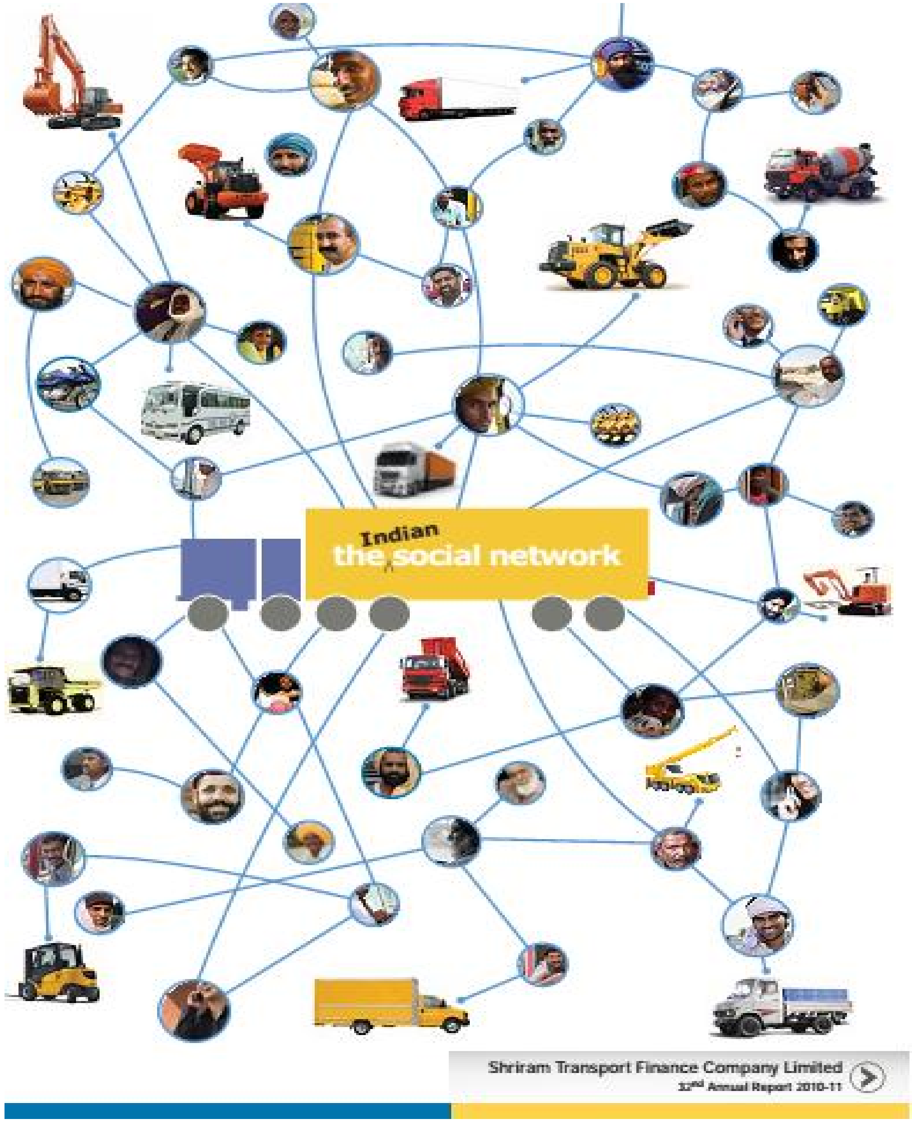
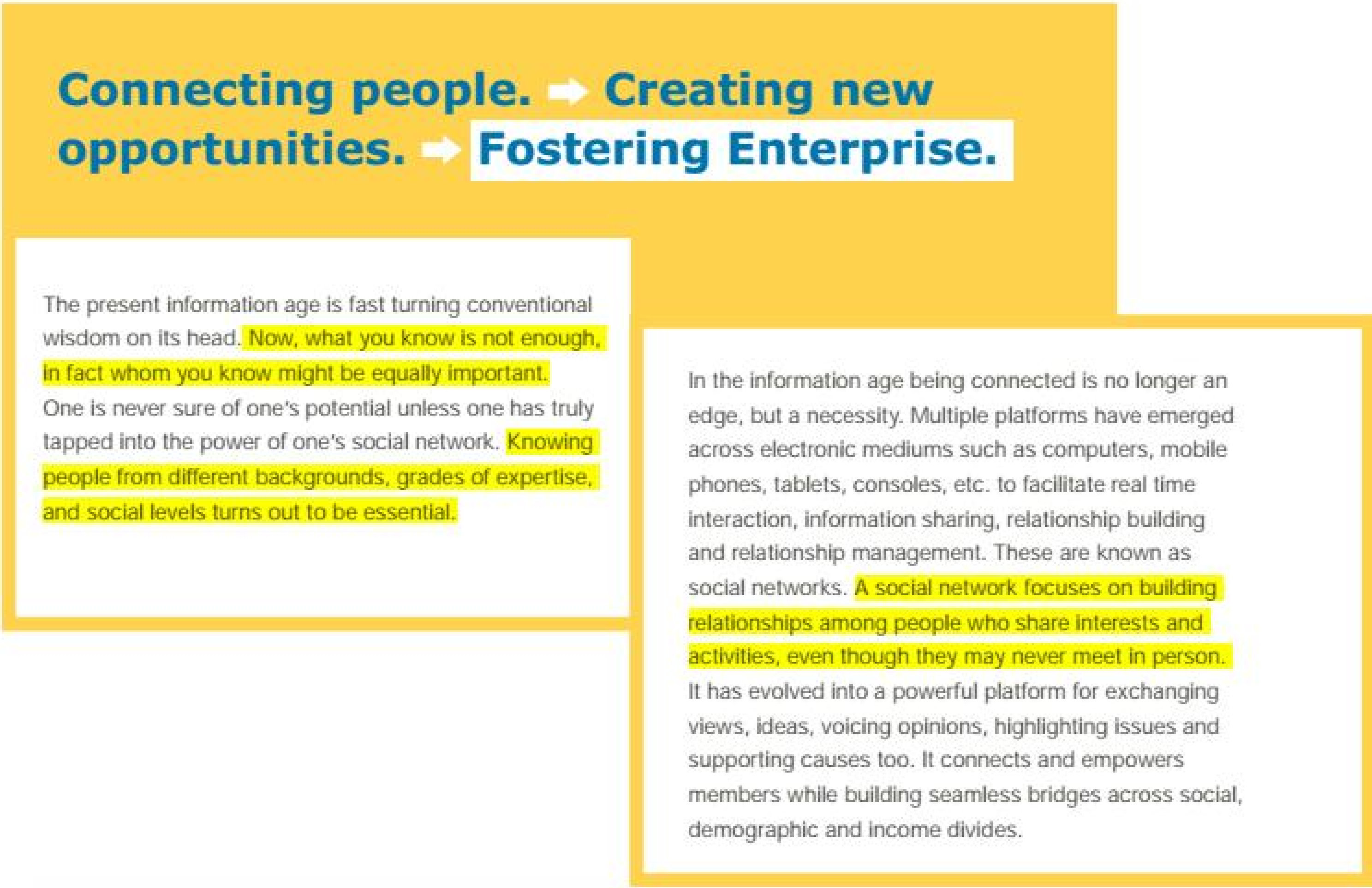


Diversified into other CV & construction equipment, as existing cutomers expanded their ops

to be a new segment. We feel the only segment we finance is the first time users and SRTOs. We have financed assets that are largely demanded by these segments. We initiated pre-owned truck financing as this segment can hardly afford to purchase new trucks. We extended our product focus to cover commercial vehicles and construction equipment as tippers, tractors and passenger vehicle to our existing customers. With economic activity increasing, many of our customers are getting into newer business opportunities like sub contracting construction activity, buying tractors which are again used for lots of commercial activities along with agricultural activities. Similarly many of our customers are getting in to passenger vehicle operation as road infrastructure has improved. As an extension of our product range, we initiated financing of new commercial vehicles for our existing customers that aspired to upgrade from pre-owned trucks.

Extract from Annual report

AR - 2011



Connecting people. Creating new opportunities. Fostering Enterprise.
The present information age is fast turning conventional wisdom on its head. Now, what you know is not enough, in fact whom you know might be equally important. One is never sure of one's potential unless one has truly tapped into the power of one's social network. Knowing people from different backgrounds, grades of expertise, and social levels turns out to be essential.
In the information age being connected is no longer an edge, but a necessity. Multiple platforms have emerged across electronic mediums such as computers, mobile phones, tablets, consoles, etc. to facilitate real time interaction, information sharing, relationship building and relationship management. These are known as social networks. A social network focuses on building relationships among people who share interests and activities, even though they may never meet in person. It has evolved into a powerful platform for exchanging views, ideas, voicing opinions, highlighting issues and supporting causes too. It connects and empowers members while building seamless bridges across social, demographic and income divides.

CV Industry

Gross

- **Major Classification of CV Industry**

  Light Commercial Vehicle (LCV) – Goods & Carriage Vehicle with light capacity with Minimum Permissible Capacity (MPC) of 7 – 11 tons

  Medium Commercial Vehicle (MCV) – Single Axle Vehicle used mainly for the carriage of perishable goods with MPC of 16 tons of Mass

  Heavy Commercial Vehicle (HCV) – Dingle Axle Vehicle used mainly for the carriage of non-perishable goods with MPC of 17 to 25 tons of Mass

- **Major CV Financiers in India**

  Cholamandalam Finance, Sundaram Finance, AU Finance, Shriram Transport Finance, Magma, L&T, M&M, Religare, Tata Motors, Reliance

Last mile connectivity vehicles like Dost 1-2 Tons

2004: Golden Quadrilateral project during NDA rule was major trigger for HCV growth

- *Road expansion*: The ongoing Golden Quadrilateral project is expected to add to the country's road network, linking the metro cities of Kolkata, New Delhi, Chennai and Mumbai with a wider and better road coverage. This will accelerate commercial vehicle sector growth from 32 per cent in 2002-03 and 36 per cent in 2003-04 to higher levels.

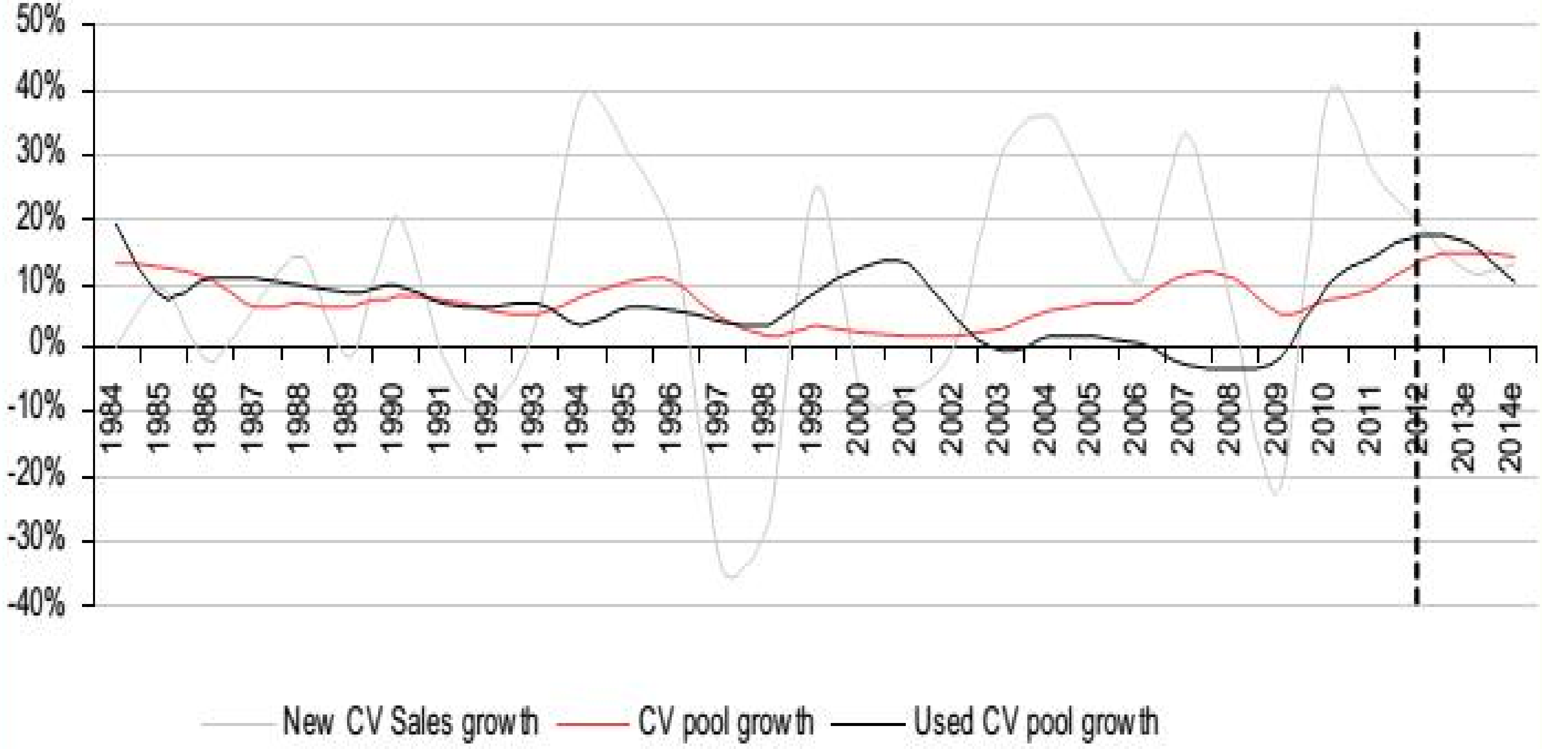
ROAD INDUSTRY

Historically, India's immense road transport potential could not be tapped due to the lack of a robust road network. Today, this could soon change as India's infrastructure has embarked upon a significant road development programme, one of the biggest in the world within a compressed duration.

The National Highways Development Programme is a major initiative towards qualitative and quantitative enhancement of India's national highways, involving the development and 4/6 laning of about 13,150 km of roads at a cost of over Rs. 54,000 crore (1998-99 costs).

Wider and better highways is expected to reduce the turnaround time for goods carriers and facilitate the introduction of the more efficient multi-axle trucks. The offtake of commercial vehicles, which grew 34.6 percent during April-November 2003, is poised to strengthen further; your Company has strengthened its capabilities to capitalize on this opportunity in exchange for sustainable growth.

Chart 1: CV pool growth and used CV pool growth showing much more stable trends than new CV growth



Source: SIAM, HSBC

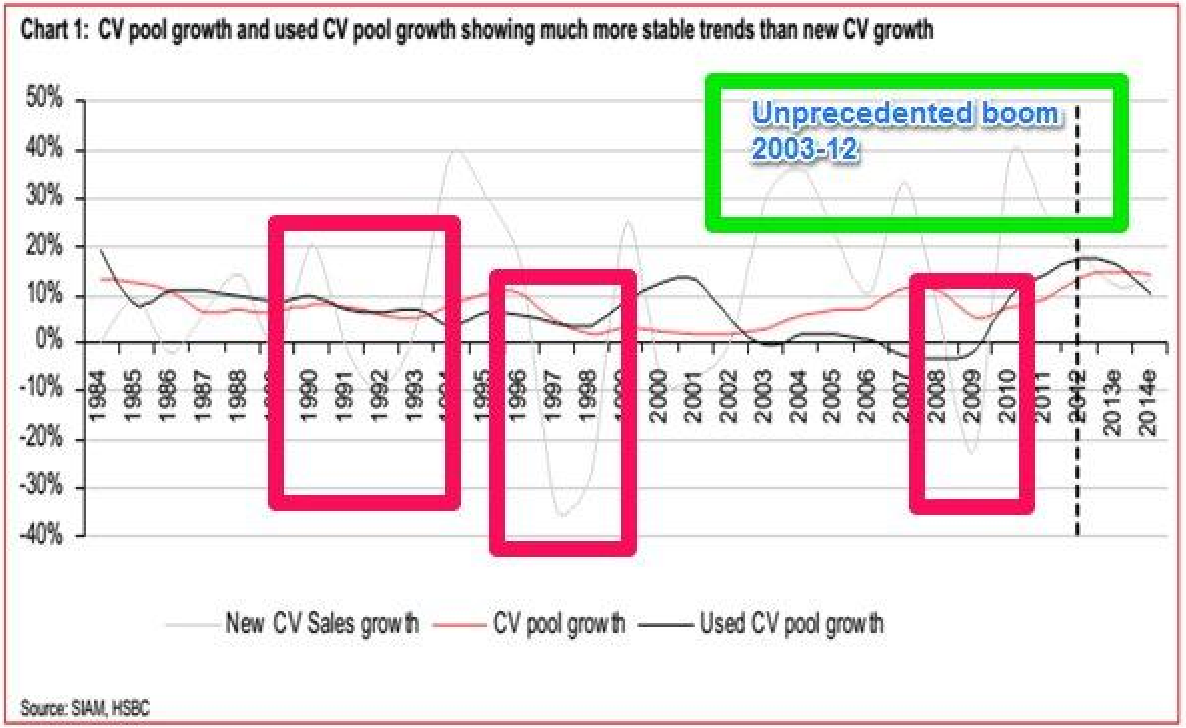
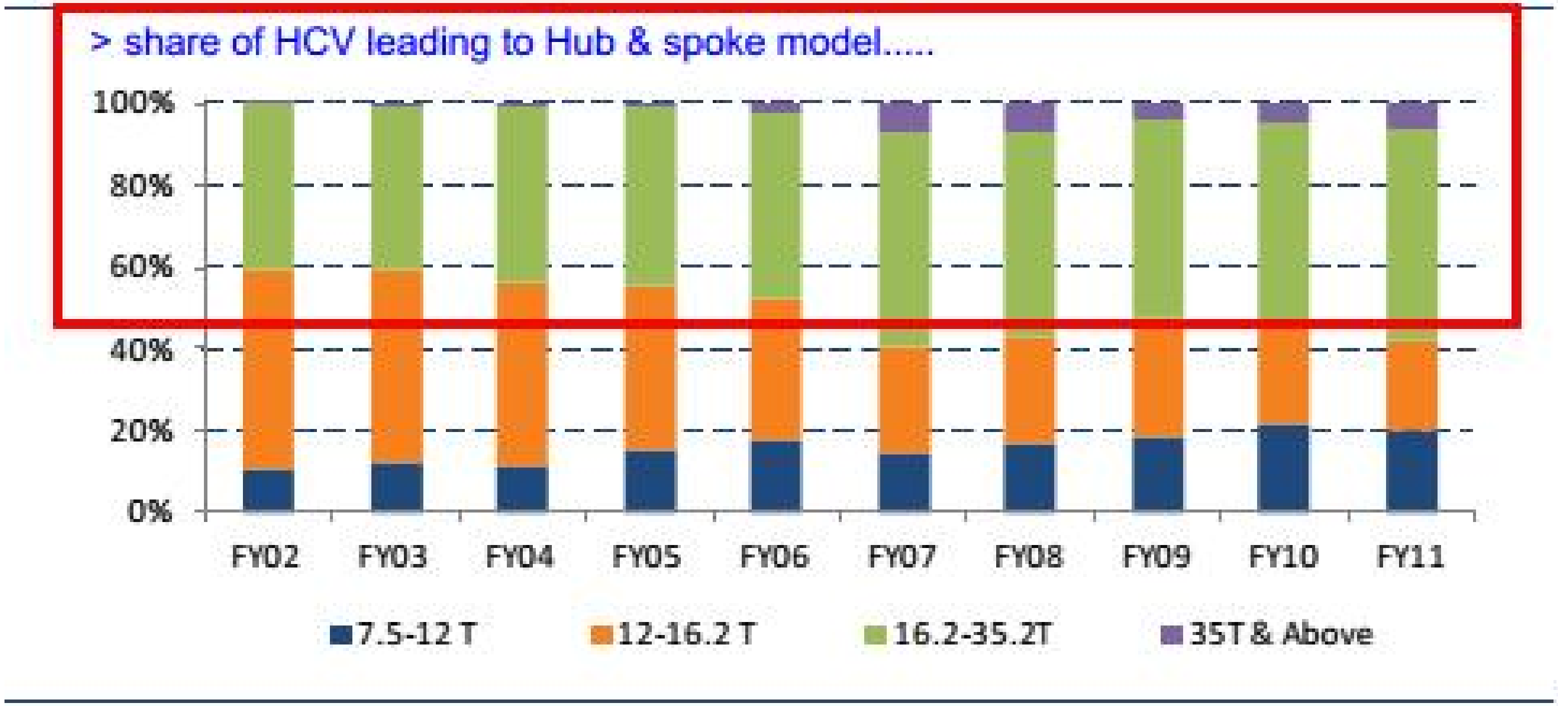


