



# Shriram Transport Finance Company Ltd.

## Investor Presentation

October, 2007

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# **Company Snapshot**

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# Overview

Largest asset financing NBFC with 20-25% market share in pre-owned and 7-8% in new truck financing

Strategically present in high yield - pre-owned CV financing with expertise in loan origination & valuation of pre-owned trucks and collection

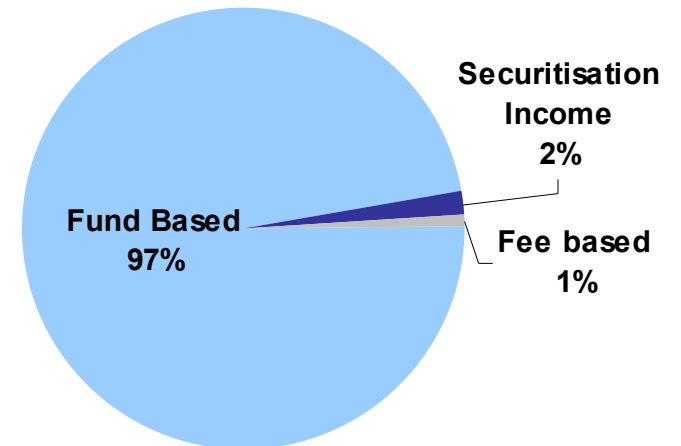
Total employee strength of over 6,318 including 2,410 field officers

Large customer base in excess 0.5mn

Equity investment from reputed private equity and institutional investors like TPG Newbridge, Chrys Capital, Citicorp, Goldman Sachs, UTI Bank, etc.

## Revenue Break Up

FY'07 - Rs 14,077mn



## Extensive Distribution Network

- Low cost pan-India presence
  - 6 Regional offices
  - 85 Divisional offices
  - 391 Branch offices

## Assets Under Management of Rs 148bn

- Total Assets under Management – Rs 148.3bn as on Sep, 2007
  - Rs 118.8bn On-Balance sheet assets
  - Rs 29.5bn Off-Balance sheet assets

Well positioned for future growth

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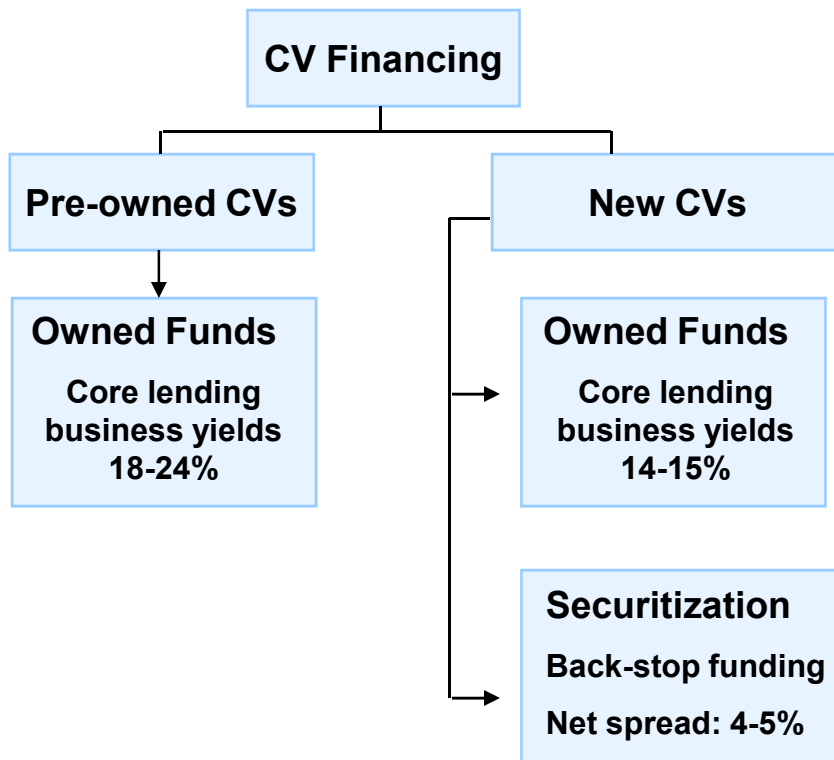
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# **Business Overview**

