? I mean more provisioning be lower and now that you don't have the mining issue as long as asset quality stays within 2.7 to 3 range?

Umesh Revankar We have 85% coverage. I think it is a quite steep compared to the industry and other players. So, we continue with higher coverage to manage this.

Moderator Our next question is from the line of Pankaj Patwari from Bain Capital. Please go ahead.

Pankaj Patwari My question was if I look at the balance sheet and I compare Q4 FY11 to Q4 FY12 there is a proportion of cash and bank balances and investments combined as a proportion of the total assets stressed a lot, so cash and bank around 72,000 million in Q4 FY11 end and it is now 92,000 approximately this year-end whereas the balance sheet size has not changed a lot. So the question was how should we think about this increase in cash and investments which is happening on the balance sheet and what do you expect it to be steady-state as a proportion of the total balance sheet? Because I am guessing that in a way it is also leading to suppressments, right?

Umesh Revankar We did large securitization in the month of March that contributed to huge balances of on 31st March balance number. That will be close to around 3,000 crores of equation what we did in the month of March alone. Two other factors which contributed to large balance, one was for the collaterals given for securitization, it has to be held till the securitization transition comes to an end. That will be roughly around 1,000-odd crores and with a larger quantum of securitization done in the current financial, the overall balance of collateral will go up. The third contribution for higher cash and bank balance came from utilization of cash credit facility. These are the reserves what we keep in case of any liquidity tightening up. So, we utilize cash credit to the extent of roughly around 2,500-odd crores which was much higher than what we did in the previous year. That would have contributed to a higher cash balance. What liquidity we like to maintain going forward and what we have done in the past also is roughly around 2 months of liabilities and 2 months of disbursements which is close to around 2,500 to 3,000 crores of cash and bank balance ideally is what we like to maintain. So whatever excess liquidity is there in the month of March would likely to be used up for next two months, and from July onwards I think it should be at around 2,500 to 3,000 crores of cash and bank balance.

Pankaj Patwari Just so that I understand correct to it, the total cash and bank balance is around 4,000. You are saying 2,500 is effectively which you want to maintain in the system and that is what you will get back to….

Umesh Revankar I am talking about investments, cash and bank balance, all put together.

Pankaj Patwari You are talking about everything, all put together?

Umesh Revankar Yes.

Pankaj Patwari The thing which I am struggling with is basically there is some excess liquidity which shows up in your balance sheet a) because it did it at the end of the quarter, the securitization. B) Because you wanted to maintain liquidity and therefore you utilize the cash credit facility. But if I ….

Umesh Revankar No, cash credit facility has not been utilized for maintaining higher cash and bank balance, it is only pressure from the banks because you have huge facilities which are not utilized, they have this pressure for showing some movement in cash asset facility that is why we have utilized 2,000 crores of facilities what banks have sanctioned to us. It has been drawn for a short period and this would be funded back, cash will flow back to the facilities in the month of first week of April.

Pankaj Patwari Okay, let me ask you this question in a different way. I mean do you expect this number, the total cash and investments number which is around 9,200 crores, in a steady-state environment do you expect it to be lower, and therefore would you expect the NIMs to be higher. Is that having any impact on NIMs, the month end number which is showing up in your balance sheet?

Umesh Revankar Of course, this is only a month end number which is showing higher. That's why I am saying that it should be around 2,500 to 3,000 crores is what we like to maintain.

Pankaj Patwari Versus 9,000?

Umesh Revankar Versus 9,000.

Pankaj Patwari Alright. And therefore the average during the quarter was 2,500 you are saying.

Umesh Revankar Yes.

Pankaj Patwari It is only spiking at the end so therefore there is no impact in the NIM which is happening because of this?

Umesh Revankar Yeah, because of that there will be not much of NIM impact.

Pankaj Patwari Alright. The other question was on the provisioning. Now, the provisioning has been higher this year because of the economic environment. I understand that the gross provisions you said is 2.73%, but on the steady-state if I were to say, vintage wise, what do you think is improved credit loss in the system, what would you say that would be around? Not the provisioning which you do but truly what the credit loss in the system on a vintage wise basis.

Umesh Revankar Credit loss should be around 2% i.e. our previous tax record says. One of the reasons for showing it is going more than 3% is because of last minute securitization. We had our asset reduced to that extent. So percentage wise it looks little bigger than the previous quarter.

Pankaj Patwari Alright. So you are saying steady state you should expect credit losses of around 2%?

Umesh Revankar Yeah.