Chart 1: CV pool growth and used CV pool growth showing much more stable trends than new CV growth
Unprecedented boom
2003-12
50%
40%
30%
20%
10%
0%
-10%
-20%
-30%
-40%
1984
1985
1986
1987
1988
1990
1991
1992
1993
1995
1996
1997
1998
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013e
2014e
New CV Sales growth
CV pool growth
Used CV pool growth
Source: SIAM, HSBC

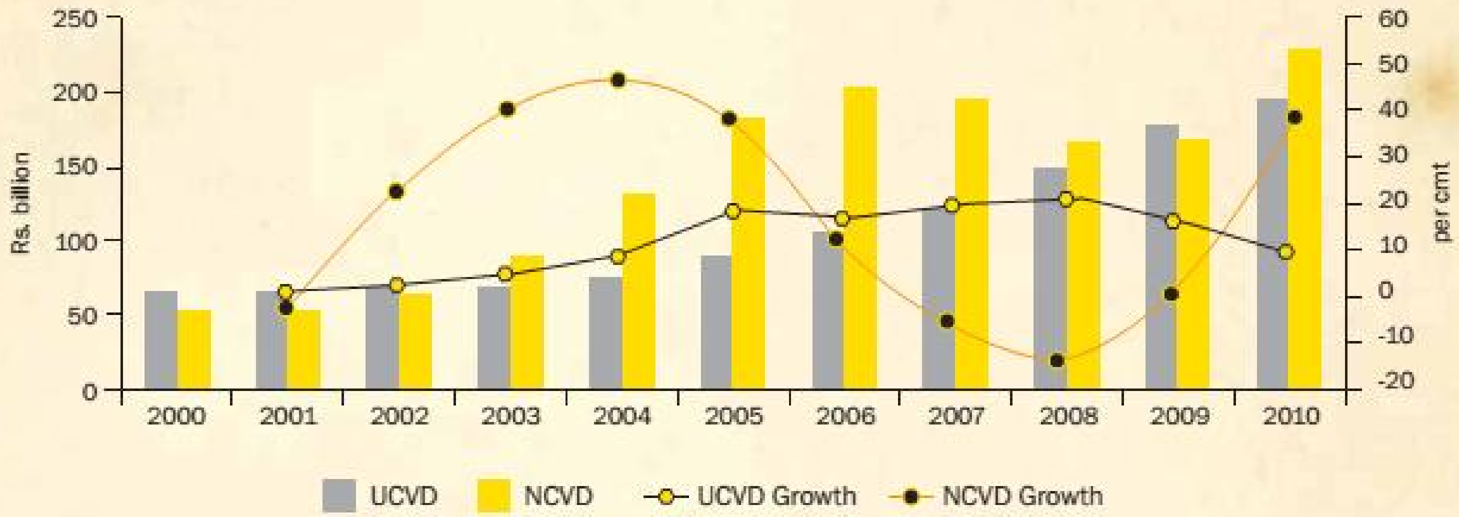
Exhibit 7: Trend in Tonnage-wise Mix in M&HCV



The trucking industry is going through some changes. In the M&HCV segment, the share of heavy-duty, long-haulage trucks (16T+) is increasing, on account of improving road and highway infrastructure as well as increasing availability of such vehicles. In the LCV goods segment, share of sub 1T segment is on the rise with the emergence of the hub-and-spoke model and increasing demand for last mile connectivity.

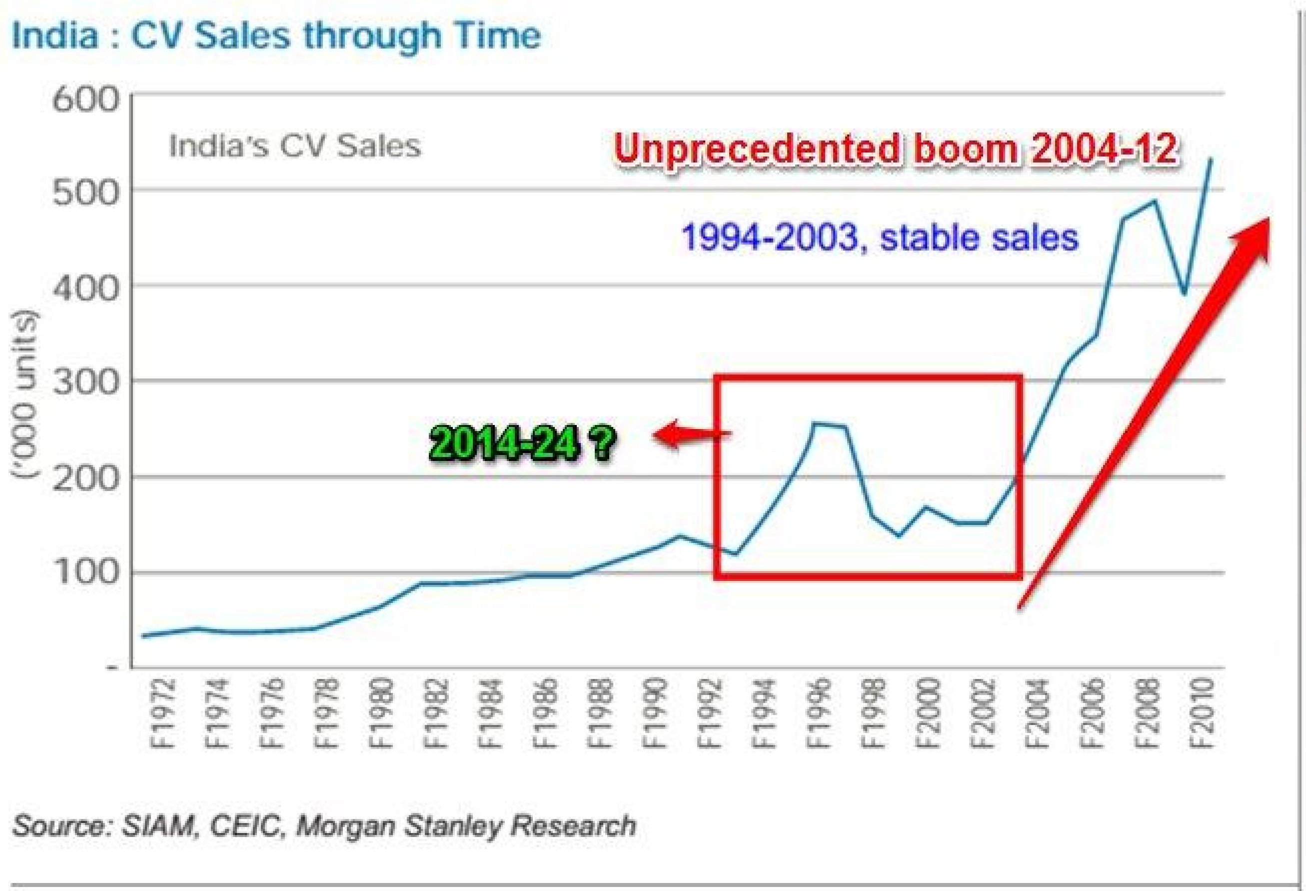
PRE-OWNED CVS – IMMUNE TO CYCLICALITY

Disbursements in used CV finance immune to cyclicality in new CV sales



Source : CRS INFAC

As compared to the growth in new CVs, the pre-owned CV demand is non-cyclical, on account of being low-ticket size and consistent demand. The segment offers attractive yields as compared to new CVs. The main reason being the lack of finance available from organised players is their higher risk perception, due to higher mobility of the borrower as well as lack of banking culture among the customer segments.


India : CV Sales through Time
India's CV Sales
Unprecedented boom 2004-12
1994-2003, stable sales
2014-24 ?
('000 units)
600
500
400
300
200
100
-
F1972
F1974
F1976
F1978
F1980
F1982
F1984
F1986
F1988
F1990
F1992
F1994
F1996
F1998
F2000
F2002
F2004
F2006
F2008
F2010
Source: SIAM, CEIC, Morgan Stanley Research

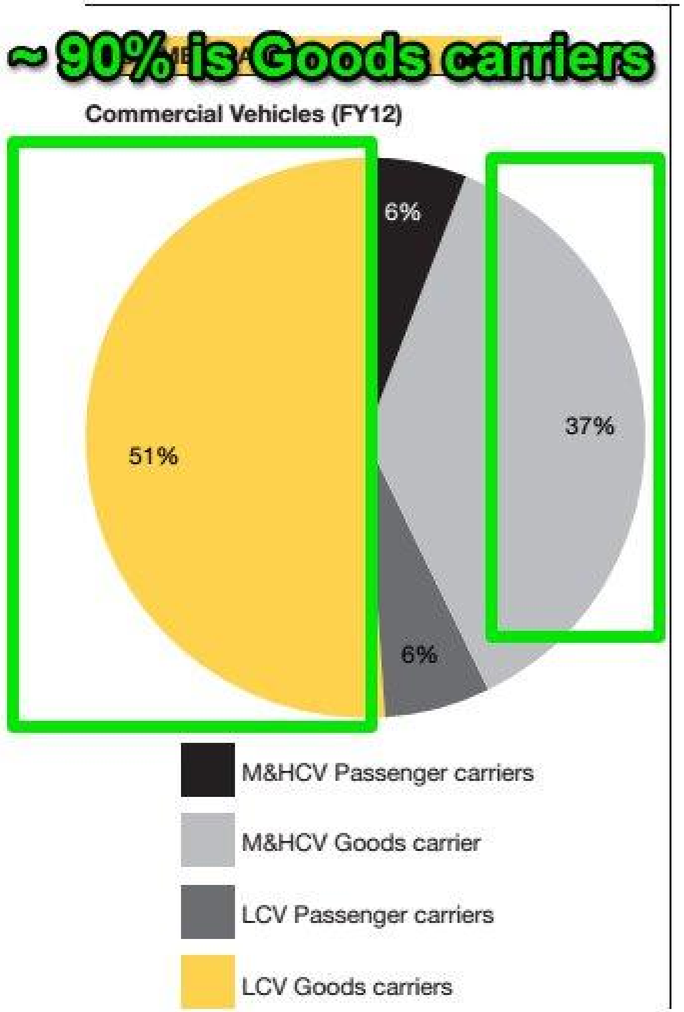

~ 90% is Goods carriers
Commercial Vehicles (FY12)
6%
37%
51%
6%
M&HCV Passenger carriers
M&HCV Goods carrier
LCV Passenger carriers
LCV Goods carriers

Chart 25: Road infrastructure in India: 80% of roads are in villages, implying huge potential for last-mile connectivity

Indian road network	Approximate length (in Km)	Percentage of total
Expressways	200	0.0%
National highways	70,548	2.1%
State highways	131,899	4.0%
Major district roads	467,763	14.1%
Village roads	2,650,000	79.8%
Total	**3,320,410**	**100.0%**

Source: SHTH NCD Prospectus

Umesh Revankar:

Sept - 2011

1) 2008-09 downturn only for 9 months, shortest ever

2) New downturn started quite fast, compared to old cycles

3) 70-80% of demand for CV which company finances comes from rural areas and agricultural produce...

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

Small operators got impacted due to flat sales of heavy vehicles which indicate that economy is not doing well.

Mar-2012

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

Dec-2008, if NEW CV decline for LONG time, pre-owned sales will ALSO decline

R. Sridhar: If this situation continues for a couple of years it will come, the freight movement is there, see earlier 4 lakhs trucks were selling, now it has come down to 2.5 lakhs excess capacity is still being added into the system that means the existing trucks have business, so the existing trucks do change hands that is what we found, so there are many people who sell and many new comers who will come and buy the trucks, when the new vehicle sales goes, so there is enough demand for old vehicles also. People do not buy new trucks, they come and buy old trucks. So we have enough demand; however, having said that it was not like earlier times, so if the lull continues for more time in the new vehicles, it will catch up with the old trucks also, but as of now it is not there.

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

New vehicle slowndown, increase in prices of old vehicles, for sometime demand slows down...

PREDICTING CYCLE MAY NOT HELP

Despite deep contraction during 1992, 1998, 2008

But beware of low base effect, low penetration prior to 2008

- **1979**
  Started operations
- **1980s**
  Income and AUM increased @ CAGR of 65% and 66% respectively
- **1990s**
  Income and AUM increased @ CAGR of 45% and 35% respectively
- **2000-08**
  Income and AUM increased @ CAGR of 51% and 72% respectively

R Sridhar:

Relationship between GDp and CV cycle growth...

Dec-2010

The CV cycle depends on the GDP growth, the GDP growth if it is around 8%-9% CV increase should happen one-and-a-half times around 13% to 15% it should grow and if you put a reasonable 10% to 15% of replacement it should go around 25% if GDP grows by 8%-9%. Normally when the 8%-9% continues for about two or three years the growth is more than the 20% or 25% and in that process the overcapacity gets built and that is where the freight rates come under pressure and the truck operator finds it difficult to get load and the other cycle will start. When that will happen is anybody's guess, but today it has been on the upward curve for the past 18 months and now we are in a situation where the liquidity is going to get tightened because interest rates are going to go up and these two factors are the only thing but that may trigger a lull so we have to wait and see for the next six months how this is going to start the other cycle, nobody can predict when it will happen.

R Sridhar:

Second hand vehicles less cyclical...

The secondhand vehicles are not impacted by the cyclicality because secondhand vehicles are already in the capacity it changes from one person to another. It does not add more capacity so we have always maintained that secondhand vehicles are much superior than new vehicles in terms of capacity built up so we are only facilitating through our funding, vehicles shifting from one person to another, so we are not adding any capacity so that does not affect and get into any cycle.

2005: Trying to predict cycle might be a futile attempt, overcapacity and severe slump will keep happening

Modernisation of trucks

Truck manufacturers and operators agree that the trucking industry suffers from a situation of glut.

At Shriram, we finance a range of trucks – from the new to the 8-year-olds. In doing so, we lubricate the pre-owned trucks market and facilitate Application Changeover, which is essential to protect the trade from the dangers of oversupply and low freights.

When we help a customer buy a four year old truck, simultaneously, we enable him to sell off his eight year old truck by financing the buyer of that truck. Thus we help bring about an orderly flow of trucks through various stages of its life cycle.

In the last five years we at Shriram have brought about a sea change by making available large amount of low cost funds in the pre-owned trucks segment.

By arranging for a smooth delivery of credit to all the constituents of the trade, we help to modernise the national fleet of trucks.

Exhibit 14: Sub par GDP vs strong truck sales in FY09-12 to lead to overcapacity

# of years	Year	Truck sales CAGR	GDP (Ind) CAGR
5	FY81-86	-3.8	5.1
4	FY86-90	15.4	7.2
3	FY90-93	-14.1	3.6
4	FY93-97	29.2	8.1
4	FY97-01	-16.4	5.0
7	FY01-08	22.4	8.3
1	FY08-09	-36.3	4.4
3	FY09-12	26.1	6.3

Source: SIAM, CMIE, Emkay Research

2004: 1993-2004 topline CAGR 27%, 1998 truck sales declined by ~ 50%, 1993-2004 sales CAGR 10%

Since 2004, funding only to Small operators

This decision was based on a structured understanding of risk, which comprised the following points of recognition:

* That since the small truck operator's truck represented his only means of livelihood, he would maximise its utilisation and generate a surplus adequate enough to pay his forthcoming installments.

* That Small Road Transport Operators were better placed since their entire operations were clearly based on the cash-and-carry system.

* That it was in the interest of the Small Road Transport Operators' business to maintain a clean repayment record, establish creditworthiness and create a foundation that would enable them to obtain finance for more trucks to meet growing requirements.

Based on this understanding of risk, Shriram Transport Finance Company went one step ahead. It financed pre-owned trucks at lower rates compared to local private financiers. This created a goodwill that generated a high degree of repeat business from existing customers, eliminating the scope for default. This retention of old customers and an accelerating enlistment of new ones generated a 27.30 per cent topline and 27.80 per cent bottomline CARG over the last decade.

Enabling Shriram Transport to emerge as the largest financier of pre-owned trucks in India.

BUSINESS MODEL


Shriram Transport
Finance Company Limited
Pre-owned and new commercial vehicles
and passenger vehicles financing
Shriram Equipment
Finance Company Limited
Pre-owned and new construction
equipment financing
Shriram Automall India Limited
• Automall • New Look • One Stop

OWNERSHIP TREND IN CVS

Shriram Transport caters to small truck operators (STO – owning less than five trucks) and first-time users (FTU), and is currently the only organised player financing this segment (others are private financiers). STOs and FTUs control around 75 percent of the total truck fleet; however, they have poor freight origination skills and are therefore dependent on brokers for a majority of their contracts.

Dynamics of truck operators - -new v/s pre-owned trucks

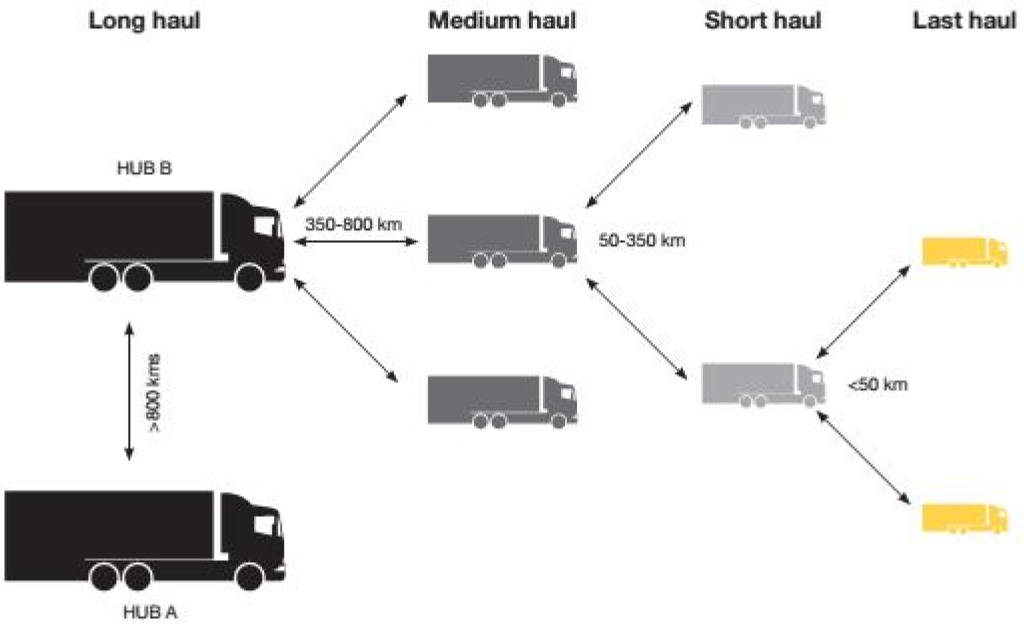
The large truck operators (LTOs) are freight originators as they carry a majority of the bulk loads owing to their extensive network and therefore ply mostly on the metro and inter-state routes. Due to longer haulages, LTOs primarily rely on new trucks, as operational expenditure and the possibility of breakdown is lower. They usually sell trucks older than 4–5 years to STOs who primarily use these vehicles on tier-II routes. The trucks are resold once again after 3–5 years as they become unsuitable for tier-II routes and are allocated for smaller routes.