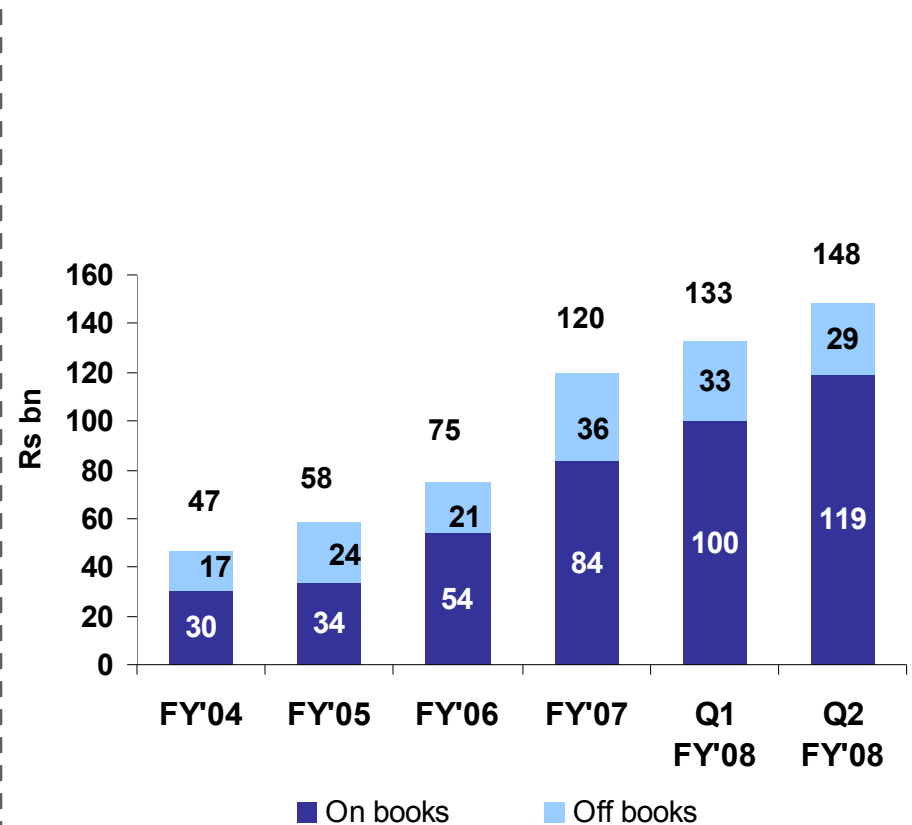
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## Services Offerings



## Growing Assets Under Management



**Revenue Model:** Interest income for on balance sheet portfolio and securitization gains and fees

**Large Customer Base:** Over 0.5mn built over the last 27 years

**Vertically integrated business model**

## Pre-Owned CV

- Leadership position with a market share of 20-25%
- Yields on pre-owned CVs is in the range of 18-24%
- **Target segment**
  - 5-12 year old trucks
  - Small truck operators owning less than 4-5 trucks (77% of total truck fraternity) with underdeveloped banking habits and a moderate negotiating power

## New CV

- Market share of 7-8%
- Strategic shift in FY'07 by deploying on balance sheet funds for financing new CVs
- Net interest margin (NIM) on new CVs at 4-5%

**Largest organized player in the Pre-owned CV financing market**

# Key Strengths

## Pan India Presence

- Low cost pan-India presence
  - 6 Regional offices
  - 85 Divisional offices
  - 391 Branch offices

## Valuation Expertise

- All divisions in a region work along with the Regional Office to develop the Resale Price Grid for all popular models of vintage 5-12 years

## Efficient Collection

- Direct contact with customers, trade and the market avoiding intermediaries
- 60% salary of field officers linked to origination and collection efficiencies

## Prudent Credit Norms

- Substituted formal credit evaluation tools, such as IT returns and bank statements, with personal understanding of the customers' proposed business model
- Maintaining client-wise and truck-wise exposure norms
- Loan-to-Value ratio of 60% reducing the chances of defaults

**Pillars of success**

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# Funding Mix

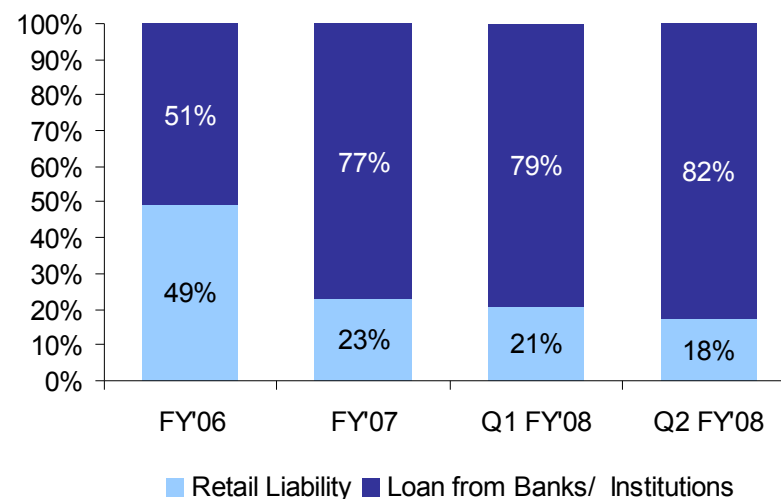
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## Borrowings

- ✓ Developed a strategic mix of retail deposits and institutional funding
- ✓ Easy access to fixed rate long term loans of 3 - 5½ years due to strong relationships with public, private sector and foreign banks
- ✓ Low average cost of debt at 10-11%
- ✓ Reduction in high cost retail liabilities from 85% of total liabilities in FY'04 to 23% in FY'07 and further 21% & 18% in Q1 FY'08 & Q2 FY'08 respectively.

## Improved Funding Mix



## Securitization

- ✓ Securitization of loan book at regular intervals to fund new originations and maintain growth momentum. Securitized assets portfolio stands at Rs 31,405mn at the end of FY'07, and Rs 26,320mn at the end of Q2 FY'08.
- ✓ Conservative recognition of income on account of securitization over the tenor of the agreements.
- ✓ CRISIL has assigned highest safety ratings to company's securitisation transaction (Rs 1,040mn portfolio) backed by new CV loans.