Pankaj Patwari Alright. Other question on NPA is if the RBI policy comes into place and you have to move from 180 to 90 days, I am guessing there will be a one-time provisioning which you have to do. If that happens, if you look at the provisions which you are maintaining in your balance sheet it seems you already have enough credit loss provision sitting on your balance sheet. So how should we think about it? Would it have a one-time P&L impact or you have enough provisions in your balance sheet to move from that 180 day to 90 day policy.

Umesh Revankar It will not be appropriate for us to comment on that because we are still awaiting the draft guidelines which is due by June that is what the Governor has said. So, let the draft guidelines come and the body language of RBI also in our discussions with them is coming out that there may not be direct move to 90 days. So there maybe two, three years time period given to us to move to the 90-day liquidity. So it will be better for us to wait and watch.

Pankaj Patwari But in a situation where it moved you have securitization provisions in the balance sheet or it would lead to some one-time in the P&L?

Management Supposing, if they come out of the guidelines saying that first year we have got to move to say 120 days so the figure may be covered by the provision already carrying and I think that 90 days also there may be some hit, but there may be marginal hit. I would say the entire thing needs to be taken one time but it is unlikely that is likely to come.

Pankaj Patwari The other question was you mentioned that you expect a Small Commercial Vehicle segment to continue to grow faster than MHCV given the all emerging market benchmark which you mentioned earlier. Now, if I look at the used impact of that on the UCV space, does the Small Commercial Vehicle segment have a similar life cycle and a similar pattern of reselling or refinancing as the MHCV market or does it have different? And if it is different does it impact you given your mix of MHCV or SCV in the UCV segment?

Umesh Revankar As far as Heavy Vehicles and MCVs and LCVs are concerned they all have a similar pattern of approximately 15 years economic life cycle. But the Small Commercial Vehicles which have been selling in the last four, five years, they have a smaller life cycle is what we believe because of the wear and tear and the kind of usage these vehicles are undergoing. So, we expect it to be around 9 years instead of 15 years. So, in that case the number of times which we could have financed will be lesser. For example, on Heavy Vehicles if it is a vehicle that is financed three times in its life cycle, this vehicle could be two times.

Pankaj Patwari And sir that’s on the lifecycle, but if the customer behaviour is also different like in the MHCV segment, the customer typically refinances it after three years given that it has the ticket price. Have you seen a similar behaviour in terms of the customer to get it refinanced the moment his vehicle is loan-free after three years or you think the customer behaviour is different in the Small Commercial segment?

Umesh Revankar It is no different, it should be same, because we already are able to get into the market of our second hand vehicle of Small Commercial Vehicle. So three or four years old vehicles are typically coming for financing. The only thing is anything above 7 years old we will not do it because the life cycle being small. So right now, at the first stage, I feel there is a good opportunity for finance.

Moderator Our next question is from the line of Manisha Porwal from Taurus Mutual Funds. Please go ahead.

Manisha Porwal I could be a bit repetitive, but I really wanted to know about the securitization, if you would have done some calculation as to how the securitization norms are going to pan out for us on March end as well as capital?

Parag Sharma If we have to do securitization through the PTC route, yes, there will be capital requirement, we have to reduce from first class from Tier 1 and Tier 2. And this will be different from what we have been doing in the past. We have been doing assignments and we are not taking capital hit. If you have to look at securitization alone, there will be capital reduction.

Manisha Porwal Sir, can you quantify that as to how much would be the hit going forward considering that we would do the maximum allowed by the norms? Could you quantify that the impact on capital adequacy Tier 1 as well as on the NIMs because I believe credit enhancement is also now going to come at a price.

Management The overall impact on the capital adequacy will be around 2%. Currently, we are sitting at having a capital adequacy around 24%, so that means drop to say, 22%. And on the NIMs it may not have a material impact because after the base rate that has come in, whatever advantage we used to get a couple of years back over that 150 basis points so that has anyway not been there in the last year also. So, there may not be any impact on the NIMs going forward.

Manisha Porwal Okay. So the only impact that you can see here is on capital adequacy.

Management Correct and that too it is marginal. We are not in the border, so since we are already having a healthy capital adequacy of around 24% should not materially impact.

Manisha Porwal Okay and secondly sir coming back to that 90-day NPA norm, I know that you said that it is too early to comment on that, but have we done some kind of check whether our customers are prepared for any such future change because we normally cater to the small truck operators. So looking at their financial model, do you feel that they will fit into this 90-day model going forward if at all if this would come?