Figure 1: Pre-owned CVS - operating and financing dynamics

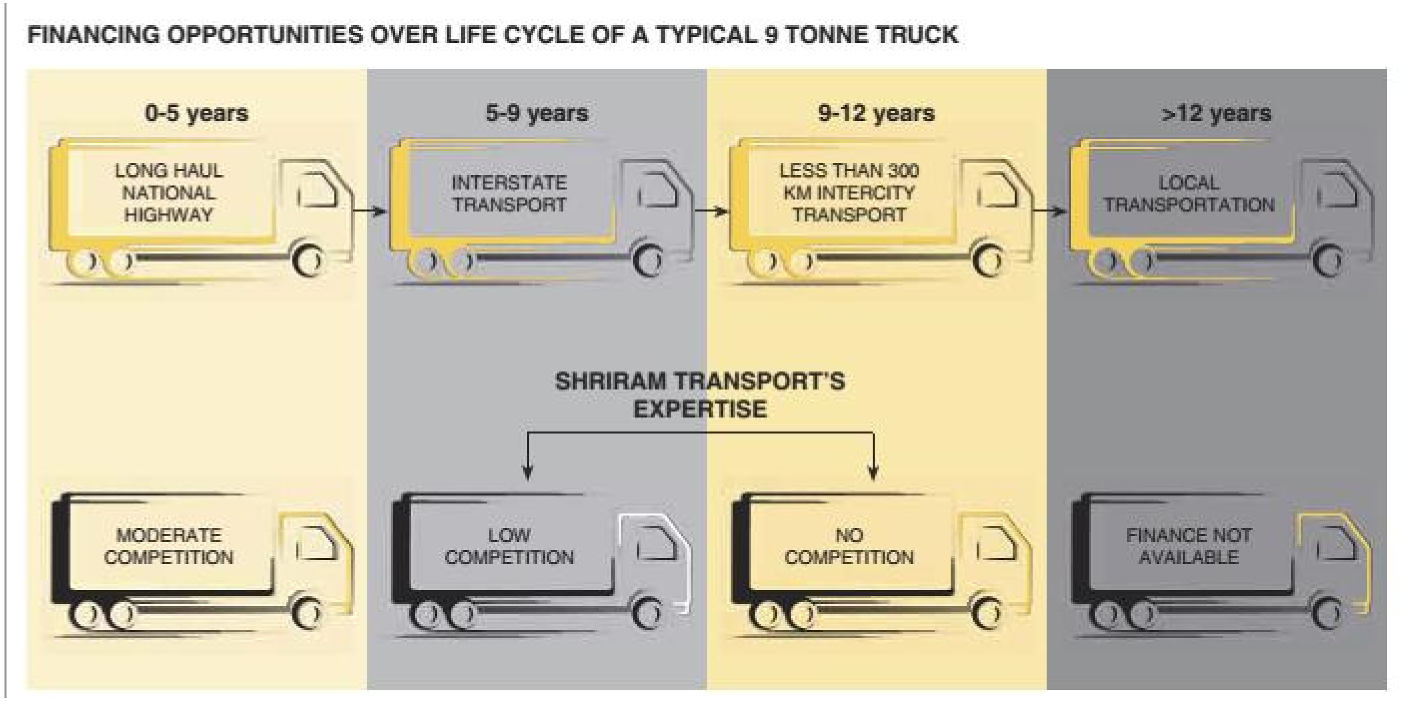
Age of CV=>	0-5 years	5-9 years	9-12 years	>12 years
Typical route of plying	Long haul National Highway	Medium Haul Interstate Transport	Short Haul Intercity Transport	Last Haul Local Transportation
Typical plying distance	>800 KMS	350-800 KM	50-350 KM	<50 KM
Competition in Financing	High to moderate competition (HDFC Bank, Indus Ind bank, ICICI Bank, Cholamandal am, Sundaram, Mag	Moderate-to-low competition (Shriram Transport, Magma Fincorp, Cholamand alam)	No competition (Shriram Transport and private financers)	Finance Not Available
Typical yields on Financing	13-16%	18-24%		NA
Financing market Size and % breakup	₹920 bn (38%)	₹750 bn (42%)		₹180bn (20%)

Source: Company, CRISIL Research

DISTRIBUTION CHAIN – HUB AND SPOKE MODEL



Source: Avendus Research


FINANCING OPPORTUNITIES OVER LIFE CYCLE OF A TYPICAL 9 TONNE TRUCK
0-5 years
5-9 years
9-12 years
>12 years
LONG HAUL NATIONAL HIGHWAY
INTERSTATE TRANSPORT
LESS THAN 300 KM INTERCITY TRANSPORT
LOCAL TRANSPORTATION
SHRIRAM TRANSPORT'S EXPERTISE
MODERATE COMPETITION
LOW COMPETITION
NO COMPETITION
FINANCE NOT AVAILABLE

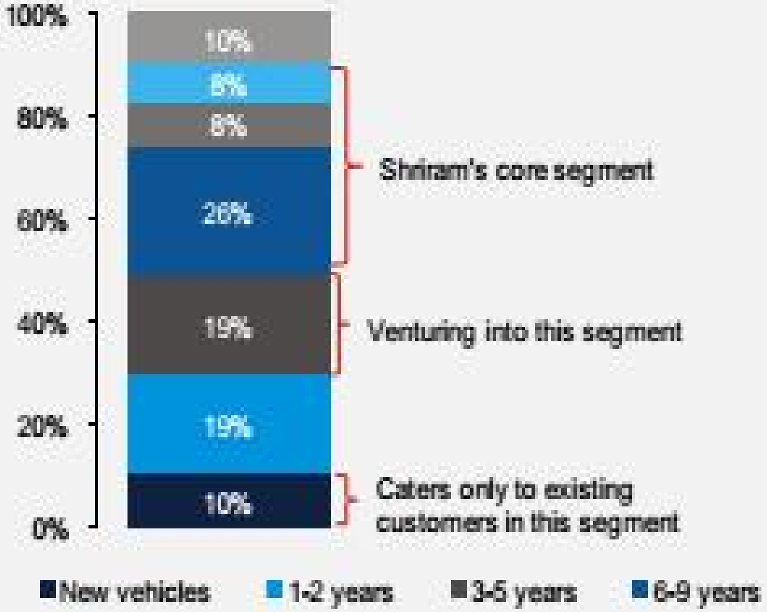
AR 2013

Table 9: SHTF's focus customer

	Used CVs	New CV
Portfolio breakup	80%	20%
Operator	SRTO with up to 3 CVs or FTUs	Earlier SRTOs that have graduated to larger fleets up to 5-7 CVs
Loan ticket size	INR 300,000 - 325,000	INR 550,000 - 600,000
Loan-to-value ratio	Around 60-65%	~around 0-75%
Loan yields	18-20%	15-16%
CV Tonnage	Mainly 1T – 16T	Mainly 16T to 25T
CV segment	SCV and LCV	LCV and M&HCV
Banking habits	Unbanked with no credit history	Recent credit history
Scope of operation	Intrastate – 200-500 kms	Interstate >500 kms
Businesses serviced	Mainly cash and carry business	Mainly industrial and mining

Source: Company data, HSBC

Age-wise mix of goods M&HCV (ex-Tippers) in India



Source: Company, CRISIL Research

AR 2004 – Collection efficiency

The company strengthened its collection function through the following initiatives:

• It decentralized the disbursement and collection functions across its 179 branches, making their respective branch managers singularly responsible for their effectiveness.

* It commissioned Pricewaterhouse Coopers to evaluate and measure the company's collection efficiency across the parameters of efficiency, recovery and timeliness. While the first two indicated collections as a proportion of the collectible, the third one measured the average delay in doing so.

Result: based on a sample of 1450 contracts, average management efficiency (the extent to which the contracted internal rate of return was achieved) stood at a high 90.93 per cent. Total recovery factor (net amount recovered as a proportion of the total amount recoverable) was an impressive 94.28 per cent. And timeliness factor (average delay in collection due for a contract) stood at a fair 51 days.

Based on this credible foundation, Citicorp Finance - the financial services arm of the world's largest bank - emerged as the biggest purchaser of the company's securitised loans.

AR – 2004 – Credit Policy

The company's relationship-centricapproach covers the following initiatives:

* Existing customers, based on their experience and satisfaction with the company, bring in new customers.

» It prefers to substitute the use of formal credit evaluation tools such as IT returns and bank statements in the assessment of customer credibility with the use of a personal interview to understand the customer's proposed business model.

* It recruits individuals with a longstanding resident exposure in the location of the branch offices so that they may leverage their sensitised understanding of the locational needs and culture into day-to-day management.

● It encourages field officers to visit customer premises each month to collect installments, providing not just an opportunity for efficient collection but also to understand the customer's growing business needs and suggest measures for revenue enhancement.

Result: This relationship-driven approach helped the company minimise customer attrition and report a 39.70 CAGR in the number of trucks financed by it over the last decade.

Consistent credit policy atleast since 2004

At a time when most banks and financial institutions played safe by financing only the new truck segment, Shriram Transport Finance Company customised a comprehensive de-risking strategy that could make this activity safe and profitable. In doing so, it reconciled retail-driven growth with a protected asset quality at all times.

This compatibility was derived through a unique business and cultural understanding: lumpy inflows, cash collections and the need to occasionally track owner-drivers across India for payments.

The company mitigated its business risk through the following responsible initiatives:

- The authority and accountability for loan origination and collection was delegated to its branches.
- It incentivised field officers for 100 per cent collections.
- It strengthened workplace motivation through a recruitment only at the grassroots level (field officers) and implementation of all promotions from within.
- Its branch managers studied the vehicle intended to be financed to arrive at its right value through a comprehensive estimation capability.
- It escalated the collections responsibility within its organisational pyramid in proportion with the ageing of the default instance.
- It maintained a hands-on interaction with the customer, the trade and market intelligence.
- It ensured that a third of the value of trucks was contributed by the borrower, establishing a partnership where the company emerged as the financing partner and the truck owner the working partner.

33% financed by customers

Result: gross non-performing assets declined from 3.69 per cent of the gross loaned • assets in 2001-02 to 2.32 per cent in 2003-04; net non-performing assets declined from 0.95 per cent in 2001-02 to 0.5G per cent of net loaned assets in 2003-04, comparing favorably with peer group companies.

Decline in NPAs

2005: Consistent business model of focusing on Small operators and first time buyers of pre-owned vehicle

Presence and position

- Primary focus on the disbursement of loans to first-time users and small road transport operators (more than three-fourths of the total commercial vehicle space in India); growing presence in the disbursement of loans for the acquisition of new trucks through the PMS route on behalf of Citibank, UTI Bank and ICICI Bank.
- Dominates the niche of financing pre-owned trucks in India's commercial vehicle financing business.
- Presence all over India with control systems, strong

Same business model now being extended to 3W Cars, Tractors and construction equipment....

2004: Institutionalised intermediary service for auctioning of pre-owned vehicles and refurbishment of pre-owned vehicles. In 2010 hived off this ops to a wholly owned subsidiary....Auto Malls

In a pre-owned truck where the value of the truck is generally a influenced by a set of estimations, the company has institutionalised an intermediary service that accuracy in valuation, stability in pricing convenience **in re-purchase.** In doing so, the company **is enhancing** not only its reputation but also that of its industry.

This industry service has been achieved through the following initiatives:

- The commissioning of a new company - Shriram Recon Trucks - to modernise pre-owned truck industry practices.

» The facilitation of truck exchange, commissioning of pre-owned truck showrooms, certified reconditioned trucks and providing a website-driven tracking facility for the growing population of pre-owned trucks in India.

Result: In extending its pioneering pre-owned truck segment presence to new truck financing, the company has emerged as the only one of its kind in India, servicing the comprehensive needs of India's truck industry with a one-stop solution.

Automalls

Similarly, the Company also identified an attractive opportunity to monetise its reach through an initiative called Automalls. The Company has initiated measures to develop pre-owned CV hubs across India called 'Automalls' through a wholly owned subsidiary – Shriram Automall India Limited. Automalls will provide a ready platform for buying and selling of pre-owned CVs. The platform would be used by the Company to earn a fee based income as well as strengthen its product valuation knowledge. The first Automall is expected to begin operations by second quarter of this year. Another 50-60 Automalls are expected to come up over the next 12-18 months. The Company is also planning to set up a workshop at these Automalls, where some of the CVs will be refurbished and sold under the brand name 'Shriram New Look'. The Company is also setting up electronic touch screen kiosks (under the brand name 'One Stop') across these Automalls and branch offices, through which its customers will be able to access real-time data on pre-owned CVs available for sale.

Backward integration: Selling repossed trucks simpler....

AR 2010

Dec-2009

Truck bazaar

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.

2005: Win-Win situation for everyone. Less focus on NEW vehicles because truck owners do not have ENOUGH equity to fund loans, so pre-owned vehicle finance better

CSR

The main objective of your Company is to make available cheaper credit to the credit starved segment of small truck owners and pre-owned trucks. When we started lending to the Small Truck Owner to buy new trucks, we found a mismatch between their Aspiration and Ability. The truck operator was basically honest but the equity at his command was not sufficient to support the credit levels required to buy a new truck.

We did not have the heart to send the truck operator back empty handed; we decided to think out-of-the-box and fund pre-owned trucks. This was the most momentous decision that we made. What followed was sheer magic.

Funds pre-owned trucks where equity not sufficient to buy new trucks by drivers.

2005: One of the few NBFC to focus on brand building. Also launched top up finance for tyres insurance etc

Your Company has also decided to adopt a strong brand building approach in order to increase its visibility and recognition in the marketplace. Unique to the NBFC domain and in particular, to the commercial vehicle finance industry, we have signed up a "Brand Ambassador". We plan to introduce many customer related products, which fulfills the working capital requirements of our customers like tyre finance, accident finance, and engine reconditioning / change finance. We also propose to introduce diversified financial products such as credit cards exclusively for truck owners and challan discounting facilities shortly. These initiatives are expected to increase our disbursements substantially.

Vertically Integrated Business

STFCL is now in an ideal position in understanding its customer's total credit requirements and has recently launched a slew of products designed to make a trucker's life more comfortable, such as accidental repair loans, tyre loans, and top-up loans. This has also helped the Company to build a vertically integrated business model, making STFCL a one-stop-shop for truck operators needing finance. STFCL also plans to introduce unique schemes, such as free mobile phones, credit cards for truck owners and loyalty reward programmes in the near future.

2006: Appointed Dharmendra as brand Ambassador

Marketing Initiatives

In 2005-06, STFCL appointed film actor Dharmendra as its brand ambassador and extended advertising support to its field level executives. The Company is also currently running a corporate campaign designed and implemented by RK Swamy BBDO. These steps are designed to build and improve STFCL's corporate image and brand, which should further reinforce the Company's market leadership position.

low cost funds to fuel its growth.

KEY RISKS AND MITIGATION MEASURES

Porter's Five Forces analysis

Threat of entrants – LOW

- Unique business model backed by established relationships
- Three decades of industry presence
- Caters to a unique customer base comprising of SRTOs and FTUs.
- Established product valuation expertise

Supplier's bargaining power – MEDIUM

- Funds at competitive costs leads to strong margins
- Dependence on diverse sources
- ECB route not permitted

Competition – LOW

- First mover and leader in pre-owned CV financing
- Has created scalable model
- Has emerged as a banker to the pre-owned asset owners
- Highly unorganised industry, mainly run by private financiers

Customer's bargaining power – LOW

- Unique customer base, traditionally perceived 'risky' by the banks and organised financiers
- Unorganised financiers charge higher rates
- Lack of banking habits and higher mobility make the segment highly challenging to serve

Threat of substitutes – LOW

- Inability of FTUs to finance entire asset from their savings
- Valuation of pre-owned asset a major barrier for financing companies
- Only organised players can command grassroot presence through building large teams

Table 10: Why are the barriers to entry in the used CV finance business so high?

	Used CV	New CV
Loan execution duration	Takes some 15-30 days to execute a contract	Takes around 7-10 days to execute a contract
Average age of vehicles	5-12 years; vehicles change hands around 3-4 times over their entire life	New
Seller profile	The seller is the individual owning the CV, so a credit and ownership check needed for each seller	The seller is the manufacturer, so much simplified
Buyer profile	Usually a driver aspiring to be owner, therefore, a typical customer would be a first-time user (FTUs) or small road transport operator (SRTOs) owning around1-3 CVs	Usually established transport operators: larger SRTOs owning 5-10 CVs or fleet operators owning much larger fleets
Buyer credit check	Credit check of the buyer: typically, the buyer is an unbanked customer with no credit history, no collateral and no documents, so informal checks need to be made, which are very crucial; All new loans are backed by a guarantor, who is an existing CV borrower	Credit check is simpler: the customer usually owns large fleets and has an established credit history and existing banking relationships
Valuing the vehicle	Valuing vehicle is the most crucial part: it is necessary to know the history of the vehicle, such as the purpose it was used for, how well it was handled, any history of accidents, and the condition of engine, tyres and chassis for example.	Vehicles are financed at manufacturer's selling price
Contract execution process	Form filled and submitted to RTO to get the vehicle hypothecated in SHTF and the buyer's name – RC book of vehicle is checked with RTO to ensure that there is no fraud, this takes around 10 working days – SHTF releases cheque payment in favour of the seller	Again a very simplified process: the dealer gets the vehicle registered, there is no room for ownership fraud; the financier issues the cheque directly to the dealer
Collection mechanism	Mostly in the form of cash collection; SHTF collects around INR12-13bn each month of which some INR8-9bn is in cash	Established banking track record, so collection is mainly through formal banking channels and is simpler
Manpower	Needs locally recruited staff who understand the territory, language and preferences; SHTF has some 8,200 people who do the job of lending and collecting; The same person is responsible for both lending and collecting money; pay is variable and linked to lending targets achieved, returns generated on the portfolio and asset quality	Staff need not be locally recruited; disbursement and collection mechanisms are separate and carried out by two different teams

Source: Company data, HSBC

started tie up with private financiers in 2006 and by 2013 had more than 500 PF

What is the rationale behind partnering with smaller private financiers, when the company can dominate in the segment by opening dedicated centres in these geographies?

The private financiers dominate geographies on account of local knowledge and existing relationships. With the higher scale of operations, we at Shriram Transport are also faced with a challenge of preserving our asset quality, through maintaining a relationship-based model. Therefore, it was a prudent decision to grow with partnership and not through competition. While competition would restrict growth, partnerships will enable the company to tap a wider market without substantial dilution of direct relationships.

Would you throw some light on the potential that this partnership has to offer?

The potential is huge. This partnership will address a crucial gap – that of refinancing. The pre-owned vehicle segment has never been refinanced by the organised segment and we believe it holds a lot of potential. Moreover, by empowering the private financiers through funds, their ability to graduate their customers to the next level enhances substantially. This would also enable them to address additional opportunities such as repeat and referral businesses. Such opportunities would allow participation of potential consumers in related classes of vehicles like tractors, 3-wheelers, passenger vehicles, etc.

PF contributes between 5-10% to overall AUM

R. Sridhar Private financiers 2009- Sept	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 financers, 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
Net spread is same	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 financers 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.
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.

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

Diesel prices is not an issue

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.

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

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

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?