**Well capitalized balance sheet providing access to low cost funds**



## Long term equity partners... funding growth

### Equity funding

✓ Healthy and consistent track record of managing pre-owned truck financing has attracted reputed Institutional and Private Equity investors

<b>Key Investors*</b>	<b>(%)</b>
Shriram Promoters + TPG Newbridge	44.7%
Chrys Capital	18.4%
Citicorp	4.1%
Goldman Sachs	3.6%
Quantum	1.8%
Sanlam Asset Management	1.0%
UBS Securities	1.5%
UTI Bank	1.3%
Ward Ferry Management	1.1%
Morgan Stanley	1.8%
Public and Others	20.7%

\*As on 30<sup>th</sup> September, 2007

**Large Investments by major Institutional and Private Equity Investors**

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# Recent Financial Performance

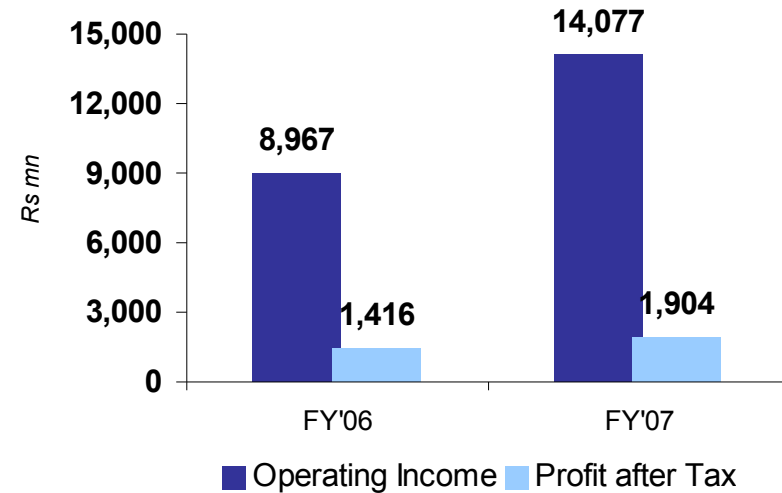
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**Operating Income up by 57% from Rs 8,967mn in FY'06 to Rs 14,077mn in FY'07**

- ✓ Driven by increasing disbursements, innovative marketing initiatives, expanded reach and network and the impact of merger
- ✓ Average yield from lending portfolio at around 18.7%
- ✓ Operating cost to Income improved from 21.6% in FY'06 to 16.7% in FY'07

## Operating Income & Profit after Tax

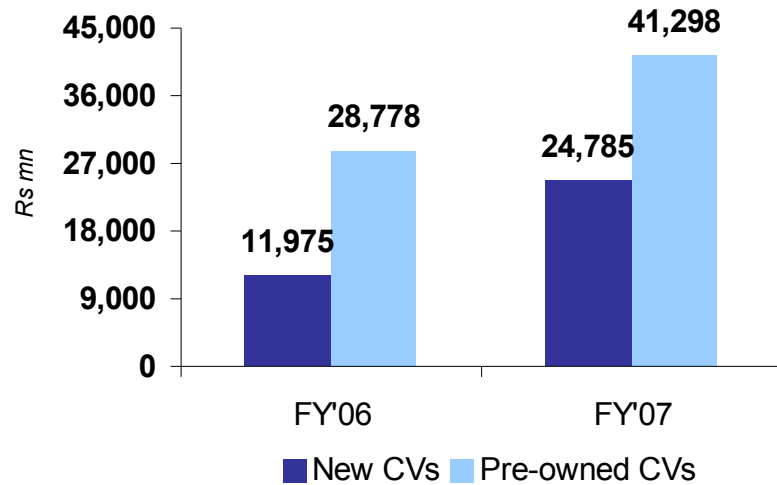


**Net Interest Margin at 8.5% and Net Spread at 3.5% in FY'07**

**Gross NPAs at 2.0% and Net NPAs at 1.3%**

**Growth momentum continues**

## Disbursements



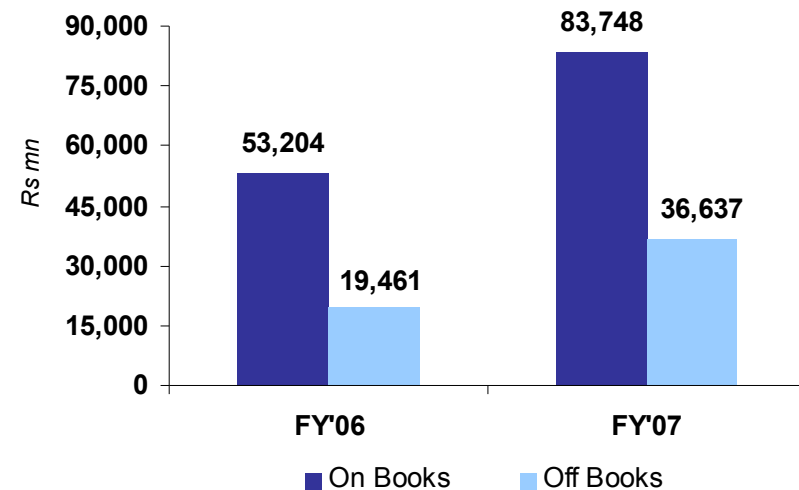
Total disbursements during FY'07 increased by 62% to Rs 66,083mn

- ✓ Pre-owned CV disbursements constituted 62% of total disbursements
- ✓ 107% YoY increase in New CV Disbursements and 44% increase in Pre-owned CV Disbursements