Umesh Revankar Definitely not, in the sense all these customers have been going to NBFCs like us or private money lenders because their cash flows are not predictable and they will not be able to have a very strict discipline of 30 days or 60 days managing the loan up to 3 or 4 years to the tenure of the period. So, definitely, our customers would find it difficult. In fact this we have represented to our Finance Ministry and they have taken it very positively, because what we have been doing is what banks could not do because of our customer profile. And they are definitely not a bankable customer and we have made a big inroad into these customers, who would have been financially excluded otherwise, so we have included them. Their ability to really stick to 90 days would be very, very tough or difficult.

Manisha Porwal And sir finally, I wanted to just get a feeling that now we have reduced our volumes looking at the risk profile of our customers we have when conservative we are asking for more margins, we are giving low LTV, but at any point of time would we also think of reducing on the margins and giving customers a room there and increasing the volume because the competition for Shriram is coming from companies who have lesser margins and are more beneficial to those small time truck owners because this might lead to some shift, the customers might shift to people who are giving them loans at a lesser rate and maybe Shriram would lose on competition at that point. So, are we looking to reduce our margins and take a hit there and increase our volume and maintain our market share?

Umesh Revankar It is not a question of yield. I feel it is the question of margin or the LTVs. Now, if the customers are likely to move there is a lower margin requirement because it has a minimum, imagine, Rs. 50,000 and if we demand 70, he would prefer to go to a banker or an institution, NBFC which lends at lower margin. But, as far as the yield is concerned I don't think it really matters much because in the second hand vehicle space, if you have to be there and our model has to work, in the sense, relationship model where for every 150 customers we have one relationship, our field officers, who meets the customer regularly and collect the money. If this model has to be successfully built, then we need to have this kind of margin. If we lower the margin initially when you expand your business it may look comfortable because your operational expenses are less, you have less manpower, but when you have to meet each and every customer and collect the money or remind them or meet them, in that case, your operational expenses goes up. So whatever you try to reduce your interest rate, once the operation cost goes up then again you have to increase. So, temporarily, it may be possible but in the long run if any company wants to attract a customer, then he should have enough manpower and persistence and perseverance in this preowned segment to sustain. So the margins are required for that kind of sustenance.

Moderator Our next question is from the line of Jigar Walia from OHM Group. Please go ahead.

Jigar Walia My question pertains to securitization. Pardon me if it is repetitive, I logged off. The first thing is shortly that what we are fearing is that the Tier 1 would be at risk because of credit enhancement on bilateral deals but now RBI has now completely prohibited credit enhancements. So, the next case that we are talking about is a possible shift from bilateral to PTC. You did mention that it is very difficult to gauge, what would be the banker's reaction to it, but even apart from the banker's reaction what is in it for us to actually go for PTC, I mean not from a banker's perspective but from STFCs perspective, what would be the advantage unless until..?

Parag Sharma No advantage or disadvantage sustain from assignment to PTC. It was more from the investor's interest because they wanted to increase their loan book or their investment book. We are neutral to whether it is assignment or securitization. The credit enhancement numbers don't change for us.

Jigar Walia No, that I get, now the question is the choice between going to for PTC versus having the assets on our loan books?

Parag Sharma That means they should do securitization at all or not?

Jigar Walia Exactly.

Parag Sharma That is one source of fund, so whether that is taken or we go in the conventional route of bond borrowing or term loan borrowing, this is a large source of funds.

Jigar Walia Okay. And one perspective if you can share in terms of what could be the implication in terms of the fee arrangement that you are contemplating with the bank. I believe you also did some fee arrangement with some MNC bank. We can manage their portfolios and all. Actually, can that particular stream gather pace or what could be the implications post the new guidelines?

Management 47:54 We are alternatively looking at that as the way forward of portfolio management and taking a fee. So, we are talking to one or two banks and probably something will get started by the month end. But, as far as the securitization is concerned I still feel that it is a big source of fund for us and already some MNC banks have been doing a PTC route through us. If there is a cost benefit analysis and if at all we feel our cost goes up to that extent we can negotiate with the banks and rationalize on that, because they also want the portfolio, which is the priority sector. So, there could be a compromise between us and the banks because of that.

Jigar Walia Fair enough. Sir, if you can give some colour in terms of, we have 2,800 crores of unrecognized income and securitization. How does this run down over the next few quarters?