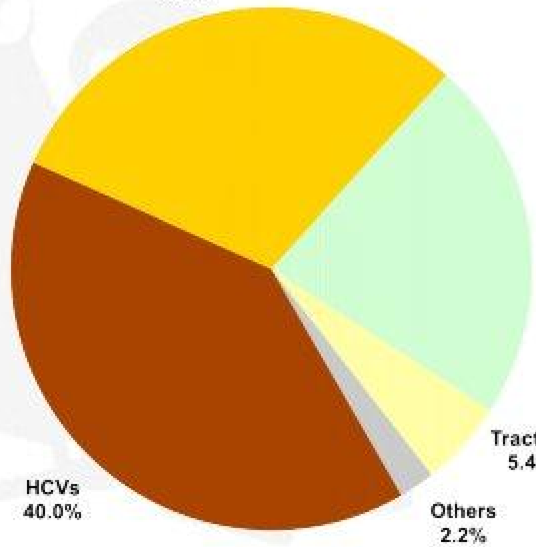
AUM MIX & NIM

Driven by Growing Assets

SHRIRAM
Commercial Vehicle Finance
GETS YOU GOING

Dec-2013

AUM BREAK-UP



Geographical Reach & Proximity to the Customer

SHRIRAM Commercial Vehicle Finance
GETS YOU GOING

Branch Locations Across India

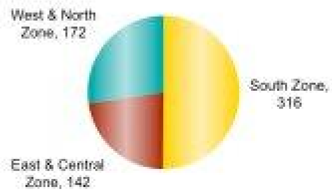
Pan-India Presence

630 Branch Offices & **575** Rural Centres

Tie up with **Appx. 500** Private Financiers

18,078 Employees including **11,243** Field Officers

Regional Split of Branches



As on December 31, 2013

8

Table 1: Shriram Transport - Business environment

	Used commercial vehicle financing	New commercial vehicle financing	Construction Equipment
Products offerings/market segmentation	■ Financing of used vehicles mainly aged between five and 12 years ■ Catering to driver-turned-operators (DTOs) and SRTOs ■ Financing of tyres, ancillary equipment	Mostly finances new vehicle buying by existing customers	Financing of new and pre-owned commercial equipment viz. forklifts, cranes, loaders
AUM (FY11) (₹ bn)	273	88	6.3
AUM (FY13) (₹ bn)	398	95	30
AUM (FY15E) (₹ bn)	550	106	43
AUM growth CAGR FY11-13	20.9%	3.9%	119%
AUM growth CAGR FY13-15			
Typical LTVs	50-60%	70-75%	80%
Typical yields	two-five years : 15%-16% five-12 years : 18%-24%	14-16%	16-18%
Key growth drivers	■ Growth in used vehicle population ■ Gain in market share from unorganised players ■ Increase in vehicle prices and LTVs	■ Growth in sales of new CVs, which in turn is linked to macro-economic factors	■ Growth in the construction sector
Competitors	■ **five-12 years:** Unorganised players ■ **two-five years :** Indus Ind Bank, Cholamandalam, Magma Fincorp	■ **Private sector banks:** Indus Ind Bank, HDFC Bank, ICICI Bank ■ **NBFCs:** Sundaram Finance, Cholamandalam Finance, Magma Fincorp ■ **Captive financer:** Tata Motors Commercial Vehicle Finance, Mahindra Finance	**NBFCs:** L&T Finance, Magma Fincorp, SREI Infrastructure

Source: Company, CRISIL Research

Umesh Revankar: We do not restructure loan, we allow more time for the customers to pay, so if it is in the four-bucket or five bucket it will remain that five bucket till he closes the loan, instead of 36 months he ends up paying 42 months that is what I mean.

No restructuring of loans

JUNE 2012

Umesh Revankar Rural, average ticket size is 2 lakhs and on the non-rural the growth has been good in Jharkhand, Bihar and some part of UP. Mostly eastern part other than Orissa has been growing quite well and mostly in LCVs and medium-commercial vehicle.

Rural avg ticket size is 2 lakhs

Sept 2012

Indian Economy and for Shriram. As far as us, our growth has been coming from rural market. And this is the geography -- new geography which we focused in the last nine months and that is giving us good dividend. We have nearly 300 rural centers which has given us a 50,000 new customers till now and it's growing.

Rural centres being converted into branches 5% already converted...

Dec-12

An one more important thing here is that some of the rural branches are really growing very big and last quarter 15 of rural centers we converted into the branch. So that should be the way would be growing in future. More and more rural centers would be

It is not that we were not there, but we wanted to be there in a much bigger share. So this particular segment has a competition from existing player and banks. So we need to offer the yield, which is comfortable to the customer and the ticket size being bigger, the lesser yield would help them to repay the loan better.

NIM declined because of focus on 2-6 yrs old vehicle where competition is little more and now company wants to present in this segment in big way

So this is the new segment, which we are trying to have a bigger market share, therefore the yields have come down a little.

Dec-12

2006: Company spoke about expanding financing to 3W, tractors and Cars, Jeeps and vans as far as 2006. Then why 3W,Tractors and cars , financing still remain marginal.

Expansion of product Basket

- Majority of STFCL's business is concentrated on single axle truck financing as the Company has been focusing primarily on trucks and LCVs. In order to address a wider market base, the Company plans to add more verticals to its business in the near future. During the year, STFCL entered the three wheeler and small trucks portfolio with a view to help drivers of this class of vehicles become owners. Going forward, it plans to enter funding of multi axle trucks, passenger commercial vehicles such as buses and vans, and multi-utility vehicles such as jeeps and vans. The Company also plans to focus more on tractor and agriculture equipment financing, which was started on an experimental basis in Southern India.

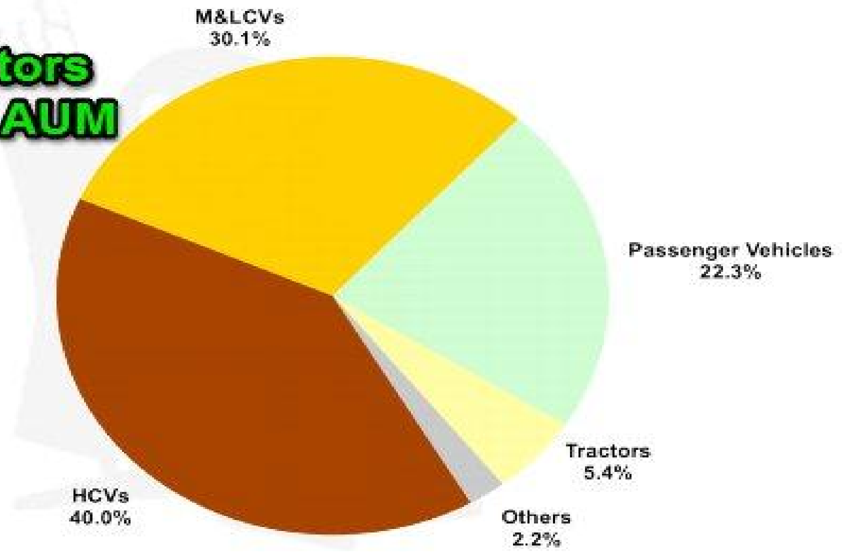
2007: Small trucks, passenger vehicles like buses, tractors to be scaled up in next three years

The year under consideration marks the addition of the three wheeler and the small trucks segments to the Company's existing portfolio. It envisions a national presence with the scaling up of these segments of business within the next 3 years. It has plans to instill focus on the tractor financing needs, which are already initiated in the Southern region. The funding of passenger commercial vehicles, such as buses and vans, are probable additions to STFCL's scope of offerings in the near future. Through these diversifications, the Company expects to become more broad based in its business portfolio.

More product portfolio...

Dec-13: PV and tractors contribute ~ 28% to AUM

AUM BREAK-UP



Ashish Sharma On the tractors part there are players like Mahindra & Mahindra Finance how do you see competition shaping up with players which already have a strong track record of, I mean, they are doing it for eight years I guess, tractor financing?

Tractors - only old tractors for commercial purpose & not farmers.

R. Sridhar See, that company is financing new tractors and we are mostly present in the old tractors. We are financing tractor operators who are using it for commercial purpose. I do not think they make any kind of distinction like that. Farmers also buy it from them. So it is totally a different segment.

DEC-2009

Ashish Sharma And the yields in the tractor financing would be quite higher yet?

R. Sridhar More, more. Yeah.

Umesh Revankar: Yes, I can explain it you. A person who has been owning a vehicle which is costing 2 lakhs and he was repaying he would like to move away to a vehicle which is costing 6 lakhs then to that extent his EMI goes up and if we are charging same rate of interest to him to maintain our NIM then his business becomes unviable, so the yield we are dropping to some extent for people who are moving in to newer vehicle. Now for a new vehicle for example banks are charging 11% and people who are taking a newer vehicle instead of new vehicle we would be charging somewhere between 15% to 16% instead of charging 18%, 19% for a older vehicle. So there is some drop in yield, which is consciously taken by us. So it is not that demand is there I can push everything on them and make it unviable for him, so business becomes unviable for a customer if he passes everything on.

For NEWER CV banks charges 11%, so company can charge maximum of 15-16%

June -2013

Mithun Soni: Sir is it possible to get the share of the two to five-year-old vehicles in our portfolio today?

Umesh Revankar: On incremental basis it is around 12% to 15%, but on the overall portfolio we are not very sure. We will confirm it and supply that to you.

2-5 year old vehicle share in incremental AUM is 12-15%

Mithun Soni: Sir about two years ago basically the share of the new vehicles was in the range of 24% of the total AUM so can we say that together the two to five-year-old vehicle and the new vehicles together should be in the same range, is that the way we are seeing or we see this as part of the used vehicle and to that extend we will try to build this portfolio?

Even if a vehicle is 2 days old, its shown under used vehicle segment

2) if NEWER vehicles considered part of NEW vehicles, then ratio of NEW is 25%

Umesh Revankar: On the paper it is used vehicle, the moment it is sold to certain party, even if it is two months old we consider it as a used vehicle, but as you rightly say yes it should be become a part of newer vehicle and new vehicle portfolio, if we add up it will come to almost same portfolio as what we are saying 24:76 or 25:75.

June 2013

Mar-2013

1) Repossession are not materially higher compared to historical rates
2) Repossession is the last option. We give enough time and hand hold customers in difficult time. Fine with showing higher NPAs..

Our reposition have not gone up, because see we always believe in managing the customer by building relationship and guiding him through a difficult time. Foreclosure is a last option and I have not -- we have not witnessed a bigger reposition in the last six months than what it was. It's a normal reposition where the customer feel that or we feel that customer is either in this line or customer is not able to manage his business only then the reposition happens.

So otherwise we don't normally go for aggressive r-position, we hand hold customer. So we don't mind showing higher NPA managing rather than going for a quicker foreclosure and reducing our NPA levels.

Unidentified Speaker

AVG age of vehicle financed is around 8 yrs

It's around eight years, approximately around eight, it's normally around eight to nine, but it would have been younger now by maybe half a year, for last one year, it had been in newer vehicle. So I should say that may be little lesser than eight now.

Mar-2013

Jatin Mamtani, Analyst

Hi sir. Thanks for taking my question. Just had couple of questions. One was that given that the portfolio shifting towards newer and low yielding vehicles, is that shift complete and if more remains than, should we expect further NIM contraction?

NIM will not contract, also entering into high yield areas in rural centres...

Umesh Revankar, Managing Director

It will be over - average overall portfolio, we are also getting into rural market where the high yield portfolio we are building. So we'll be averaging it out, so we'll not be getting totally into one sided and contracting. So simultaneously we are getting into rural market where we are getting higher yield. So as our rural market penetration improves, we would be able to average it out, so it is not going to be a permanent shift.

Mar-2013

/

R. Sridhar

Tractor - lends to people to give tractors on rent to farmers

Dec-2009

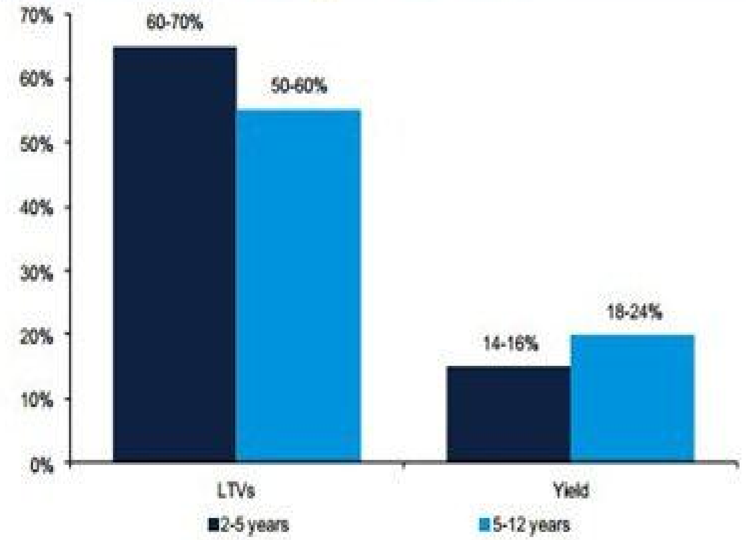
Intelligent in NOT lending to farmers

Ours is all commercial use only, because this carries goods as well as it is used for carrying people, everything for rent. And in our country in the rural places not all the farmers are capable of affording a tractor. So, many of the small farmers are taking tractors on rent. And old tractors, which we are financing to tractor operators with the rural economy is being hired by farmers. So when it is used for agricultural purpose he again gets the rent from the farmers. So to that extent it is used for agriculture purpose. But if you see the goods which is carrying that will also be from the agriculture space. It could be sugarcane, it could be wheat, it could be rice, it could be vegetable, it could be fruit. So everything is agriculture. And he will be carrying in the rural economy people who are passengers, mostly they are going from sugar mill to some farm. So if you see everything 100% it would be only for agriculture related. But it is used for commercial purpose by a different kind of person who is not a farmer. So our segment is totally different. But it is 100% used for commercial purpose.

STFC became aggresive in 2- 5 yrs old in 2012/13. June 2013 said 12-15% of incremental AUM, to preempt competition high disel prices putting pressure on older vehicles viability....

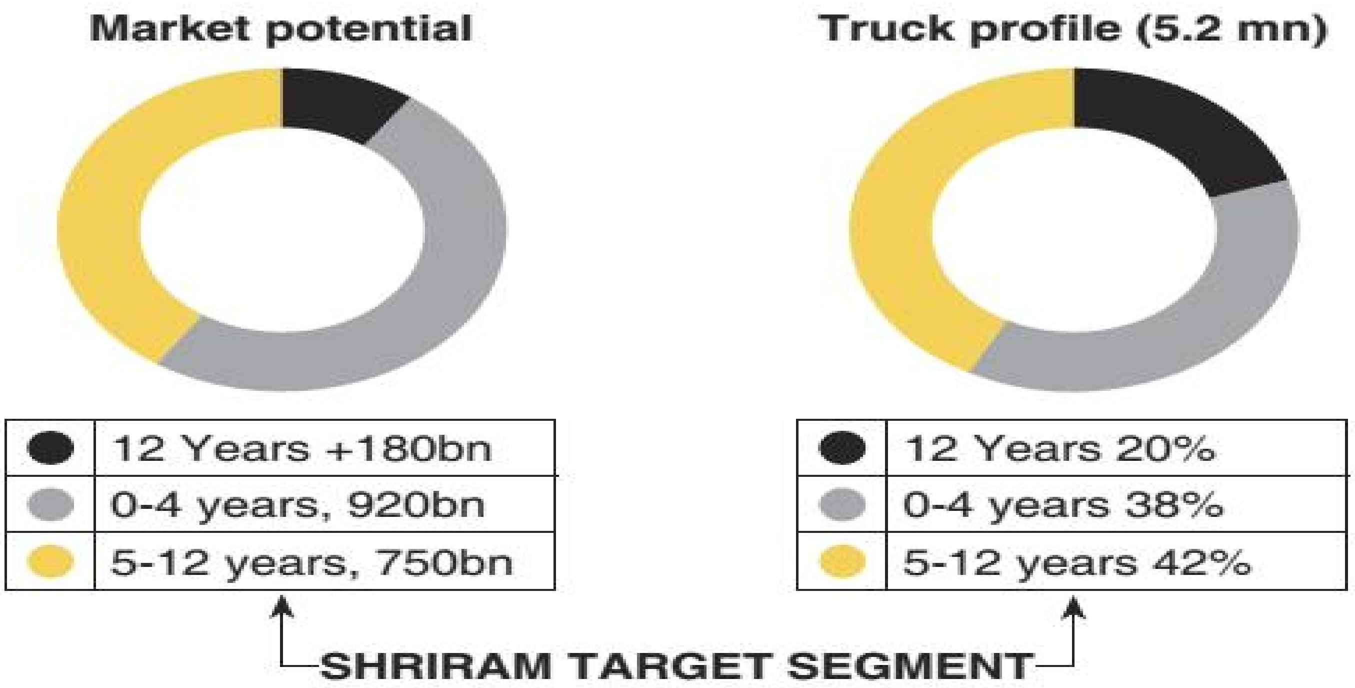
Despite lower interest company FOCUS ON WIN WIN SITUATION....

Figure 17: Two-five year old segment less lucrative



Source: CRISIL Research

MARKET SIZE, COMPETITION & GROWTH DRIVERS


Market potential
Truck profile (5.2 mn)
12 Years +180bn
0-4 years, 920bn
5-12 years, 750bn
12 Years 20%
0-4 years 38%
5-12 years 42%
SHRIRAM TARGET SEGMENT

AR 2013

Total AUM FY 13 50K crores. Is the growth sustainable. Current MD answered this question in FY 11 annual report. Yes it is 1) Shorter replacement period lead by new technologies by new players 2) Going Deeper in Rural 3) Targetting LCV

The answer lies simply in three words – Newer. Deeper. Lighter.

Newer

The world is coming to India. The top auto manufacturers around the globe have been setting operations on account of the low cost destination and moreover the huge demand led by demographic advantage and increasing consumption. This has led to the introduction of newer models in heavy, medium and light commercial vehicles category. The new models are getting affordable and they are also instigating growth in replacement demand. We feel that it's a win-win situation for us at Shriram Transport, since it will reduce ownership period of vehicles and at the same time expand the secondary market.

Deeper

More than 60% of Indian population resides in semi urban and rural area. To ensure scalable and sustainable growth, it is very important to tap the potential in these markets. On account of improved realisation of food grain prices and increased development of road network, the demand for commercial vehicles in rural and semi-urban areas have witnessed signs of rapid improvement.

Lighter

The LCVs have emerged as a leading segment in the wake of being a preferred mode of last mile connectivity, between hubs and spokes and the ultimate consumption centres. Unlike in the developed markets, where addition of each HCV results in four LCVs in the system, India falls way behind with a ratio of 1:1, offering huge potential for growth in the segment.

Size of opportunity is quite huge – June 2008

R Sridhar: See, your interpretation is quite correct. So, in spite of this we will be having our own, you know, potential to fund at least growing. The number of vehicles, which we can finance between 5 and 12 years - that keeps increasing. Also, the value of the vehicles is going up because new types of vehicles are coming in. So, the addressable potential of second hand trucks, which we can be funded keeps growing. So, even if we double our assets under management in the next three or four years our market share, that is, the penetration from the current 20 or 25%, will not get double because the potential is increasing. So, we can move to only maybe 30-35 - on one-fourth to one-third we will move. Even if we double our assets and management, the potential to fund is quite good.

Unidentified Speaker

1) Long period of lull in new CV sales will impact used CV sales...
2) Penetration level still is at 25%
3) Growth not a problem, more imp is to recruit employees....

You're right to the extent that in the uncertainties, used vehicle demand goes up, but new vehicle will always add as a catalyst. If a new vehicle sales come down over the period and it continues then the used vehicle transaction also over the period can come down.

Mar-2013

So there is always a supply of new vehicle has to be there in a system to trigger the sale from one person to another person. So if the new vehicle sales come down over the long period, because its already one year now, we are being year-on-year negative growth. That also significant in M&HCV to the extent of 32% and for LCV, minus 16. Only the small vehicles are growing at 16%. So if this continues for longer period another six month or one year, then over the period, the used vehicle transaction also will come down, because people will like to hold on to longer period. Even used vehicle did won't sell. So then that number of transaction could come down, see this is way, you cannot straight away say that everybody will shift to used vehicle, that's one.

And second, our penetration level also, we feel that our penetration level is around 25% to 30% depending upon the geography. We have not really penetrated into total used vehicle, even though we have at now rural centers, we have Automall, which is giving us new customer base. So it depends upon our ability to recruit new people, train them and put them on the job, because, if the customer base increases, we need more number of foot soldiers to be in touch with them, that relationship is very very important.