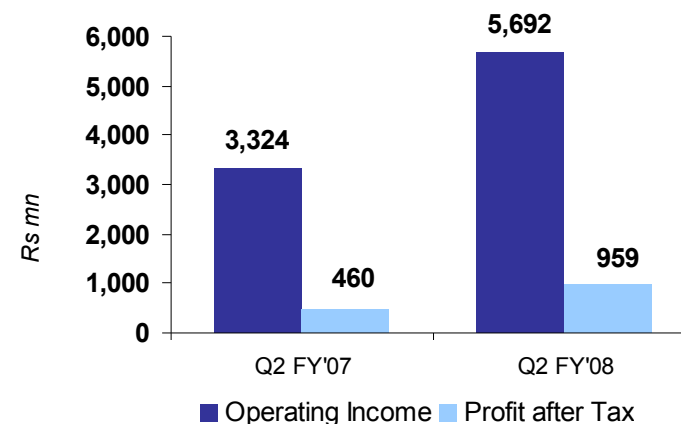
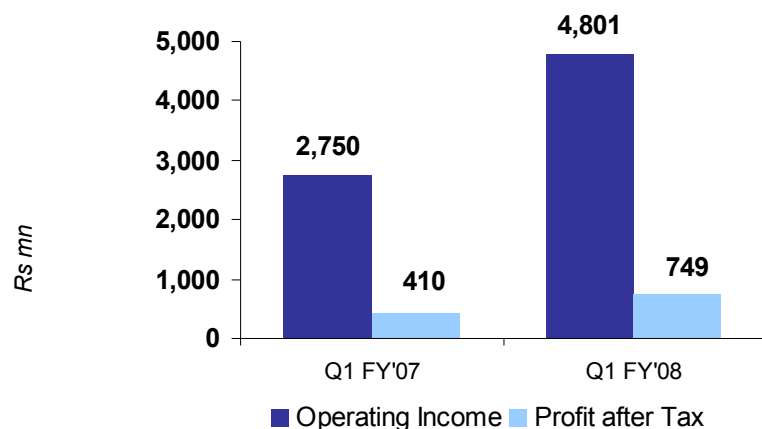
Assets under management cross  
Rs 120bn (up by 66%)

- ✓ On-books assets grew by 57% to Rs 84bn & Off-book assets grew by 88% to Rs 37bn.
- ✓ Off-books assets comprised 30% of the total AUM

## Assets Under Management



## Operating Income & Profit after Tax



**Operating Income up by 74.6% to Rs 4,801mn in Q1FY'08 from Rs 2,750mn in Q1FY'07**

- ✓ Fund based Income increased to Rs 4,471mn in Q1 FY'08 from Rs 2,707.1mn in Q1 FY'07
- ✓ Securitization Income increased to Rs 302.8mn in Q1 FY'08 from 10.8mn in Q1 FY'07

**Operating Income up by 71.2% to Rs 5,692mn in Q2FY'08 from Rs 3,324mn in Q2FY'07**

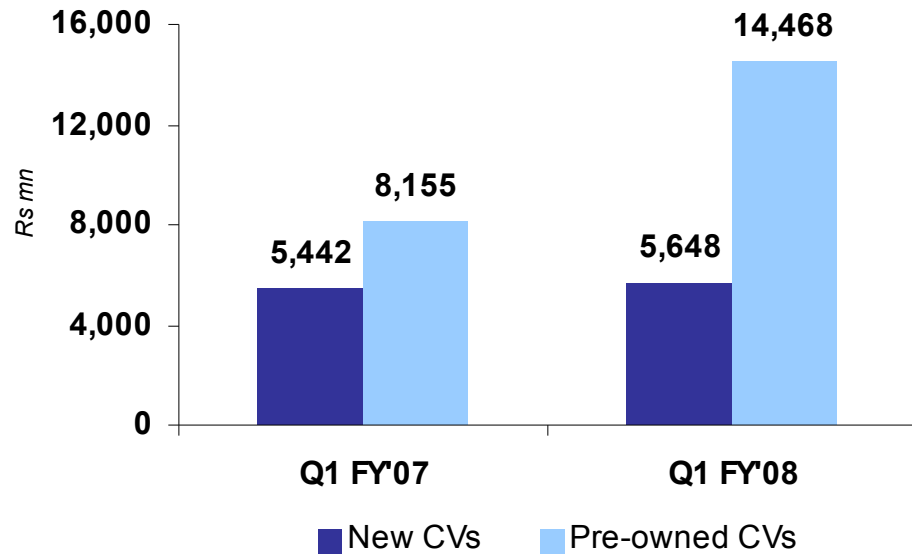
- ✓ Fund based Income increased to Rs 5,387.7mn in Q2 FY'08 from Rs 3,259mn in Q2 FY'07
- ✓ Securitization Income increased to Rs 279.6mn in Q2 FY'08 from Rs.21.5mn in Q1 FY'07