Management49:09 Next year we can say that around 40% can be taken as in. The average tenure will be 40 months or 42 months, remaining months and around 40% of the income should flow down in the next year and the balance 60% in the next subsequent years.

Jigar Walia By FY14 we would have totally run down.

Management No. Out of the 2,800 crores 40% of it will run down in 2013 and the balance will be in 2014, 2015 and maybe past 2015.

Jigar Walia 2014, 15 and over the 40 months.

Management Yeah correct.

Jigar Walia Okay and out of the total securitized that we have done, how much it would be through PTC, nominal but how much?

Parag Sharma As of now we have done roughly around 80% will be assignments, 20% of whatever would have sold would be through the PTC.

Moderator Our next question is from Omkar Kulkarni from CRISIL. Please go ahead.

Omkar Kulkarni I just wanted to clarify firstly, this LCV reduction that you mentioned, you have taken it only for the LCVs or SCVs also?

Umesh Revankar It is for all segments. It varies between 5% to 10%, so it's off.

Omkar Kulkarni Sir, just wanted to understand the rationalizing, means why are we not focusing on this segment because as you mentioned that the LCV segment especially expected to grow at a much faster rate, so just wanted to get a understanding of why are we following these strategies, is it some kind of higher risk perception in that segment, means what is the rational there?

Umesh Revankar No, we are present in all segments. We have created verticals and we have a vertical wise focus on each segment. We are not really favouring one segment or not favouring others. So each segment they are deciding on what is the kind of LTV requirement should be there and what is the likely resale value, what is the likely earning on each vehicle. So, we have a lot of study made and depending upon that we do business.

Omkar Kulkarni Okay. And sir lastly just wanted to get your perspective on, assuming if the current high interest rate environment remains throughout FY13, what kind of growth do you feel you will be able to achieve in both new CV segment as well as preowned segment?

Umesh Revankar In the preowned segment where we have a reasonably good control, I can say that 10% to 15% AUM growth is possible. And the new depends upon the GDP growth, probably it can go up and down.

Moderator Our next question is from Rohit Shimpi from SBI Mutual Fund. Please go ahead.

Rohit Shimpi Sir, I have two questions. First is, now that the securitization guidelines are there, so in case PTC route has not taken up in a big way, do you have something like a backup funding plan if you have to do it on balance sheet?

Parag Sharma We have all streams of sources and we have been doing public issue of bonds, we have bank lines, we do mutual fund borrowings, we borrow from insurance companies. So we have all streams open to us. If PTC does not shape up then we will have to aggressively borrow through other sources.

Rohit Shimpi Okay and second question is on the industry level, when you said that new CV what we are seeing in the financials is that some of the banks and some other players are growing very aggressively in the new CV segment, and some of it seem to be going slower. So, are we really seeing something in terms of asset quality stress on your portfolio, and is it your sense that the rest of the industry is seeing some stress on asset quality in the new segment?

Management No, we don't really differentiate between used and new as far as what you call possibility of asset quality, in a particular economic condition it will remain same, but the new vehicle normally the depreciations are faster in the first two years. So, there is a little higher risk sometimes when the economy goes slow. Especially when the economy goes slow there is a higher risk. Otherwise there is no risk in new vehicle. So with that in mind we wanted to be conservative.

Rohit Shimpi Okay so but how would you say that industry LTV practices in new CV financing has changed over the last one or two years?

Management Whenever there is a competition people know the customers. When you play into customer's hand then customer will say, I will give only 5% margin. He would like to conserve his cash as much as possible, so if a customer start demanding 5% margins, then it is not wise on finance company or banks part to play into his hands.

Rohit Shimpi So, that is the actual industry level today, 5% margin?

Management For example, it could be 5% to 10% but in the new vehicle, it is hovering around 10% which we feel little high risk.

Rohit Shimpi Okay, so 10% is the margin by excluding, this is only the body, right?

Management No, I am talking about the fully built vehicle. Normally, the practice is if it is the only chassis it is 95%, fully built it is 85% is the prudent norms which we follow.

Moderator Thank you, sir. Participants, that was the last question. I would now like to hand the conference over to Mr. Umesh Revankar for his closing comments.

Umesh Revankar Thank you all for joining. We are quite hopeful that the current year will turn out to be much better, especially the second half we have lot of hopes wherein government spendings are likely to go up and infrastructural activities are likely to further improve, so looking ahead for the next quarter meeting with you, thank you very much.

Moderator On behalf of Shriram Transport that concludes this conference. Thank you for joining us. You may now disconnect your lines.