And critical for our business model, if we are -- so unless I increased number of man -- foot soldiers, I'll not be able to manage the expansion. So this year, we have grown by 23%, but we also recruited 1000 people. So we should be able to train all those people, put into production, normally it takes 6 to 9 months for a person to be recruited and being a productive. So our recruitment drive is on. So I would like to link more with my ability to recruit, train and retain them, because first one or two years becomes critical. Till they get adjusted to the environment, the customer otherwise people attrition at first six months or higher. So it is our ability to train people and manage, is more important to manage the growth than just growing because there is a demand.

Umesh Revankar:

Old and newer CV sales increasing

1) some people quitting business and selling their vehicles

2) SCV just 7 - 8 yrs old segment

3) Passenger & tractor growing fast at a very low base.....especially rural areas

4) Tractors growth is also good...

June - 2013

No, mainly because what is happening is some of the operators are quitting the business when they feel it is unviable, when they quit the business these vehicles are available for sales. So there are many people who are in this economic environment who would have expanded too fast are selling their vehicles and closing the loan that is what I get the feedback and therefore the supply of a vehicle between 2 to 5 is more that is one and as far as smaller commercial vehicle is concerned it is recent phenomena which is just seven years old and it is nothing to do with fleet operators it is all individuals only almost 95% of these vehicles would be small operators and individuals. So that sale is something which is very common, the moment it is two or three years old they sell and the another segment which we are actually growing is the passenger segment and tractor segment where our base was very small, the passenger vehicle sales have really gone up especially for rural transportation, if you look at the utility vehicle sales they have gone up significantly so our growth in the passenger and tractor is much higher in this semi-urban and rural market.

Competition

1) No competition in Old CV
2) Small players like AU finance or Marc Finance.... But they are very small.
2) New, yes it is. But STFC focus more on existing customers, no intention to grow aggressively. Don't give any payout to dealers....

JUNE 2012

Umesh Revankar: We have been trying to understand the competition, because we have been getting questions on that. In the niche segment of used vehicle I do not see any competition. I would like to make a statement because any of other lender like Sundaram finance or Cholamandalam Finance or IndusInd Bank they have not really got into used vehicle in a big way, if there are existing customers, they are giving some top of loan or may be extended loan or some buying and selling they may be doing, so I do not really see them as the competitor right now. There are small financiers like ~~RU~~ AU Finance and some Marc Finance, but they are lend approximately 40, 50 Crores in a month, so they are nowhere near our lending, so main component of lending comes from the private money lenders who are either organized or unorganized. There are some very organized small players. They are around 10000 to 12000 organized players in the used vehicle market and there are many unorganized who lend cash by just keeping the RC book with no document done, so there are so many players, so over the period as organized players put together, try to convocate then the market will become more some kind of used vehicle market will go up, so right now I do not really think we have any competition whatsoever as far as used vehicle is concerned. For the new vehicle, there is a competition, but traditionally Shriram has been lending, our lending to new vehicle has been upgrading our used vehicle customer. Used vehicle customer who upgrades himself for him, he used to give a new vehicle. We never went into the market to get a market share or very pride to grow on new vehicle very aggressively, but when the small commercial vehicle came into the scene may be around three years back, then automatically many of the customer, they came into Shriram fold because were the only people whoever having a maximum reach and spread and even the manufacturers and dealers they felt that Shriram is the best bet to deal with, so we had naturally people coming into us, in that particular space now there are players who are competing and I should say there are competing among themselves or not with actually Shriram, because each one of them are trying to find a space in dealer point by giving a payout to the dealers, so we do not do that and we believe that new vehicle business has to emerge from all existing customer base or reference, so we do not really go for a market share in the new vehicle.

Mix of people who buy

	Operators	Individuals
HCV	80%	20%
LCV	60%	40%
SCV	0%	100%

Growth drivers

1) Increase in diesel prices is pushing people to move towards NEWER vehicles compared to old vehicles

2) Second hand sale of SCV, segment which picked up in last 6-7 yrs

3) Passenger vehicle sales in rural areas

4) Sale of tractors have increased...

JUNE 2013

In small vehicle category that is less than 5 tonnes, it is always the small individuals who buy the vehicles. So what has happened is the 20% heavy vehicle buyers who would have purchased new vehicle they are preferring to buy a used vehicle which is available in the market at around 60% depreciated value and almost giving same return to them. So they are having a vehicle, which is costing them less, but usually with higher interest rate and their monthly EMIs are much smaller. So all these individual players who would have otherwise gone for new vehicle are preferring a used vehicle that is first and second one is there is also a push from the bottom, people who are buying used vehicle, older vehicle or having a old vehicle in home more than seven, eight, ten years old vehicle they are also trying to get into newer vehicles. So the demand for a newer vehicle between two to seven is slightly increasing, therefore the resale price has remained quite study for the used vehicle and the people who are having older vehicle going up a curve and buying newer vehicle mainly because the diesel price has gone up substantially, the rupee devaluation and subsequent diesel price increase has many people made to move up the ladder and come out of their older vehicle. People who were running around 10 to 12 years old vehicle slowly moving to five, six, seven years old vehicles. So with more the newer vehicle there is a better fuel efficiency, they are all fuel efficient because of the euro norms change, euro 1, 2, 3, 4 if you look at they all over a period have become fuel efficient and have a better mileage and

July 23, 2013

Rural prosperity driving demand for used vehicles, SCVs

June 2013

1) mobile connectivity and road motivating people do get their produce to market

2) movement of FMCG goods

3) Movement of consumer durables

reasonably good business around rural and to and fro from rural, earlier Indian rural use to be only supplying agri produce through intermediary, it was not even transporting, but today's rural is different where there is good road connectivity and mobile connectivity which is making them determine their own price for their product and reasonably they are able to have good cash surplus and that is making them buy products also, so they are able to buy products, FMCG products which earlier rural was not consuming, FMCG products and also consumer durable products by the rural is increasing. So that is attributing to higher used vehicle demand because in the rural people normally do not buy a new vehicle straight away.

But this is coming at a cost. Are you seeing decline in yields because we are penetrating into that

……Cont from earlier slide… [SCV is a new segment, was not there 5 -6 yrs back

operationally it becomes viable for people who buy a newer used vehicle than buying either new vehicle or very old vehicle or retaining old vehicle. So we are able to attract a lot of people buying into used vehicle and we being the largest corporate lenders we are having the advantage of financing and the second biggest category which has emerged in the last three, four years is the small commercial vehicle, which is less than 3.5 tonnes which has sold around 1.4 million over the last five, six years, they are all coming for second sale. So there is a huge demand for these vehicles, that category was not there around six years back, this is a new category of vehicle, which is the last mile connectivity, changing the hand for the first time, or second time that is giving us another big advantage. Apart from that the passenger vehicle movement has also increased in the rural market where the prosperity levels have increased in last five years. So the passenger vehicle demand in the rural market and also last three months we have witnessed good demand for tractors also. So all this compounding is making our growth very comfortable. So the growth has been good for us, we have grown our topline by consolidated basis around 25% and standalone 23%, the net interest income has grown by 14% on consolidated and 12% on

Umesh Revankar: See I do not call it as a rapid growth, I am only trying to tell this is an opportunity to grow, there is two to five years old vehicle when I finance I have to have a lower yield because that business if it has to become viable on par with new vehicle then only customer will move into this. So one thing is customer's liability also is very important because ticket size is bigger when he buys a newer vehicle that is one thing and the rural penetration is only giving me balancing factor. In fact the yield in two to five years old and the urban market is much lower, what I am getting yield is, I am getting better yield in the rural market. So we are trying to increase rural penetration in such a way that it will offset what I am losing in the urban market and for your question because of the growth are we losing the net interest margin, I would like to say no because it is a strategic decision to move at the right time into right place, if we do not move quickly then somebody else will move into that and which we felt that it is better to move faster and have our presence felt because when there is a decline in new vehicle sales the other players who were funding new vehicle are likely to come into used right now we do not see competition but we would like to be there from the beginning and have our presence felt and as far as NPAs

Reason for moving into 2-6 yrs old segment

1) Yes, yield is lower. But segment growing fast

2) Else competitors will enter

3) Also entering rural areas, which will offset the decline from 2-6 yrs segment...

June 2013

Umesh Govind Revankar, Managing Director and Chief Executive Officer

No. Dearth for demand is not there, because as I was telling you the number of vehicles that has been already sold in the market is so huge and there is a huge demand for second-hand vehicle in the Tier II, Tier III cities and rural market. There is no dearth for demand, the only constraint would be manpower, because our business being totally a relationship model, the kind of team which we are going to build that is giving, both will give us the growth.

Market is huge to grow... Dec-12

Umesh Govind Revankar, Managing Director and Chief Executive Officer

See there is a huge opportunity, because if you look at number of villages in India, it is under 600,000 villages. And we would have covered around 15% of the villages by our existing branch network. There is a huge opportunity available and there are some state which has still remained backward for a very long time. And they are now growing very fast, in fact the states like UP, Bihar, MP and all growing very fast.

Huge opportunity to grow, still covered only 15% of villages....Dec-12

And the GDP growth of these states are almost double digit compared to the developed part of the country. So I think there is a huge opportunity for growth in the rural market.

Entry barriers – Dec 12 call

There are other financiers who are trying to get into the used truck financing, but we have not seen them in our segment of small truck owners so far. So, I would say that there is no impact or there would be a marginal impact of their presence. I do not think any player can make a very significant presence or impact in the segments where we are present because it is a very complex and complicated segment which took about three decades for Shriram Transport to stabilise and grow. I do not think this is like any other business; it is not a business where you can just start today and then make profits or create assets from tomorrow. It is not that kind of business. You need a big organisation to lend and collect money, which needs presence in different places, cash business, no intermediaries, direct… all these things, physical verification, valuation expertise, all these things are entry barriers, that is why even after 2-1/2 decades you are seeing that the only organised player is Shriram Transport. I do not think there will be activity in this used truck segment. If any, that would be again medium and large operators; small truck owners' penetration has been only by Shriram Transport and we will continue to be there. So on account of these factors, I do not think there will be significant reduction in the NIMs due to competitive picture.

Sept 2008

R. Sridhar: The tenure has gone up as a result of entry of banks into this space. The banks when they entered they started lending for longer period but for us because of most of our loans about 70% is old vehicle, our lending asset side tenure is less than the liabilities side like borrowing tenure. Our ALM is always comfortable. We do not have the pressure of more liabilities maturing and assets maturing a little later, it is not like that earlier than the liabilities so you always a positive cash flow.

Tenure of new CV loans increased to 4-5 yrs from earlier 3- 4 yrs because of entry of banks.

ALM always comfortable because of longer tenure of loans

R. Sridhar: It depends on what we are operating. We are operating between 5 to 12 years, an eight-year model, so even if you put around 2.5 to 3 lakhs it should be around 2 million vehicles to 2.5 million vehicles. That is only trucks, but we have expanded the product. You know we have now added the lending to equipments, we have started lending to tractors, there are new commercial vehicles have come like your small commercial vehicles and all that. So it should be more. The potential is quite large, so the population has gone up and the new vehicle sales in the last five years have been quite good, but the population would be quite large, so that is why we continue to say that we have a penetration of only 20%, but the market to grow is quite large.

Market share explanation

June 2010

Venkatesh Sanjeevani: When you are talking about 20%-25% growth on OEM does it also mean that you are going to grow at market pace or is it higher than market or what is the assumption bid in it?

Parag Jeriwala: Sir, if you see our new CV growth on a year-on-year basis it is less than 5% on the disbursement side, but what we see in the market is that the new CV sales have picked up quite sharply, so what can explain this, we could have done far better on this side?

Because of increase competition, reduce lending to NEW CV

June 2010

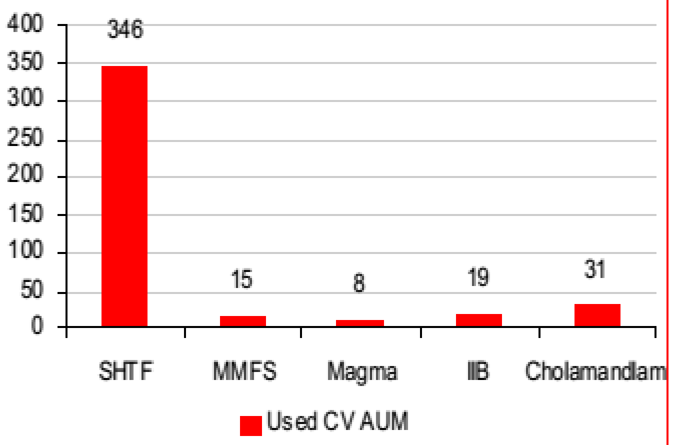
R. Sridhar: We can do far better. The problem here is when the cycle is good when more vehicles are sold there are many number of financiers also within the space who have come in and then they are offering at lower rates so there is a huge competition in the ~~used~~ new vehicle space. So we are evaluating the opportunity and at an appropriate time we will increase that share also.

Table 7: Focus by business segment

Company	Segment of focus	Features
MMFS	UV, CV, tractors, cars and pre-owned vehicles	Lower long-term asset quality and growth risk
SHTF	Used CV (>80%)	Higher yields, higher asset quality concerns
Sundaram	New CV (>50%)	Lower yields, better asset quality
LTF	CE, transport equipment, rural products and microfinance	Lower long-term asset quality and growth risk

Source: Company data, HSBC

Chart 36: Organised players in used CV (Q2 FY13) (INRbn)

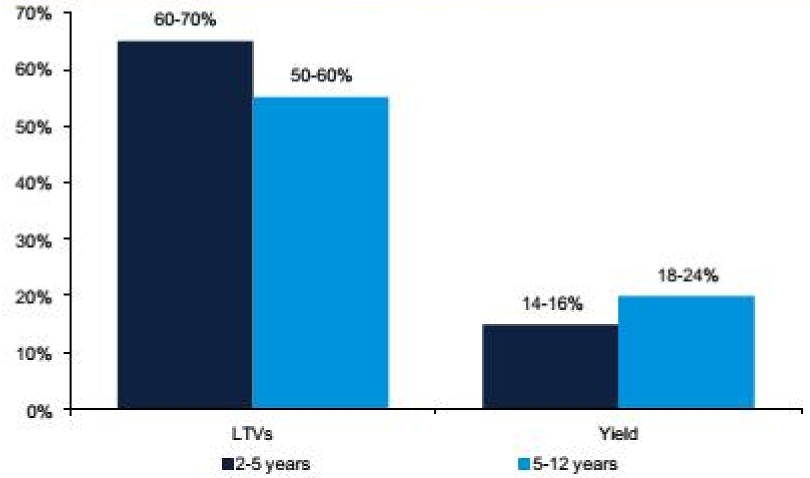


Source: Company data

Two-five year old segment characterised by high LTVs, low yields and high competition

The increased focus on two-five year old vehicles has led to faster growth in AUM as these vehicles have higher values as well as higher LTVs. However, the competition in this segment is higher due to the presence of other organised players. NBFC such as Cholamandalam Finance, Magma Fincorp are already present in this segment though their presence is lower than that of Shriram Transport. Few of the private sector banks also cater to this segment. CRISIL Research believes that Shriram Transport's edge due to its valuation ability is more pronounced in this segment. Higher competition and better earning potential of these vehicles leads to relatively lower risks and hence lower yields in this segment. Nevertheless since the profile of the customer in this segment remains similar to that in five-to-12 year old segment it is still has some risks.

Figure 17: Two-five year old segment less lucrative



Source: CRISIL Research

2004: In the past STFC was benefitted by introduction of ban on vehicles more than 15 yrs old by SC & Euro norms. In 2004 > 50% vehicles was > 10yrs old.

Ageing trucks

Age	Number of vehicles (in lakhs)	Percentage of total population
0-4	5.72	24
5-10 "V	8.10	34
11-15	4.52	19
Over IS	5.48	23
Total	23.82	100

• Emission norm change: As per the auto fuel policy announced by the government in October 2003, Euro-II norms will be applicable to all automobiles across India from 1 April 2005. This is expected to accelerate the retirement of old vehicles and increase the replacement demand.

• Untapped pre-owned truck financing potential: There is an opportunity to lend Rs 20,000 crores to those who want to buy second-hand trucks. Today, there are about 24 lakh pre-owned trucks in India. Of these, 10 lakh vehicles (42 per cent) are more than 10 years old with an average age estimated at 10.89 years, nearly 77 per cent of the trucks are owned by transport operators who own fewer than five trucks, making the pre-owned finance segment an attractive segment to be present in. newer trucks. For instance, those who buy vehicles older than 10 years take loans from the local financiers, who charge an exorbitant interest. This acts as a deterrent for vehicular churn. Increased institutional credit for pre-owned trucks will reduce the average truck age, modernise the fleet, strengthen the economy and benefit pre-owned truck finance companies.

Tightening of fund raising regulations by RBI will act as a entry barriers for new firms to raise resources...

MOBILIZATION OF FUNDS

Initially when we entered this unique business segment, which was perceived to be risky, the resources flow from banks and institutions was very slow. We were aggressive in raising retail resources during this period for carrying on our activities. However, by displaying efficiency and integrity over the years, your Company has proved to the finance industry that this business is a high growth and profitable one. Today, with increased confidence in our unique business model and a changed mindset, the banks and financial institutions are willing to channel their funds to Small truck owners and pre-owned trucks by routing it through a trusted partner they perceive in Shriram. Your Company continues to build strong relationships with such banks and institutions, giving your Company the opportunity to grow its assets under management from the current Rs. 7,500 crores to more than Rs. 15,000 crores over the next few years.

In the initial years, Shriram Transport had advantage of raising resources from **public through FD and Debentures** – which is now severely restricted. This will act as a ENTRY BARRIER for firms like AU Finance and others, as institutional finance may be wary to lending to start ups and untested mgt…

2006: Fragmented ownership of CV leads to HIGH competition. Pre-owned vehicles are 50% cheaper to buy for drivers, comparable freight rates and for company competition is less in pre-owned vehicles - WIN WIN situation for everyone.

Fragmented Ownership

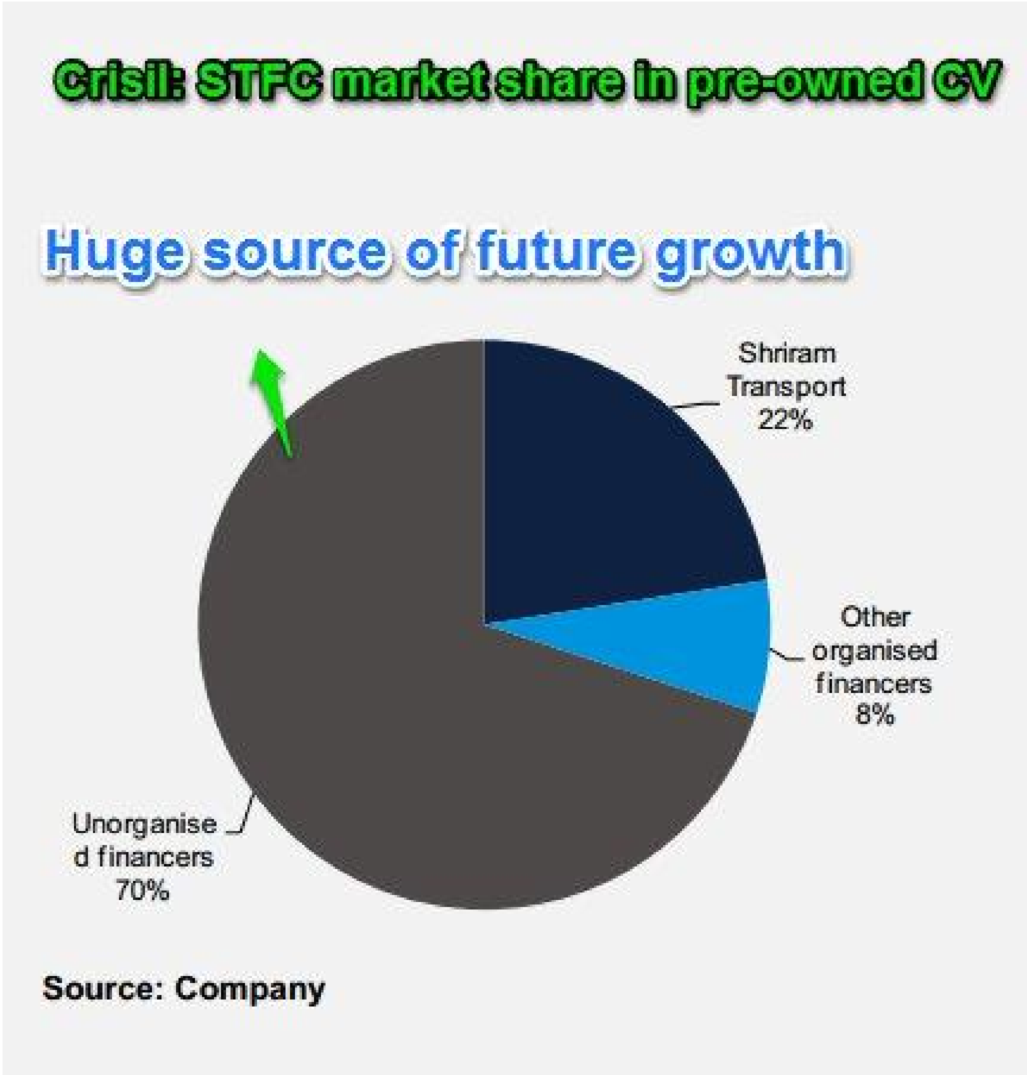
Small operators tend to prefer old trucks to new ones, as aggressive competition on freight rates restricts profitability. The average age of trucks in India is about 10 years, which is quite high compared to developed countries. Truck ownership is fragmented in the domestic market, with majority of the operators owning only up to five trucks, leading to aggressive competition of freight rates on smaller routes. This, in turn, reduces the incentive to buy new-trucks, as the funding cost of a new-truck may be quite high compared to that of an old truck.