**Net Interest Margin at 8.36% and Net Spread at 4.68%**

**ROE increased to 30.77%**

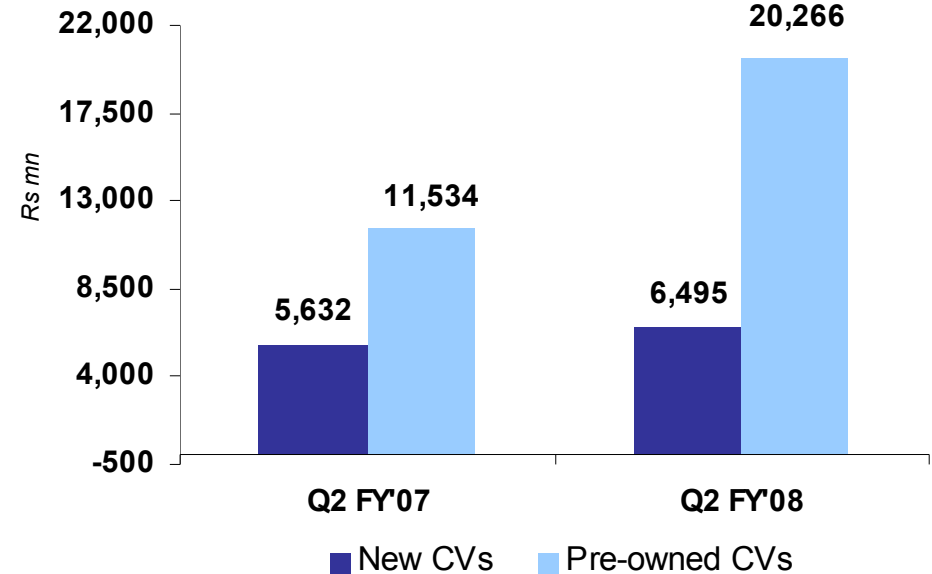
**Healthy Asset quality with Gross NPAs at 1.90% and Net NPAs at 0.98%**

## Disbursements



**Total disbursements increased by 47.9% to Rs 20,116mn from Rs 13,597mn in Q1FY'07**

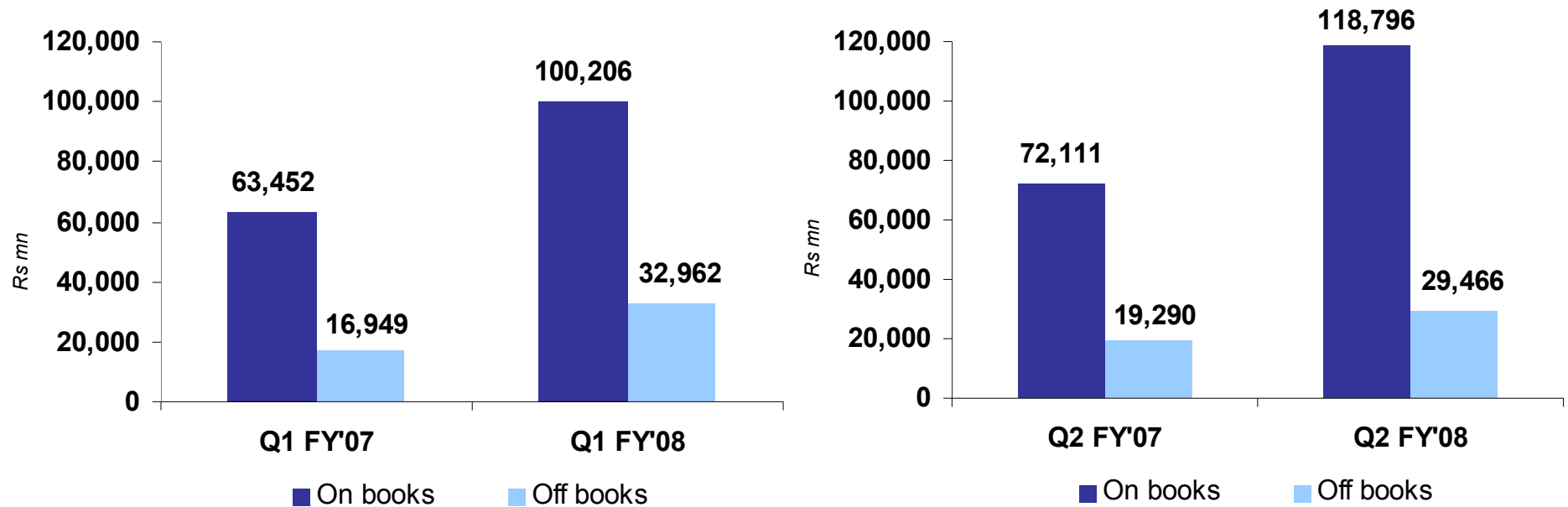
✓ Pre-owned CV disbursements constituted 71.9% of total disbursements



**Total disbursements increased by 55.9% to Rs 26,761mn from Rs 17,166mn in Q2FY'07**

✓ Pre-owned CV disbursements constituted 75.7% of total disbursements

## Assets Under Management



**Assets under management up YoY 65.6% to Rs 133,168mn**

- ✓ On-books assets grew by 57.9% to Rs 100,206mn & Off-book assets grew by 94.5% to Rs 32,962mn.
- ✓ Off-books assets comprised 24.8% of the total AUM

**Assets under management up YoY 62% to Rs 148,262mn**

- ✓ On-books assets grew by 65% to Rs 118,796mn & Off-book assets grew by 53% to Rs 29,466mn.
- ✓ Off-books assets comprised 20% of the total AUM

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# Management Depth

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# Strong Board of Directors

## Arun Duggal

Chairman

- Experienced International Corporate Business Advisor on financial strategy, M&A and capital raising
- Held important positions in Bank of America during his 26 years' tenure
- Presently, Board of Director of Jubilant Energy Ltd., Patni Computers, Fidelity Fund Management, InfoEdge, LNG Petronet, Matrix Laboratories, Manipal AcuNova, Hertz (India) and Shriram Properties
- Served as the Board of Governor of National Institute of Bank Management and as Chairman of the American Chamber of Commerce, India
- Founder Director of Bellwether Microfinance Fund and Vice Chairman of Transparency International India

## R Sridhar

Managing Director

- Over two decades of experience in financial services sector, especially in commercial vehicle financing
- Joined Shriram Group in 1985 and is serving as the Managing Director since September 2000
- Holds directorship in other Shriram Group companies
- Fellow member of the Institute of Chartered Accountants of India

## Adit Jain

Director

- Currently Managing Director of IMA India and a Non-Executive Director on the Board of Sanmar Group, International Assets Reconstruction Company and PR Pundit
- Earlier served as VP and Head of M&A at Lazard India and Strategy Director with Stag Holdings Plc, UK.
- Holds degrees in Mechanical Engineering and Business Administration

## S Venkatakrishnan

Director

- Retired IA & AS. Served at senior positions in Finance Audit & Accounts department of the government and other public undertakings
- Also on the Board of other Shriram Group companies

## Mayashankar Verma

Director

- Former Chairman of State Bank of India, Mr. Verma is a career banker with nearly five decades of experience in Indian financial sector
- Held various critical positions as Advisor to RBI, Chairman IDBI Bank and Chairman TRAI
- Currently serves as Director on the Board of several Public and Private sector companies

## Mukund Manohar Chitale

Director

- Practicing Chartered Accountant. Former President of Institute of Chartered Accountants of India
- Former Public Representative Director on the Stock exchange, Mumbai



# Strong Board of Directors

## Puneet Bhatia

Director

- Managing Director of TPG NewBridge Capital
- Former Chief executive of the Private Equity Group for GE Capital India, handling portfolio of over \$100mn
- Worked with ICICI Ltd. in its Project and Corporate finance group and with Crosby Securities as Senior Analyst
- Holds a degree in Commerce and an MBA from IIM, Kolkata

## Ravindra Behl

Director

- Over 30 years of experience primarily in financial services
- Former Citibank Country Manager for Retail Banking in India and Indonesia and a member of its Global Corporate Property Group
- Built and managed the Indian operations of eFunds, a transaction processing company
- Holds a degree in English Literature and an MBA from IIM, Kolkata.

## Ranvir Dewan

Director

- Senior Principal and Advisor to TPG NewBridge Capital
- Served as an Executive VP and Chief Financial Officer of Standard Chartered First Bank in Seoul, Korea, for 6 yrs
- 13 year stint with Citibank, holding various senior positions in its international businesses
- Fellow member of the Institute of Chartered Accountants in England & Wales and a member of the Canadian Institute of Chartered Accountants

## Sanjay Kukreja

Director

- Currently working with Chrys Capital. Has been instrumental in deploying over \$ 200mn across the financial services sector
- Also on Board of Directors of Titagarh Wagons Ltd.
- Holds a degree in Economics from Shri Ram College of Commerce and an MBA from IIM, Bangalore.

## Dr. T.S. Sethurathnam

Director

- Former Chairman of M.P. Electricity Board. Held various senior positions in his 35 years stint with the Board
- Also served as Chairman of Western Regional Electricity Board, Chief Consultant to Power Finance Corporation, Consultant to Houston Industries, Arthur Anderson and various other companies

## Sumatiprasad M. Bafna

Director

- Has extensive experience and a firm base in the transportation business
- Holds Dealership of Tata Motors, Honda, Hyundai and Maruti
- Currently on the board of more than 10 leading companies



# Management Strength

- Policy of promoting people only from within. All new recruits (except those in support functions) start at the level of field officer
- Most of the company's top and middle management personnel have risen through the ranks through experience and in-depth industry knowledge
- Enjoys very low employee turnover as compared to industry standards
- Initiated ESOP scheme to further lower the turnover rate and foster loyalty

## R. Sridhar

CEO

- Over two decades of experience in financial services sector, especially in commercial vehicle financing
- Joined Shriram Group in 1985 and is serving as the Managing Director since September 2000
- Holds directorship in other Shriram Group companies
- Fellow member of the Institute of Chartered Accountants of India

## Umesh Revenkar

Executive Director –  
Operations

- Joined as an Executive Trainee in 1987
- Looks after operations of CV finance business
- Holds a degree in MBA Finance

## Parag Sharma

President – Finance

- Joined in 1992 and now heads the Finance function
- Over 15 years experience in finance industry
- A qualified Cost Accountant

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# **Growth Targets and Strategy**

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## To double assets under management by 2010

➤ Increase market share in used vehicles from 20% to 40%

➤ Increase private financiers network from 250 to 500 across India on franchisee basis.

### Leveraging scale and synergies after merger

- Large balance sheet size to improve negotiating power in resource mobilization
- Consolidation and centralization of back office operations to lead to cost efficiencies
- Network of 391 branches providing pan-Indian presence

### De-risking business model by scaling up new truck financing business

- Leveraging national presence to scale up in next 3 years
- Deploying own funds in the financing of new trucks
- Financing new trucks to allow tapping the replacement cycle at the point of sale or exchange
- Entered into new commercial 3-wheelers segment
- Considering the option of selling securitized receivables to banks

## Expanding target market and enhancing market share in pre-owned trucks segment

- Entering into financing of multi-axle trucks, passenger commercial vehicles and multi – utility vehicles, tractor and agriculture equipment
- To launch bill discounting services, credit cards etc. to meet the working capital requirements of small truck operators
- Extending financing to 12-year-old vehicles from 10-year-old trucks at present
- Planning value-added services such as finance for reconditioned trucks, truck exchange programmes, tyre finance, working capital and engine replacement finance
- Introducing unique schemes like credit cards for truck owners and loyalty reward programmes
- Adopting a strong brand building approach to increase visibility and recognition - appointed film star Dharmendra as brand ambassador