- As of now, STFCL restricts itself to financing up to 10-year-old trucks. However, it plans to increase the financing age up to 12-year old vehicles, which would expand its addressable population by 0.35m-0.40m trucks.

AR - 2006

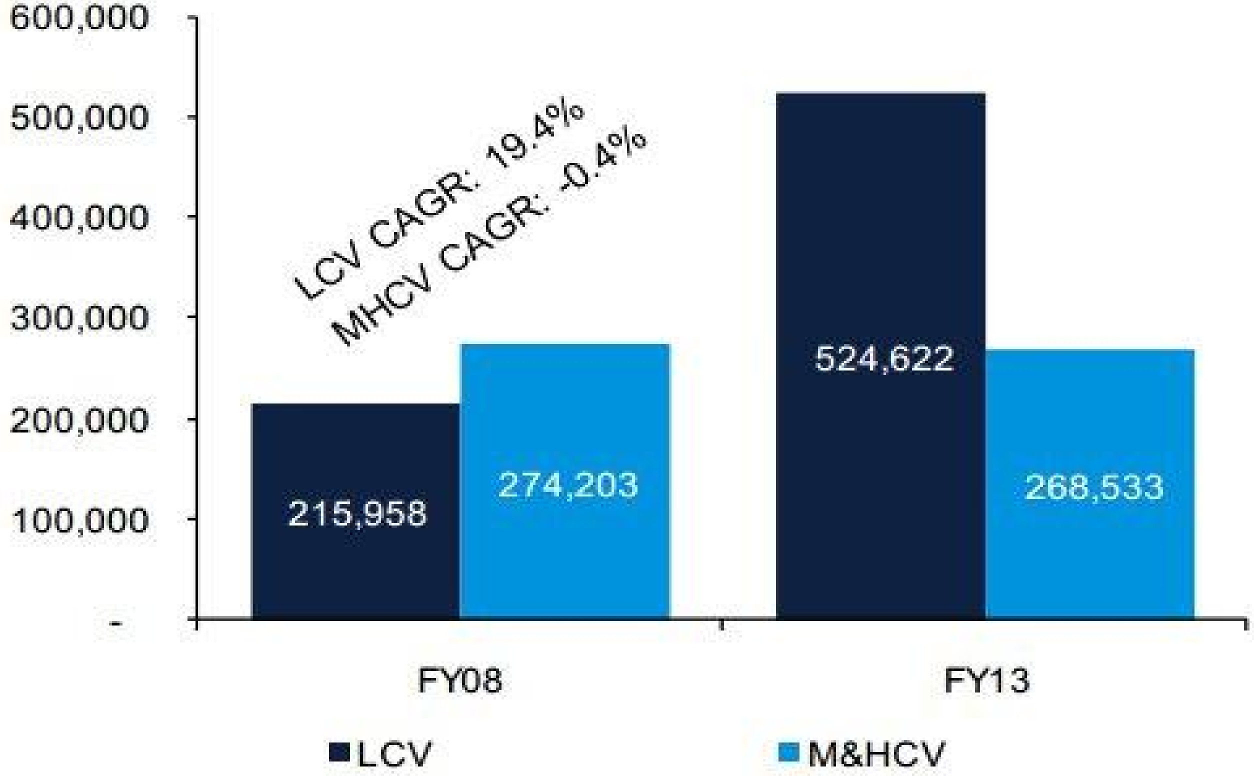
Higher Competition

The new commercial vehicle market, which was considered an NBFC domain until FY02, has witnessed drastic changes in recent years, with banks increasing their focus on this market. Presently, private and public sector banks are not very active in pre-owned CV financing, as the business dynamics do not support the high overhead structure and due to relatively slower decision making of PSU banks. However, if large banks decide to aggressively pursue this business, it would lead to a decline in lending yields and margins. Financing of pre-owned assets inherently supports higher yields: STFCL's experience of pre-owned car financing is a pointer to that direction, where yields are still at 12-16% despite fair competition. Moreover, PSU banks may not be dexterous in managing credit risks in this business in the long term, as their experience in mortgages has shown over the years.


Crisil: STFC market share in pre-owned CV
Huge source of future growth
Shriram Transport 22%
Other organised financers 8%
Unorganised financers 70%
Source: Company

Increased pool of pre-owned LCV will compensate low pool of pre-owned M&HCV

Figure 12: New LCV sales grew faster than MHCVs



Source: CRISIL Research

SECURITIZATION

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?

Basics of securitization

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: 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.

How deferred income is recognised in books of account

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.

Parag Sharma: See it is an inverted cone, so it will take two to three years to end but what happens is at the end of 2013 the amount will come down drastically. So maximum amount will be taken to income in the next year; 40% at least will go to the income next year.

60% of deferred recognised in first year

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.

Difference between par & Premium securitisation

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.

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?

Income recognition is same for par and premium securitization....

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.

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

Referring NIM to total AuM
Including securitisation...

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

Securitisation

2011-03

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

Aparna Karnik: Would be the spread on the securitization?

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

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

R. Sridhar: Around 9% now.

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

Mar-2011

Prior to base rate guidelines, Securitisation were much more beneficial

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

Collection fee not collected on Securitised assets

Expenditure incurred on collecting Securitised assets, shown under normal expenditure....

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

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

Umesh Revankar:	Earlier in the agreement it was all-inclusive only, it was part of discounting charges, but in the last few trenches that we have done in January to March we have separately taken and it should be around 1% that we get as a collection fee.

Started receiving collection charges separately... 1% of collections

For securitised assets

June 2012

Ritesh Nambiar:	1% of the total AUM you are saying?
Umesh Revankar:	Whatever we collect for the month on that 1%.

Umesh Govind Revankar, Managing Director and Chief Executive Officer

See there is a huge opportunity, because if you look at number of villages in India, it is under 600,000 villages. And we would have covered around 15% of the villages by our existing branch network. There is a huge opportunity available and there are some state which has still remained backward for a very long time. And they are now growing very fast, in fact the states like UP, Bihar, MP and all growing very fast.

Huge opportunity to grow, still covered only 15% of villages....Dec-12

And the GDP growth of these states are almost double digit compared to the developed part of the country. So I think there is a huge opportunity for growth in the rural market.

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.

IN securitisation, company's loss limited to credit enhancement given which is typically 10% of assets

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.

Parag Sharma: But if you look at the other liability side also we have already got a provision of around 700 Crores towards securitization portfolio. So we do not expect that the write off will be as high as 600 Crores.

BS carry more provision than required for securitized assets...

Jigar Valiya: Provision reversal will be again a part of our provisions only or it will be a reduction in from the other provisioning or will it come in other income?

Parag Sharma: Assuming there is further no securitization being done so whatever is the excess provision we are holding and if the particular trend comes to an end and assuming we hold 5 Crores or 10 Crores towards that particular trend if it is not required it will be reversed and taken to the provisions on write off, it will be going to the credit of that account and not to the other income. It will go as an adjustment towards the provision.

Provision reversal for securitized assets will not flow to other income but as reduction or credit to provisions account [Which ultimately increases bottom line through less provisions

Jigar Valiya: As a negative provision.

Parag Sharma: Correct.

Jigar Valiya: Actually the securitized portfolio would be a better quality portfolio ideally should be lower than that?

Umesh Revankar: Historically if you see our ultimate losses have been around 2% to 2.5% on AUM basis and on the books it is around 2.6% to 2.7% and off books it will be around 2.1% to 2.2%.

I guess this number is including provisions made....

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.

% of Securitisation and whether to do it at all, simply depends WHAT offers cheaper interest rates...

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?

July 27, 2011

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.

With introduction of base rates benefit of securitisation came down Benefit in interest now around 100bps, compared to 200 bps earlier.

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.

In response to incremental rate of borrowings....

Securitisation reduces the overall borrowing cost and any adverse change in regulations will impact the NIMs directly by increasing interest expenses

to be little less. However the rural market is still good and that is likely to witness bigger demand. On regulatory issues we are yet to get clarification on securitization part and there the committee is yet to give the report and only after that probably we will have some kind of clarification on the securitization guidelines and only after that the market is likely to pick up. Till then the cost of fund will have an issue bearing on our overall cost.

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

No securitisation during quarter, other sources of finance cheaper...

Manish Choudhary: Secondly, on the funding side, you said that securitization is really not a very good option at this point in time, are you doing a little bit more on the ~~CV~~ CP market what are the other alternative sources of funding?

Umesh Revankar: Parag will answer it.

Parag Sharma: Typically we are not there in commercial paper market. We normally go in for two year or three year bonds and that is what we have been looking at for last six months. We will not be in ~~CV~~ CP market.

Not in Commercial Paper market at all....

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?

Better to focus on NIM / Total Aum including off balance sheet

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.

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.

Demand for securitisation generally at end of the year depending upon requirements of PSL from banks...

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?

Disclosed NPA numbers do not include any provision for securitised assets. They are generally shown separately in P&L account under provisions

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?

1.3% provision made on securitised assets for loss

Company speaker: Around 1.3% is the current thing, which we have estimated.

Company speaker: The blended I would say on an AUM basis the average yield for the quarter will be around 18%.

interest income from securitised assets
Summary: Better to track NIM / Total AuM

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.

Rishendra Goswami: Okay, got it. And one more question on the ROA side of the business, let us assume that there would not be much securitization going on further, so where do you think the incremental ROA of your core business lies?

Without securitisation also,
RoA can be maintained at 4%

Parag Sharma: See, now the income is flowing from income representing the income from securitization but going forward suppose if we reduce our business through securitization but it will start rising on books. So it should be in the range of around 4% I would say.

Sept 2011

Rishendra Goswami: Okay, so even without securitization you think ROAs could be healthy?

Parag Sharma: It should be healthy, yes.

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?

Pass Through Certificate

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.

Pass route

May 09, 2012

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.

Company neutral between assignment & securitisation

Mar-2013

Rahul Bhangadia: Okay. On the street is it a monthly collection mechanism or quarterly collection mechanism as far as your collections are concerned?

Interest accrued but not due...

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.

Jyoti Kumar: Lastly, what is the proportion of loans with less 18% deals for you?

Umesh Revankar: It should be quite large because all the new vehicle will be less than 18% and there are newer vehicle which we finance, so it can be anywhere between 16% to the new vehicle ranges from 16% to 24%, so there will be at least 50% of used vehicle at around 18% to 19%.

Around 50% of vehicles financed at around 18% and eligible for PSL and securitisation...

JUNE 2012

Jyoti Kumar: On the new plus 50% of used?

Umesh Revankar: Approximately.

2006: Assignment on recourse basis. Accounting changed Now shown as on BS item rather than OFF BS item

20. Accounting for assignment of loan portfolio

Till March 31, 2006, the Company assigned various loan portfolios (on recourse basis) to banks. The Company, while accounting for such assignment, had transferred out from the books of account, all individual loan accounts assigned and had also accounted for profit / loss on assignment in the year the portfolio was assigned. However, during the current year, the Company has reinstated all loan balances in the books of account and has also accounted for the amounts payable to the banks as Secured Loans including for loans assigned during the prior years. The Company has also reversed the proportionate profit so accounted at the time of loan assignment. This has resulted in an increase in hypothecation loans by Rs. 5,855.72 Lacs (grouped under Schedule '9' to the financial statements), increase in Secured loans by Rs. 6,233.49 Lacs (grouped under Schedule '5' to the financial statements), reversal of proportionate profit by Rs. 1,131.29 Lacs, accounting for interest income on such loan portfolio by Rs. 1,872.11 Lacs (grouped under Schedule '14' to the financial statements) and accounting for interest expense on secured loans by Rs. 1,030.62 Lacs (grouped under Schedule '16' to the financial statements). As all amounts payable to the banks have been accounted in the books of account, there is no contingent liability on account of loan portfolio assigned to the banks as at March 31, 2007.

Advantages of securitisation
1) Low cost of funds - PSL
2) Fixed rate of interest
3) ALM

- Securitisation enables the Company to access low cost funds since it funds STOs which are classified as Priority Sector by the RBI.
- At the same time, securitisation also allows the Company to substantially mitigate the interest rate risk since the rates are fixed. This enables the Company to immunise the business from adverse changes in interest rates.
- Also, asset-liability maturities are matched door-to-door through securitisation.

New Securitisation/ Assignment Guidelines

- As per new guidelines, securitisation route will be preferred over assignment route
- Base rate is not applicable to securitisation deals
- Final guidelines on Priority sector classification based on MV Nair committee recommendation released on 20th July 2012
  - Interest spread cap of 8% is higher than original recommendation of 6%
  - No cap on the amount which banks can buy through this route
  - Similarly there is no restriction on NBFCs on amount of securitisation/ assignment
- Pool buyout interest continues from investors as assets qualifies for PSL

Off-balance-sheet funding

Prior to the financial crisis, off-balance-sheet assets accounted for around 25% of SHTF's total AUM. However, post the impact of the liquidity crisis in FY09, SHTF shifted its strategy to finance more of its growth from selling down its loan book to banks, which needed such loan portfolios to meet their priority sector lending norms. Given growth in the banking sector, demand for such loans, mainly from private banks, has been increasing rapidly. Accordingly, by FY12, SHTF's outstanding securitised pool had increased to around 45% of its total AUM. This helped SHTF fund its growth through a cheaper source of funding, thereby improving its NIM from around 7.5% in FY09 to an average of

8.6% over FY10-12. Securitisation also helped SHTF slow down capital consumption, thereby increasing leverage and boosting RoE.

Securitisation – regulatory challenges lie ahead

SHTF has been one of the key players over the past few years, selling down cINR273bn worth of loans over FY10-12. Some 80% of these sell-downs were through the direct assignment route and the remaining 20% through the securitisation route, which is in line with industry trends.

However, in May 2012, RBI came out with revised securitisation guidelines, in which, for the first time, it stipulated guidelines for direct assignment. Previously, in the absence of RBI regulation in this area, originators typically sold down their loan exposures bilaterally and provided credit enhancements to the buyer. Originators such as SHTF preferred this over securitisation as it was simple to structure, improved capital efficiency (originators treated these as normal risk-weighted assets – thereby reducing capital charge) and improved margins. For buyers, mostly banks, it provided an easy way to meet their priority sector norms and also avoided a mark-to-market (MTM) hit, which they would have to take under the Pass Through Certificates (PTC) route, ie securitisation.

No credit enhancement on direct assignments

Under the new guidelines, originators have been prohibited from providing credit enhancement on direct assignment transactions. While this makes transactions a true sale and therefore eliminates the need for a capital charge for the originator, the credit risk must now largely be borne by the banks. However, the originator now has to comply with minimum hold period (MHP) and minimum retention ratio (MRR) norms, although the risks will be pari passu and will not shield investing banks from credit risks related to the underlying assets.

Table 13: Direct Assignment versus securitisation (as per the May 2012 guidelines)

	Direct assignment	Securitisation
Capital relief	Credit enhancement is no longer permitted, hence relieving the originators of the capital charge.	Of the entire credit enhancement – 50% will need to be deducted from Tier I capital and the rest from Tier II capital making the capital charge a significant deterrent for the originator
Mark-to-market	Loans acquired by this route will be classified as 'loans and advances' , thereby eliminating the need for mark-to-market provisions	Exposure will be through PTCs, which will be treated as 'investment', thereby attracting ' mark-to-market' provisions for banks and MFs
Credit enhancement	Not permitted and no recourse; risks will be borne by banks pari passu, versus earlier practice whereby the first loss was borne by the originator. So banks are not likely to prefer this route. Alternatively, banks may ask for a higher yield, which could negate the difference versus securitisation	Credit enhancement allowed by third parties, making it a true sale without recourse
Tax issue of SPV	No issue of taxation arises in the absence of an SPV	The issue of taxing the SPV, passed on to the investor, is ultimately matter that is sub judice (details mentioned below)

Source: Company data, HSBC

What will be preferred from now on – securitisation or direct assignment?

Negatives of securitisation

- **Originators' reluctance:** The process of securitisation will result in high capital charges for the originators: 50% deducted from Tier I and 50% from Tier II.
- **Investors' concerns:** Whereas direct assignments were treated as loans and advances on investors' books, the securitised assets will be treated as investments on their book, attracting mark-to-market provisions. Moreover, the pending issue of income tax (discussed above) is likely to make the investors even warier of securitisation exposure as an investment mechanism.

Negatives for direct assignment

- Long and costly process may act as a deterrent for direct assignment
- No credit enhancement, meaning credit risks are pari passu
- Investors, mainly banks, may have to carry out their own due diligence to buy portfolios

In light of the issues discussed above, we expect participants to reluctantly shift towards securitisation as the preferred route for trading portfolios. However, as the participants are still trying to find an adequate solution, volumes are likely to dry up substantially in the interim, with only securitisation transactions taking place. As such, volumes have not picked up in 3QFY13.

NPA PROVISIONS

Umesh Revankar: The guidelines have not come to us. Only thing it is draft guidelines. One of the guidelines is that 180-days to 90-days moving, so we are quite confident that this is not come into force immediately and if it comes the RBI will give us long time, may be three years to implement the same. But if at all it comes into effect at any point of time, we may have in that by higher provisioning but actual credit clauses may not be there, so we should be able to write back over the period.

90D norm will increase only book provision, ACTUAL LOSSES WILL NOT INCREASE....

2011-09

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.

NPA % are on book AUM and not on total AUM [i.e excluding off BS items]

Take credit losses as % of Total AUM - to get correct view

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.

Credit losses = Provisions + write offs

Provisions = 1) provision for NPA 2) Standard asset provisions 3) Provision on securitised assets….

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

Umesh Revankar Yeah.

NPAs of old versus new CVs, above normal or?

NPAs does not vary between old or new or between different models of CVs...

Unidentified Speaker

Mar-2013

Old versus new, normally new vehicle NPA levels it should be normally lesser, but it will not be much lesser, it will be 10 or 20 basis point difference. But it is mostly depend on ability of local branch team to manage this situation. So it is not actually based on whether this vehicle or that vehicle, or new or old, or this model or that model, so it is basically the ability of the team to manage. So we review the team's performance consistently every six months and keep looking at their performance.