## Focusing on network creation and employee retention

- Building franchisee model with private financiers in the unorganized market to enhance market share. Partnered with 250 local financiers to finance over 12 year old trucks.
- Initiated ESOP scheme to retain key employees

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# Industry Overview

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## Market Potential

Trucks between  
0-4 years of age



Rs 225bn

Trucks between  
5-12 years of age



Rs 125bn

Trucks over 12  
years of age

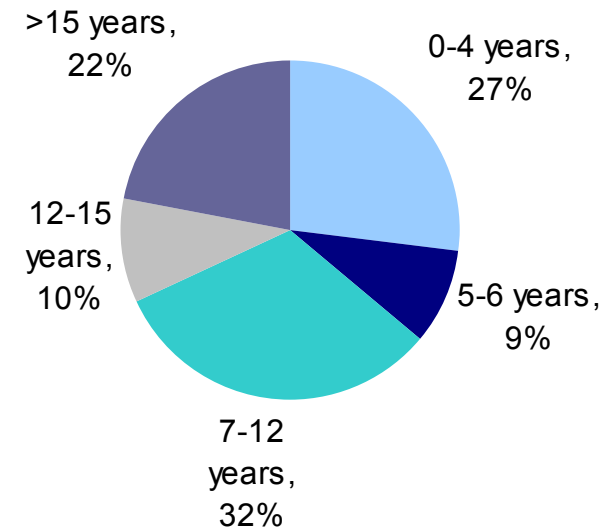


Rs 100bn

- Truck Population of approx. 4mn at present, of which 5-12 year old trucks comprise 41%
- 77% of pre-owned truck financing market dominated by smaller financiers (owning less than 5 trucks) with limited resources and at exorbitant rates

- Target market potential of Rs 450bn in new and pre-owned trucks
- Under penetration of organized lenders due to requirement of strong local presence, expertise, excellent network and effective customer evaluation tools
- Unorganized players catering to 75% of the potential market of 5-12 year old trucks

## Age Profile of Truck Fleet\*



**Large Opportunity for Growth**

\*As on 31/12/2005

- Stricter emission control norms expected to generate huge demand for 5-12 years old trucks
  - ✓ Bharat III emission norms already implemented in 11 major cities
  - ✓ Norms are likely to be implemented in the rest of the country over 2008-10
- Prohibition on overloading of trucks by Supreme Court has also led to increased demand for new and old trucks
- Legislative pressure on banning trucks beyond 15 years is likely to trigger replacement boom
- Transport associations' introduction of Voluntary Retirement Scheme for old trucks with better financing options
- Access to institutional funds to become easier with the RBI revising priority sector lending guidelines from April 1, 2007. Indian banks will be required to lend to the priority sector up to 40% of adjusted net bank credit or credit equivalent of off-balance sheet exposures, whichever is higher. For foreign banks, the target is 32%.

**Drivers in place for future growth**

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# Thank You

Concept, research and design by Four-S Services, [www.four-s.com](http://www.four-s.com)

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# **Annexure**

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Figures in Rs mn

Profit & Loss Statement	Q2 FY'07	Q1 FY'08	Q2 FY'08	YoY %	QoQ %
<b>Income from Financing operations</b>					
- Fund Based	<b>3,259.0</b>	<b>4,471.0</b>	<b>5,387.7</b>	65.3%	20.5%
- Income from Securitisation	21.5	302.8	279.6	1199.3%	-7.7%
- Fee based	43.9	27.6	25.0	-43.1%	-9.4%
<b>Operating Income</b>	<b>3,324.4</b>	<b>4,801.3</b>	<b>5,692.3</b>	<b>71.2%</b>	<b>18.6%</b>
Interest expended	1,677.7	2,323.5	2,869.2	71.0%	23.5%
Personnel cost	177.5	270.8	259.6	46.2%	-4.1%
Operating expenditure	368.9	459.1	466.5	26.5%	1.6%
<b>Core Operating Profit (Profit before Provisions &amp; Contingencies)</b>	<b>1,100.3</b>	<b>1,747.9</b>	<b>2,096.9</b>	<b>90.6%</b>	<b>20.0%</b>
Other Income	16.4	2.8	3.1	-80.9%	14.0%
<b>Operating Profit</b>	<b>1,116.7</b>	<b>1,750.7</b>	<b>2,100.1</b>	<b>88.1%</b>	<b>20.0%</b>
Provisions for Bad Debts	430.1	568.6	629.5	46.3%	10.7%
<b>PBT</b>	<b>686.6</b>	<b>1,182.1</b>	<b>1,470.6</b>	<b>114.2%</b>	<b>24.4%</b>
Tax	226.5	432.9	511.3	125.7%	18.1%
<b>PAT</b>	<b>460.1</b>	<b>749.3</b>	<b>959.3</b>	<b>108.5%</b>	<b>28.0%</b>
<b>EPS</b>	<b>2.69</b>	<b>4.07</b>	<b>5.08</b>	<b>88.8%</b>	<b>24.8%</b>
<b>Book Value</b>	<b>54.27</b>	<b>63.13</b>	<b>69.63</b>	<b>28.3%</b>	<b>10.3%</b>