Review of annual reports

The gross stock on hire and leased assets stood respectively at Rs.1908.02 lakhs and Rs.10725.93 lakhs as on 30.06.97. 1997 AR

The operating team is managing the core business of your Company viz. Truck Financing to yield margins on par with Industry average. Price Waterhouse(PW), Chartered Accountants of international repute were recently appointed to conduct a study on the performance of the Truck portfolio. This is the second independant review by a Management Consulting Firm. A similar review was done earlier in 1993 by yet another reputed firm of Consultants viz., Strategic Consultants Pvt. Ltd. The 1993 review covered contracts that expired during the period April 1990 to March 1992. The recent one by Price Waterhouse covered contracts that expired during the period April 1992 to March 1996.

The Price Waterhouse study was based on a sample of 900 contracts selected at random from a total population of around 8713 contracts, of the three companies in the group aggregating to Rs.179.14 crores. The study findings have established that an overall IRR of 27.6% was earned in respect of the sample contracts. Your Directors are of the opinion that this performance is perhaps the best in the finance industry.

successful. Your Directors wish to record their grateful appreciation to the investors for the unstinted support.

PROSPECTS 1) IRR of 27% 2) recovery rate of 92% during 1992-1996 [1992 suffered > 10% decline in M& HCV sales

The recent credit policy has focussed on the one hand on measures to ensure adequate availability of bank credit for economic activity and on the other has tried to enforce greater discipline in the functioning of the Non Banking Financial Companies. The overall growth of GDP is estimated at 6.2%. However, since advances to individual truck operators for second hand commercial vehicles contribute the major business of the Company and with a recovery rate of over 92% even on contracts concluded during the years 1992 to 1996 (on a random basis) as per the study conducted by the reowned Price Water House, Chartered Accountants, your Company is confident of showing a steady and increased growth in the current year also. The study also found that the Internal Rate of Return (IRR) for the overall sample portfolio was around 27%.

Further increase in the Fixed Deposits portfolio will be a stimulating factor for the future performance of the company.

AR 1997

1997 to 2006:Funding by PSUs

BANKERS

Canara Bank
State Bank of Hyderabad
State Bank of India
UCO Bank
Dena Bank
Union Bank of India
Punjab and Sind Bank
Allahabad Bank
The Nedungadi Bank Ltd.

FY05: Funding by PSUs

BANKERS

- Allahabad Bank • Bank of Maharashtra
- City Union Bank Ltd • Dena bank
- State Bank of Hyderabad • Punjab National Bank
- Punjab and Sind Bank • UCO Bank
- Union Bank of India

FY06: First time funding by PRIVATE SECTOR BANKS

BANKERS

Bank of Baroda
Bank of Ceylon
Bank of India
Bank of Maharashtra
Canara Bank
Centurion Bank of Punjab
City Union Bank
Corporation Bank
Dena Bank
Development Credit Bank
Dhanlaxmi Bank
DBS
HDFC Bank
HSBC
ICICI Bank
IDBI Bank
Indian Overseas Bank
ING Vysya Bank
Kotak Mahindra Bank
Oriental Bank of Commerce
Punjab & Sind Bank
Punjab National Bank
Standard Chartered Bank
State Bank of Hyderabad
State Bank of Mauritius
State Bank of Travancore
The Lakshmi Vilas Bank
UCO Bank
Union Bank Of India
United Bank of India
United Western Bank
UTI Bank
Yes Bank

1998: 1) Steep decline in HCV 2) NBFC crisis3) RBI imposed severe restrictions on NBFCs - STFC met all its FD obligations on time

GENERAL SCENARIO :

The year under review, will go down in the history of the Financial Services Sector of this country as one of the most difficult years. The happenings in the financial market caused a tremendous erosion in the confidence of investors in Financial Companies. The regulatory authorities imposed various regulations in January 1998, which were considered by the entire industry as extremely restrictive. The wave of negative sentiments and the regulatory restrictions set in motion a rapid decline in resources available to the NBFC sector. The various associations and trade bodies representing Non Banking Financial Companies made several submissions to the authority concerned for softening the regulations. In response, towards the end of 1998, some concessions were made in the control mechanism by the regulatory authorities. But during 1998, on account of the severity of the restrictions imposed, the market witnessed many defaults by finance companies to their public depositors.

Your Directors have the privilege to state that your company has successfully met all its commitments towards fixed deposits, without any default or delay, by effective control of the collection and development of resources of the company.

The performance of Non - Banking Finance Companies in general was adversely affected due to prolonged recessionary trend in most of the industrial segments and particularly in the Commercial Vehicles sector. The gross stock on hire and leased assets stood at Rs. 4979.87 lacs and Rs.12443.58 lacs respectively as on 30.06.98. In the light of the prevailing market conditions characterised by a steep fall in the industrial growth, the performance of your Company should be considered satisfactory.

1998: Company could not maintained required liquidity as per RBI norms, due to crisis

AUDITORS' REPORT :

1. Para 2 (g) of the Auditors' Report

   a) In the opinion of the directors, the diminution in the value of these long term investments is only temporary. The quotations in respect of both Medicorp Technologies (India) Ltd. and Shripet Polymers Ltd are more than a year old, when they were in their gestation period. Further under the present circumstances, the market quotation are not considered as the proper yard-stick. These Companies are expected to make profit, in the near future. The investment in Shriram Asset Management Company Ltd. is bound to improve with improvement in the mutual fund industry.

   b) The Company is taking steps to reconcile the said accounts. The impact of the same is not expected to be significant.

2. Para x of the Annexure to Auditors' Report

   In January 1998, the RBI had reduced the deposit acceptance limits drastically for NBFCs. The Company applied to RBI for more time to comply with the regulations and in the interim could not completely stop acceptance of deposits. The deposit level as on Dec 31, 1998 is Rs. 127.40 Crores and is well below the stipulation of the Reserve Bank of India. The Company could not maintain the liquid assets in the period concerned due to the pressure that was triggered in the NBFC sector due to drastic changes in the NBFC regulations and a failure of few companies. The Company has now started building up the liquid assets.

1998: Aggresive accounting policies

7) **EXPENSES ON MOBILISATION OF DEPOSITS/DEBENTURES :**

Expenses on mobilisation of deposits/debentures have been charged to Profit & Loss account on the basis of duration of deposits/debentures.

ii) The prudential norms for income recognition, provisioning for bad and doubtful debts, prescribed by the Reserve Bank of India for Non - Banking Financial Companies has been followed subject to the following comments :

a) Assets which consist of only additional finance charges have been considered seperately for determination of the provisions.

b) Unidentified debit balances in parties' suspense accounts are being adjusted against the unidentified credit balances available in the parties' suspense account in other branches.

2004: disclosure of associated companies insame business 2) entered NEW CV business as PMS for UTI & Citi Corp

Business

Shriram Transport Finance Company Limited (STFC) is primarily engaged in financing commercial vehicles to Small Road Transport Operators. The other associate companies engaged in this business are Shriram Investments Limited (SIL), Shriram City Union Finance Limited (SCUF) and Shriram Overseas Finance Limited (SOFL).

These four companies are strategically headquartered to ensure a strong nationwide presence: Shriram Transport Finance Company Limited in Mumbai, Shriram Investments Limited in Chennai, Shriram City Union Finance Limited in Kolkata and Shriram Overseas Finance Limited in Delhi.

Shriram Transport Finance Company (incorporated in 1979) is the group's second largest company. Although primarily a financier of pre-owned commercial vehicles, STFC is now progressively widening its basket of offerings and originating new commercial vehicle loans on behalf of Citicorp Finance (India) Ltd and UTi Bank under its Portfolio Management Scheme.

2005: Associated companies merged with STFC

- Commercial vehicles financing business is split along geographical lines and cover's the entire country.
- Proposed merger of the company with Shriram Investments Ltd. will enhance scale, clout and brand.

2006: Market size of pre-owned TRUCKS > 2.5x NEW trucks Banks were aggresive in lending to new trucks, which benefitted STFC during 2010-12

Market size for truck financing

The commercial vehicle (CV) financing market in India can be broadly divided into two segments: financing of new-trucks and pre-owned trucks. While new-truck financing market is estimated to be a Rs. 186 billion annual opportunity, pre-owned trucks financing market offers a potentially larger opportunity of Rs. 450 billion. Modernisation of trucking industry and increasing penetration of organised financiers are the key growth drivers for pre-owned CV financing market. Buoyant economic outlook leading to strong growth in CV sales, aggressive stance adopted by private sector banks in terms of higher Loan to Value (LTV) and longer tenures are some of the key growth drivers for new CV financing market. On the other hand, pre-owned CV financing is largely serviced by the unorganised sector and STFCL is arguably the only large corporate entity active in this space.

2006: Risks of business. Main theme is gaining market from private financiers which charge exorbitant rates, banks not willing/ not capable. Win win situation for everyone.

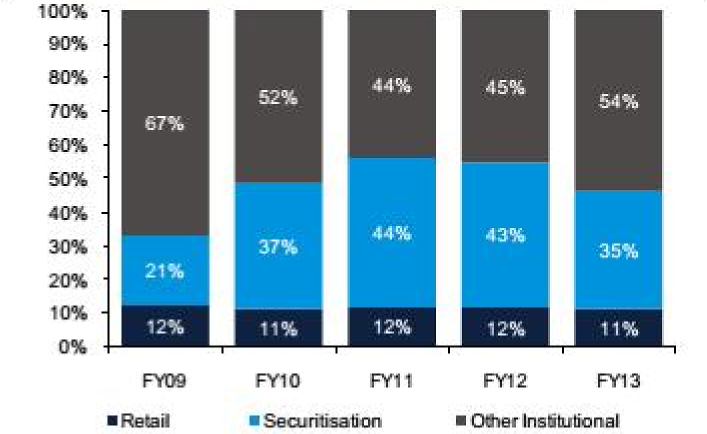
1) Moving assets
2) lack of documentation
3) Clients not viable
4) 75% market controlled by private financiers...

Overcoming the Risky Business Perception

Banks and other NBFCs have earlier tried to penetrate this dynamic and cyclical industry. They have conventionally thought this business to be too risky due to the movable nature of the asset and the lack of documentation to evaluate the credit worthiness of truck owners. With more than 75% of used-trucks owned and operated by small truck owners, banks and other NBFCs have generally believed that giving loans to this class of clients may not be viable. This vacuum of credit has led to a proliferation of small financers, who now control as much as approximately 75% of the used-truck market. This has meant that these groups of borrowers have had to endure exorbitant interest rates for decades. Over the years, STFCL has pioneered a contrarian view on the risks associated to this business by ensuring a sound understanding of such clients and evolved methods of managing

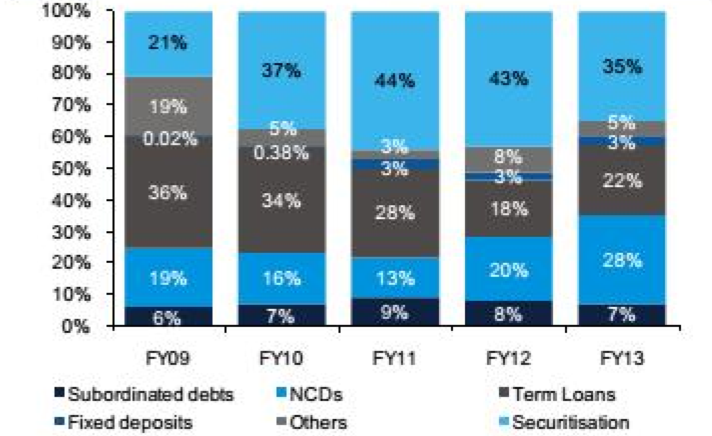
IMPORTANT MATERIAL

Figure 22: Borrowing mix – by source of financing



Source: Company, CRISIL Research

Figure 23: Borrowing mix – by type of instrument



Source: Company, CRISIL Research

§ **CREDIT RISK**

Lack of collaterals and information may lead to higher NPAs

Risk mitigation

- The Company lends on relationship-based model and not information-based model
- The identity and references of the proposed customer are thoroughly identified at the lead generation stage
- Local presence enables the Company to keep regular contacts with the customer
- Each member of the lead generation team is also responsible for the timely recovery of their accounts.
- Each loan is compulson'ly required to be guaranteed by a truck owner of the same community where the lender belongs.
- No post dated cheques - personal relationship at every point ensures the assessment of any perceived risks.

AR - 2008

- From disbursements of Rs 99.64 lacs in 1984 to Rs 1060.75 lacs in 1989 to Rs 7365.32 lacs in 1994 to Rs 23313.96 lacs in 1999 to Rs 87754.32 lacs in 2004.

Disbursement growth….

Customers are not subprime

R. Sridhar: Subprime is one where you classify a customer as subprime when you have a track record which is bad, then you know that he is a bad customer and you increase the interest to take some risk investments. So lenders look for subprime customers whose track record has already been demonstrated to be bad, then they give increased interest lending to these people. That is what is called subprime.

R. Sridhar

Want to increase fixed rate of interest to 60-70%

Dec-2009

No, I am not looking at securitized versus retail versus bank. I am only looking at between fixed and floating rates of loans. So we are at 50-50 now. So we want to move into 65-35 or 70-30 if possible. So we will be doing more mobilization of resources through securitization, through fixed deposits, through NCDs so that our mix undergo a change and we become from 50-50 to maybe 60-40 or 70-30 and simply increasing it.

R. Sridhar

Yeah, interest rate is moving up. That is one. Second is ever we want to get rid of the risk of interest rate. So if we move up the 70-30 then the risk 25 to 30% of assets also get re-priced once in a year. So we are totally out of interest rate risk. That is why we want to do more.

Table 2: The five phases of SHTF's valuation

Period	Multiples	Remarks
Oct 04 to Dec 07	Re-rating began; PB rose from 0.6x to 3.7x, PE from 3.5x to 15x	Significant balance sheet expansion coupled with improving margins and returns
Jan 08 to March 09	Significant de-rating with PE declining to 5x and PB to 1x	Global crisis and domestic liquidity crisis sharply slowed down loan growth, asset quality deteriorated, but returns remained stable
March 09 to Oct 10	Stock re-rated back to earlier highs of 15x PE and 3.5x PB	Economic recovery coupled with SHTF strategy of higher securitisation sharply improved growth, margins and returns
Nov 10 to Dec 11	Another leg of down swing with PE falling to 7x and PB to 1.5x	Sharp rise in interest rates, risks to domestic growth, upcoming regulatory changes and slippages in the mining portfolio
Dec 11 to date	Valuations improved marginally to an average of 9x PE and 1.8x PB	Rates started to soften marginally, growth and asset quality stabilising and impact of regulatory changes getting factored in

Source: HSBC

Deterioration in Asset Quality

The unique business that STFCL is in obviates it to lend to borrowers, who depend on their trucks for their primary earnings. These truck operators are directly engulfed by the waves of adverse repercussions arising out of a recession in the economy. Moreover, a hike in fuel costs without a corresponding increase in freight rates can have a serious impact in the profitability of the truck operators. In such scenarios, the Company is expected to witness an escalation in its delinquencies.

AR - 2007

AR - 2007

Freight Exchange

With a view to offer value added services to the transport industry as a whole, the Company entered into a Shareholders' Agreement with Ashok Leyland Ltd. and their associates for purchase of 40 percent stake in Ashley Transport Services Ltd. (ATSL). ATSL will provide an organizational framework and set up network, between transport companies, truck owners and other stakeholders in the transport industry and offer services in the form of vehicle placement, micro financing and other services in a transparent and cost effective manner.

Creating an Ecosystem

STFCL is focussing on creating an all encompassing ecosystem for serving truck operators, where every component is providing new lending opportunities, driving more business towards the Company. Moreover, the Company is also expanding its range of vertically integrated products, tailored to meet its customers' total requirements. It plans to enter into different joint-venture partnerships with other enterprises with core competencies related to the transportation industry. This will not only provide it with additional value-added income, but also help in enhancing its existing business and customer relations, resulting in a leadership presence on a pan country basis.

Painted a very bullish picture, no talk of overheating etc.

The CV industry, which is cyclical in nature, has painted a sanguine picture in the last five years. Having recorded an impressive CAGR of 30 percent between 2003 and 2005, the industry is expected to remain on an upswing for the next 3-5 years. As per Cris-Infac, the organised pre-owned vehicle and refinance markets are expected to grow from Rs. 960 crores in FY2004 to Rs. 2,720 crores in FY2009. Factors such as, demand for the replacement of old vehicles provide an added fillip to the growth of this industry. Amidst dampening interest rate hikes and liquidity concerns, this replacement demand is expected to remain intact, fuelling the sale of commercial vehicles.

ORGANIZATION STRUCTURE ETC

Changed organization structure in 2009, as company diversified into all segments
Of CV and volumes doubled over last few years….

Organisation structure

We at Shriram Transport have traditionally maintained a single vertical structure. This organisational hierarchical structure was based on the foundation of personal relationships and ownership. The branch manager was the sole responsible authority at the branch level for all the issues relating to credit appraisals, asset quality, and business development and over all administration. Such a structure was highly preferred and successful in the earlier years as the volumes were low, that enabled a branch manager to keep account of all the customers, field officers, collection status and also market conditions.

With a view to manage the ever increasing volumes in operations, we initiated the restructuring of our organisational hierarchy from a single vertical model to a tri-vertical model, with separate business divisions – credit, administration and products.

The new organisation structure resulted in us adopting a product-specific focus, as against a geography-specific focus. At the same time, the three-legged structure would enable clear focus on three major components:

a. Product: marketing and sales of existing products, training and development of field level executives (product executives) and development of new products

b. Risk: ensuring quality appraisals

c. Branch administration

The move to set-up a new organisational structure emanated from the need to maintain operational efficiency despite the doubling of volumes in a short time. This has enabled us to keep a check on the credit losses.

Good manpower practices

The Company has practically zero attrition rate at key levels, due to its policy of intra organisation promotions. Fresh recruitments are primarily made only at the grass root level (Field Officers). After 3-4 years of well in-grained experience, these officers are eligible to become Branch Managers. Such impressive growth opportunities have a tremendous impact on employee retention.

At Shriram, the training programs strive to align its employees to the vision and values of the Company. Employees from all regions are trained at centres in Chennai and Mumbai by trainers within the organisation, who in turn undergo mentoring by outside industry experts who study the Company and update the teaching skills of the trainers. There are 3 kinds of training given at Shriram:

Induction Training
Refresher Training
Systems Training

The HR processes incentivise the collection capacities of the Field Officers and this further encourages collection efficiencies. Employees of the operation department have an opportunity to earn as much as 100 percent of their salary as incentives.

In order to provide a strong sense of ownership, the Company has implemented an Employee Stock Options Scheme for Branch Managers and above. High performance employees are routinely recognised for their contribution. To demonstrate the Company's appreciation, they are awarded to travel to exotic tourist destinations for the Company's Annual Overseas Conference. Regional conference for officers is also held at desirable hill resorts within the country. During FY2006-07, STFCL conducted one annual conference at Singapore and six Regional Conferences across the country.

2007:
1) No lateral hiring, promotion mostly from within
2) Ops salaries tied up to collections

AR - 2007

Organisation
Country
Region (6)
South (2), West (2), North, East
State
Division (72)
Loan approval authority and second stage check on the branch manager
Branch (358)
Typical branch consists of a branch manager+ 3-4 field officers+support staff.

New Branches are opened when business in existing branches start overflowing. So typically new branches will NOT be incurring losses

R Sridhar: See, our branches are not, you know, virgin branches, where you go and find a new territory and open. See, we are there in a particular place. You take, for example Bombay. In Bombay we have got 15 branches. But it is not that you open a civil branch and then look for business. It is already in Chembur branch, the business is growing and we opened another branch because our assets under management in that particular Chembur has gone up beyond a particular limit and in that we find that there are lot of customers from Sivri. So we opened a branch in Sivri and shifted all these. So, every branch, if you see, even if it is one year old, you will have substantial assets under management because it has got shifted from the nearby branch. So, the new branches, which are opening are not in a new geographical center. It is all opened in the same geography but for being present till the retail asset space. We have constraints in terms of the number of customers we can handle in a particular week. So, we create more offices, so that each branch manager does not go beyond at least Rs 50 to 60 crore of asset center management. This effectiveness in collection and recovery and customer relationship is intact, that is why. So, 30 new branches are not new additions to new territories. But having said that some things like Northeast and all that…we have been expanding. So, it could be some of them there.

ACCOUNTING

20. *Accounting for assignment of loan portfolio*

Till March 31, 2006, the Company assigned various loan portfolios (on recourse basis) to banks. The Company, while accounting for such assignment, had transferred out from the books of account, all individual loan accounts assigned and had also accounted for profit / loss on assignment in the year the portfolio was assigned. However, during the current year, the Company has reinstated all loan balances in the books of account and has also accounted for the amounts payable to the banks as Secured Loans including for loans assigned during the prior years. The Company has also reversed the proportionate profit so accounted at the time of loan assignment. This has resulted in an increase in hypothecation loans by Rs. 5,855.72 Lacs (grouped under Schedule '9' to the financial statements), increase in Secured loans by Rs. 6,233.49 Lacs (grouped under Schedule '5' to the financial statements), reversal of proportionate profit by Rs. 1,131.29 Lacs, accounting for interest income on such loan portfolio by Rs. 1,872.11 Lacs (grouped under Schedule '14' to the financial statements) and accounting for interest expense on secured loans by Rs. 1,030.62 Lacs (grouped under Schedule '16' to the financial statements). As all amounts payable to the banks have been accounted in the books of account, there is no contingent liability on account of loan portfolio assigned to the banks as at March 31, 2007.

Ar 2007

Company talks about yield on total AUM i.e interest income / total AUM

Sept 2011

Hiren Dasani: Correct if I am wrong in my understanding, but in your investor update you are saying that interest income is about 967 Crores for the quarter and if I kind of annualize that interest income on your on balance sheet loans then I come to a number of about 16.5% kind of a number?

Parag Sharma: See what we are mentioning is 18% is the truck portfolio and what is pulling it down is our other assets which also includes the fixed deposits and other investments which we make short-term there will be a negative carry for it. So on the overall it will be around 16.5% to 17%, but truck portfolio if you see the yields will be around 18%.

Hiren Dasani: But I am saying that this 947 Crores or 968 Crores of interest income that would include interest on the loans as well as the interest on the fixed deposit and all?

Umesh Revankar: Correct.

Hiren Dasani: I am dividing the total interest income by the loan book only which is on the balance sheet loan book, so even then I am getting a number of about 16.6%?

Sanjai Mundra: Hiren, this is Sanjai here. Just give me a call after this call. I will explain you.

3) **Disclosure** as per Accounting **Standard-19 (AS-19)** :

On Financial Lease (Rs. in Lacs)

	As on 31st March, 2004	Not Later than 1 year	Receivable In Later than 1 Year but not later than 5 years	Later than 5 year
Gross Investment	42,941.78	20,008.93	22,932.85	-
Less				
Unearned Income	11,183.75	6,274.67	4,909.08	-
Net Present Value.	31,758.03	13,734.26	18,023.77	-

On Hire Purchase (for Advances after 01/04/2001)

	As on 31st March, 2004	Not Later than 1 year	Receivable In Later than 1 Year but not later than 5 years	Later than 5 year
Gross Investment	60,806.48	28,078.77	32,727.71	-
Less				
Unearned Income	19,744.91	8,597.91	11,147.00	-
Net Present Value	41,061.57	19,480.86	21,580.71	-

MAGMA FINCORP

Product Overview…Q1 FY13

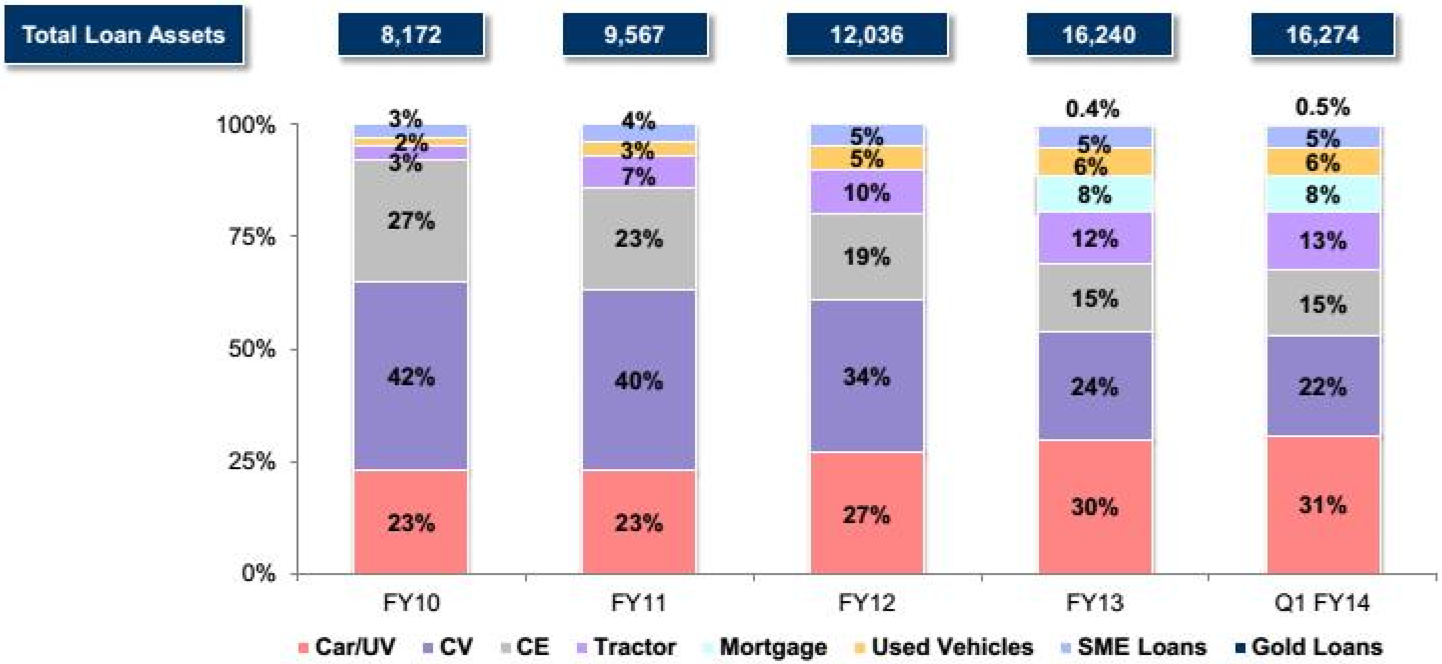
Product	ATS (Rs Lacs)	LTV %	Tenure Months	Net IRR * %
CAR	3.9	66%	43	14.5%
CV	11.5	87%#	44	13.7%
CE	23.3	81%	39	13.4%
Tractors	3.3	62%	45	19.7%
Used CV	5.3	70%	35	19.3%
SME Loans	30.0	NA	29	16.8%
TOTAL	**5.8**	**73%**	**41**	**15.4%**

Notes

 # LTV for CV has been calculated without considering cost of truck body, which is not funded. Inclusive of body in the cost of asset, LTV would be approx. 73%

* Net IRR is lending rate on reducing balance basis, net of payouts to Direct Selling Agents and pay-ins from manufacturers/ dealers. Net IRR indicated above is for full Q1 FY13 and current rates may vary.

Diversified Loan Asset Portfolio



- **Well diversified portfolio of 8 products with the highest share of a single product at just over 30%**
- **Prudent change in Asset mix in line with the Industry & Economy dynamics**

Values in Rs. Crore and on the consolidated basis

Spread Analysis (Standalone)

	Q1 FY14	Q1 FY13	Q4 FY13	FY13
Total Income/Assets	15.6%	15.6%	16.3%	16.3%
Interest Expenses/Assets	8.7%	8.4%	8.7%	9.0%
Gross Spread	**6.9%**	**7.2%**	**7.7%**	**7.3%**
Operating Expenses/Assets	4.9%	5.5%	5.5%	5.5%
Overheads/Assets	2.9%	3.9%	3.5%	3.7%
Sourcing Expenses/Assets	0.9%	0.8%	1.0%	0.9%
Provision & WO/Assets	1.1%	0.7%	1.1%	0.9%
Net Spread (Pre Tax)	**2.0%**	**1.7%**	**2.2%**	**1.8%**
Return on Assets (RoA)	**1.5%**	**1.2%**	**1.5%**	**1.2%**
Return on Equity (RoE)	**13.3%**	**8.3%**	**13.2%**	**9.7%**

- **Reduction in Opex % on a/c of conscious efforts and shared services with new businesses**

Synergistic Approach to Growth

Products	Key Customer Segments	Focus areas to Drive Growth	ATS (Rs '000)	LTV	Tenure (months)
Cars	❑ Entry level vehicles and UV/MUV ❑ Small Road Transport Operator (SRTO)	❑ Rural markets and UV/MUV segment ❑ Tie up with car manufacturers	440	69%	44
Commercial Vehicles (CV)	❑ 1-5 vehicle owners (esp FTB segment) ❑ SRTO	❑ LCV & SCV ❑ Tie up with CV manufacturers	700	85%*	43
Tractors	❑ Land owning farmers ❑ 25-75 HP tractors	❑ Alliances with OEMs ❑ New product introductions	330	62%	44
Used CV	❑ FTB, Small fleet drivers ❑ M&HCV, Refinance	❑ LCV ❑ High vintage vehicles (7-8 years)	520	70%	35
Construction Equipment	❑ Small Scale Entrepreneurs	❑ Increase collaboration with OEMS ❑ Wider product range	1,910	77%	39
SME Loans	❑ SME segment ❑ Working capital, business expansion	❑ MSME segment	2,570	N/A	31
Gold Loans	❑ Primary borrowers	❑ Target underpenetrated urban markets in North, West and East India	53	53%	12
Home Loans	❑ Affordable housing	❑ Tier 3 and 4 towns			
General Insurance	❑ Captive customers ❑ Rural agri based products	❑ Penetrate motor insurance market ❑ Rural agri markets			

Leverage branch / collection presence and understanding of product, target customer behaviour and its requirements to grow new products

ATS: Average Ticket Size; FTB: First Time Buyers; Numbers represent average for Q1 FY14

** LTV has been calculated without considering cost of truck body, which is not funded. Inclusive of body in the cost of asset, LTV would be approx. 73%*

MAGMA

Magma targets ~ Rs 135k Crores market opportunity

Amt in Rs Cr	Cars & UV	CV	CE & SCE	Used CV	Tractors	SME Loans
Industry FY12 disbursement	65000	62000	17000	~ 36,000	16000	~ 6000
Co. direct addressable opportunity	49000 ~75%	45000 70-75%	9500 50-60%	~ 18,000 ~ 50%	9500 60%	~ 5500 80-100%
Company's FY12 Disbursement	2235	2076	1358	482	813	440

Note: Total industry size has been estimated based on sales figures of various Industry Associations such as SIAM, TMA, feedback of manufacturers and management estimates of finance penetration and average loan size. Direct addressable opportunity based on management estimates

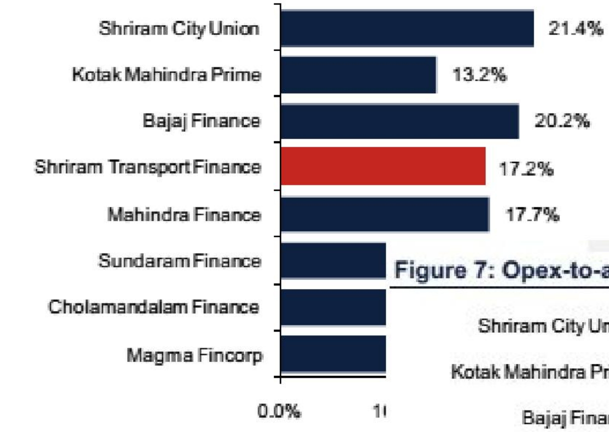
Accelerated Adoption of RBI Draft Guidelines on 'Prudential norms'

PROVISIONING NORMS

	Months Past Due	Magma's Revised Provisioning Policy		Months Past Due	Existing RBI Norms for NBFCs	
		Secured	Unsecured		Secured	Unsecured
Standard	0 to 4 months	0.30%	0.30%	0 to 6 months	0.25%	0.25%
Sub Standard	> 4 to 16 months	15%	25%	> 6 to 24 months	10%	10%
Doubtful	> 16 to 28 months	25%	100%	> 24 to 36 months	20%	100%
	> 28 to 52 months	40%	100%	> 36 to 60 months	30%	100%
	> 52 months	100%	100%	> 60 months	50%	100%
	Loss Assets	100%	100%	Loss Assets	100%	100%

Dupont analysis

Figure 6: Total income-to-average assets



*Net of interest costs

Source: Company, CRISIL Research

Figure 7: Opex-to-average assets

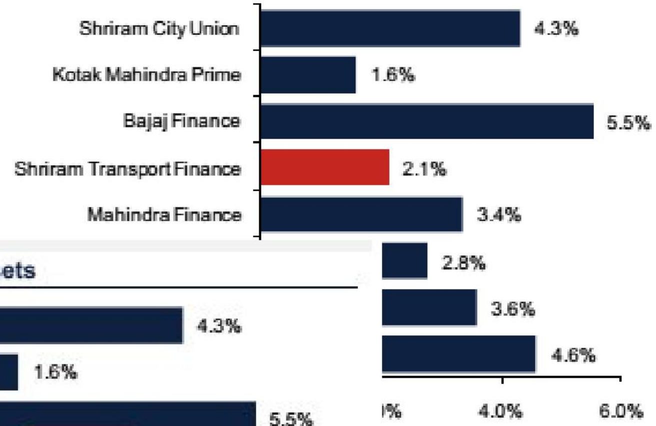
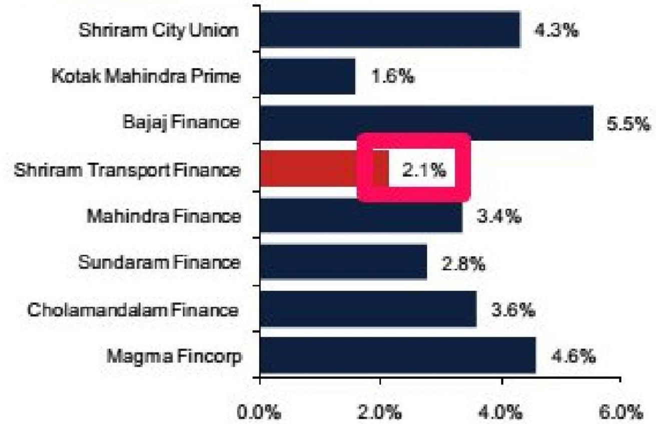
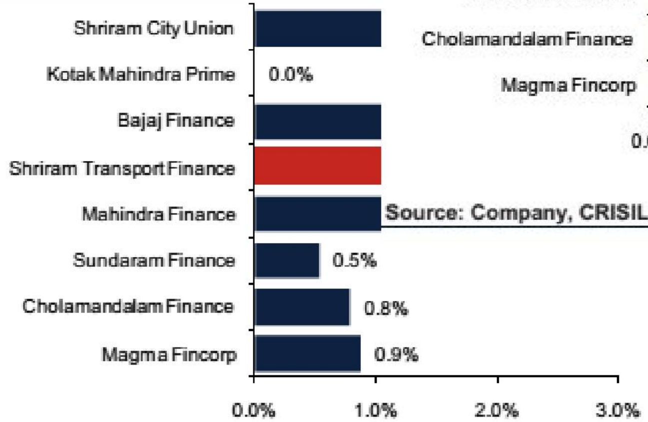


Figure 7: Opex-to-average assets

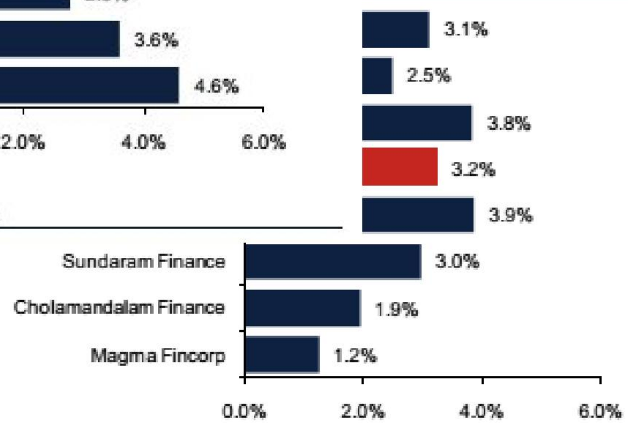


Source: Company, CRISIL Research

Figure 8: Provision & write-offs to

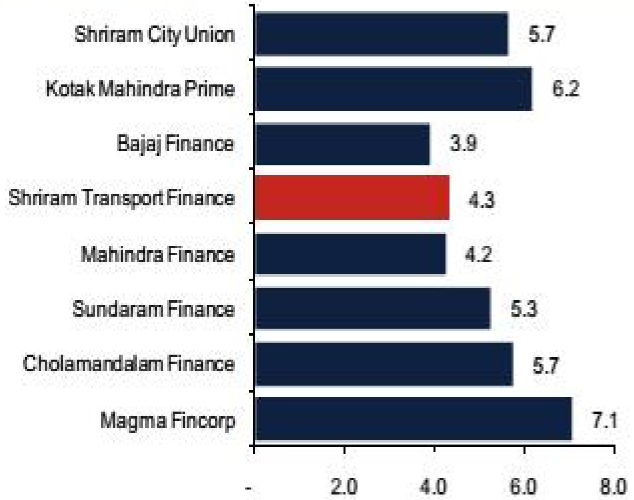


Source: Company, CRISIL Research



Source: Company, CRISIL Research

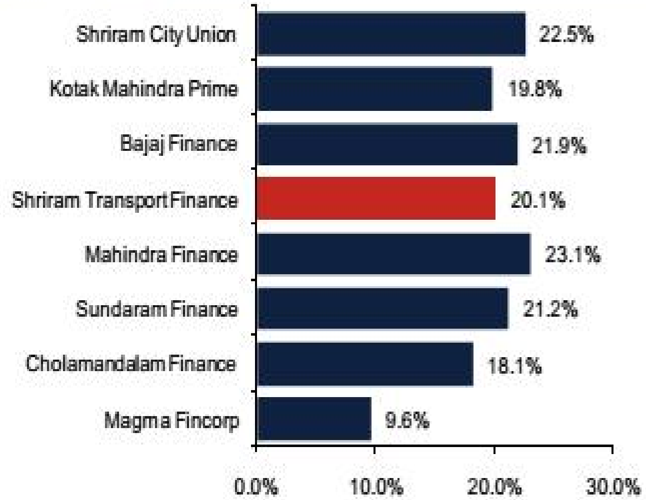
Figure 10: Leverage



Source: Company, CRISIL Research

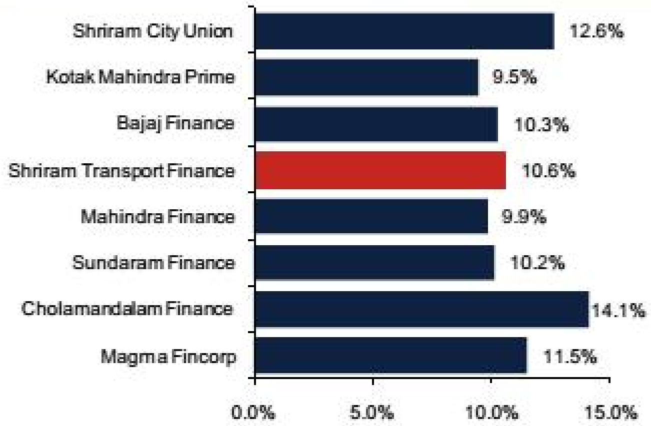
*All ratio are based on FY13 standalone financials

Figure 11: RoEs



Source: Company, CRISIL Research

Figure 25: Comparison of borrowing costs



Source: Company, CRISIL Research