Figures in Rs mn

Balance Sheet	Q2 FY'07	Q1 FY'08	Q2 FY'08
<b>Liabilities &amp; Shareholders Funds</b>			
Equity Capital	1749	1842	1912
Reserves	7745	9787	11396
Preference Capital	0	0	0
Loans			
Secured	52680	64527	79054
Unsecured	11663	27415	35041
Current Liabilities	7560	9412	9493
Deferred Tax Liability	1337	866	866
<b>Total</b>	<b>82734</b>	<b>113849</b>	<b>137762</b>
<b>Assets</b>			
Fixed Assets	1591	1631	1662
Loans & Advances	888	495	205
Cash & Bank balances	4723	8712	12670
Investments	92	918	2167
Truck receivables	72111	100206	118796
Current Assets	3330	1887	2262
<b>Total</b>	<b>82734</b>	<b>113849</b>	<b>137762</b>

# Spread Analysis – Quarterly

Spread Analysis	Q2 FY'07	Q1 FY'08	Q2 FY'08
Total Income/ Avg. total assets	17.17%	17.34%	18.11%
Interest cost/ Avg. total assets	8.62%	8.39%	9.12%
<b>Gross Spread</b>	<b>8.55%</b>	<b>8.95%</b>	<b>8.99%</b>
NPA provisioning/ Avg. total assets	2.21%	2.05%	2.00%
Overhead Cost/ Avg. total assets	2.81%	2.63%	2.31%
<b>Net Spread</b>	<b>3.53%</b>	<b>4.27%</b>	<b>4.68%</b>

Key Ratios (%)	Q2 FY'07	Q1 FY'08	Q2 FY'08
Yield on Interest earning assets	18.49%	16.89%	17.89%
Cost of interest bearing Liabilities	10.66%	9.95%	10.70%
Net Interest Margin	8.97%	8.11%	8.36%
Return on Avg. Net Worth	20.04%	26.65%	30.77%
Return on Avg. Assets	2.36%	2.70%	3.05%
Fee-Income % of Total income	5.26%	2.30%	1.75%
Interest Coverage Ratio	1.99	2.07	1.99

Figures in Rs mn

<b>Profit &amp; Loss Statement</b>	<b>FY'06</b>	<b>FY'07</b>	<b>YoY %</b>
Income from Financing operations			
- Fund Based	<b>8,066.7</b>	<b>13,803.5</b>	71.1%
- Income from Securitisation	<b>630.5</b>	<b>142.2</b>	(77.4)%
- Fee based	269.5	130.4	(51.6)%
<b>Operating Income</b>	<b>8,966.7</b>	<b>14,076.6</b>	57.0%
Interest expended	4,150.6	7,239.2	74.4%
Personnel cost	470.3	718.7	52.8%
Operating expenditure	1,462.8	1,640.1	12.1%
<b>Core Operating Profit</b> (Profit before Provisions & Contingencies)	<b>2,883.0</b>	<b>4,478.0</b>	55.3%
Other Income	120.0	79.2	(34.0)%
<b>Operating Profit</b>	<b>3,002.9</b>	<b>4,557.2</b>	51.8%
Provisions for Bad Debts	841.2	1664.9	97.9%
<b>PBT</b>	<b>2,161.7</b>	<b>2,892.3</b>	33.8%
Tax	745.3	988.3	32.6%
<b>PAT</b>	<b>1,416.4</b>	<b>1,904.0</b>	34.4%
<b>EPS</b>	<b>9.4</b>	<b>11.0</b>	17.6%
<b>Book Value</b>	<b>49.6</b>	<b>59.0</b>	18.9%

# Balance Sheet - Annual

Figures in Rs mn

Balance Sheet	FY'06	FY'07
<b>Liabilities</b>		
Shareholder Funds		
Equity Capital	1,692.1	1,841.8
Reserves	6,696.9	9,022.3
Preference Capital	-	-
Loans		
Secured	37,430.4	63,389.1
Unsecured	6,530.5	23,995.3
Current Liabilities	8,503.5	8644.6
Deferred Tax Liability	1,336.9	866.2
<b>Total</b>	<b>62,190.3</b>	<b>107,759.2</b>
<b>Assets</b>		
Fixed Assets	1,567.2	1,674.7
Loans & Advances	517.4	588.9
Cash & Bank balances	2,528.8	17526.6
Investments	91.5	2,245.7
Truck receivables	53,203.9	83,748.0
Current Assets	4,281.5	1975.3
<b>Total</b>	<b>62,190.3</b>	<b>107,759.2</b>

# Spread Analysis FY'07

Spread Analysis	FY'06	FY'07
Total Income/ Avg. total assets	19.2%	17.0%
Interest cost/ Avg. total assets	8.7%	8.7%
Gross Spread	10.4%	8.3%
NPA provisioning/ Avg. total assets	1.8%	2.0%
Overhead Cost/ Avg. total assets	4.1%	2.8%
Net Spread	4.5%	3.5%

Key Ratios (%)	FY'06	FY'07
Yield on Interest earning assets	20.6%	18.1%
Cost of interest bearing Liabilities	10.9%	10.9%
Net Interest Margin	8.5%	8.5%
Return on Avg. Net Worth	26.6%	19.5%
Return on Avg. Assets	3.0%	2.3%
Fee-Income % of Total income	3.0%	0.9%
Interest Coverage Ratio	2.19	1.96