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Shriram Transport Finance Co Ltd – NCD note – “SUBSCRIBE”

25<sup>th</sup> June, 2011

<b>Issuer</b>	<b>Shriram Transport Finance Company Ltd</b>
Issue	Public Issue of secured NCDs aggregating to Rs.500 Cr with an option to retain oversubscription up to Rs.500 Cr for issuance of additional secured NCDs
Issue Date	27 <sup>th</sup> June, 2011 – 9 <sup>th</sup> July, 2011
<b>Recommendation</b>	<b>Subscribe</b>
<b>Acceptance</b>	<b>First Come First Serve Basis</b>
Book Running Lead Manager	JM Financial, ICICI Securities
Co Lead Managers	RR Investors Capital Services, Karvy
Registrar	Integrated Enterprises Ltd
Stock exchange proposed for listing	NSE
Depositories	NSDL,CDSL
Mode of allotment	Compulsorily in dematerialized form
Terms of Payment	Full amount on application
Trading Lot	1 NCD
Rating	AA/Stable by CRISIL and CARE AA+ by CARE

**Issue Details**

<b>NCD Options</b>	<b>I</b>	<b>II</b>
Tenor	5 yrs	3 yrs
Put/Call option	4 yrs	Nil
Frequency of Interest Payment	Annual	Annual
Face Value of NCDs (Rs./NCD)	Rs.1000	Rs.1000
Issue Price (Rs./NCD)	Rs.1000	Rs.1000
Minimum Application	Rs.10,000 (10 NCDs) [ Option I & Option II either taken individually or collectively]	
In Multiples of	Rs.1000 (1 NCD)	Rs.1000 (1 NCD)
<b>Individuals with application up to Rs 5 lacs (40% of issue size)</b>		
Coupon	11.60%	11.35%
Effective Yield (per annum)	11.60%	11.35%
<b>Individuals with application above Rs 5 lacs (40% of issue size)</b>		
Coupon	11.35%	11.10%
Effective Yield (per annum)	11.35%	11.10%
<b>Institutions &amp; Corporates (20% of issue size)</b>		
Coupon	11.10%	11.00%
Effective Yield (per annum)	11.10%	11.00%

**Objective of the issue:**

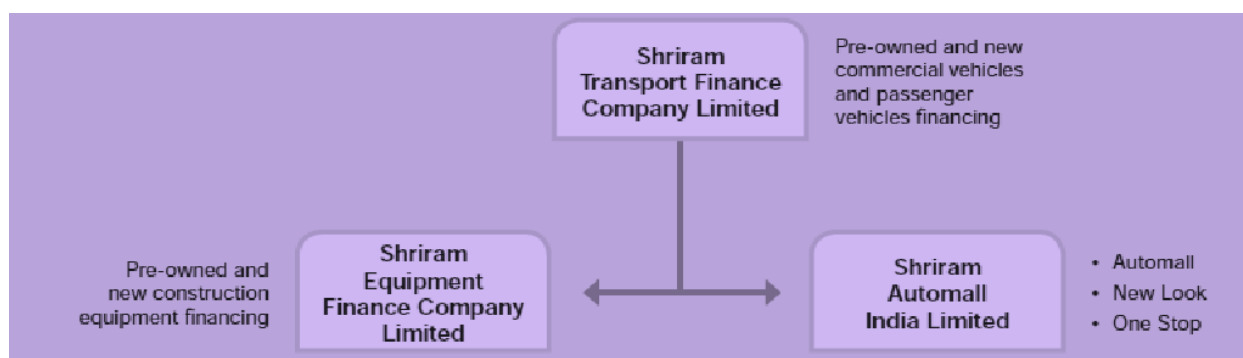
The funds raised via the issue of NCDs will be primarily used for lending & investment purposes. It may also be used for business operations & working capital requirement.



### Company Overview:

Established in 1979, Shriram Transport Finance Company Limited (STFC) is one of the largest assets financing NBFC with approximately 20-25% market share in pre-owned and approximately 7-8% market share in new truck financing. It has a pan-India presence with a network of 68 SBUs and 488 branches, and has built a strong customer base of over 7.5 lacs. Over the past 30 years, it has developed strong competencies in the areas of loan origination, valuation of pre-owned trucks and collection.

### Organization Structure:



### Shriram Transport Finance Company Ltd:

- Financing of pre-owned and new commercial and passenger vehicles, tractors, 3 wheelers, multi-utility vehicles, etc.
- Finance for working capital, engine replacement, bill discounting, credit cards and tyre-loans as holistic financing support.

### Shriram Equipment Finance Company Ltd:

- Financing of pre-owned and new Construction equipment through Shriram Equipment Finance Company Limited, a 100% subsidiary.

### Shriram Automall India Ltd:

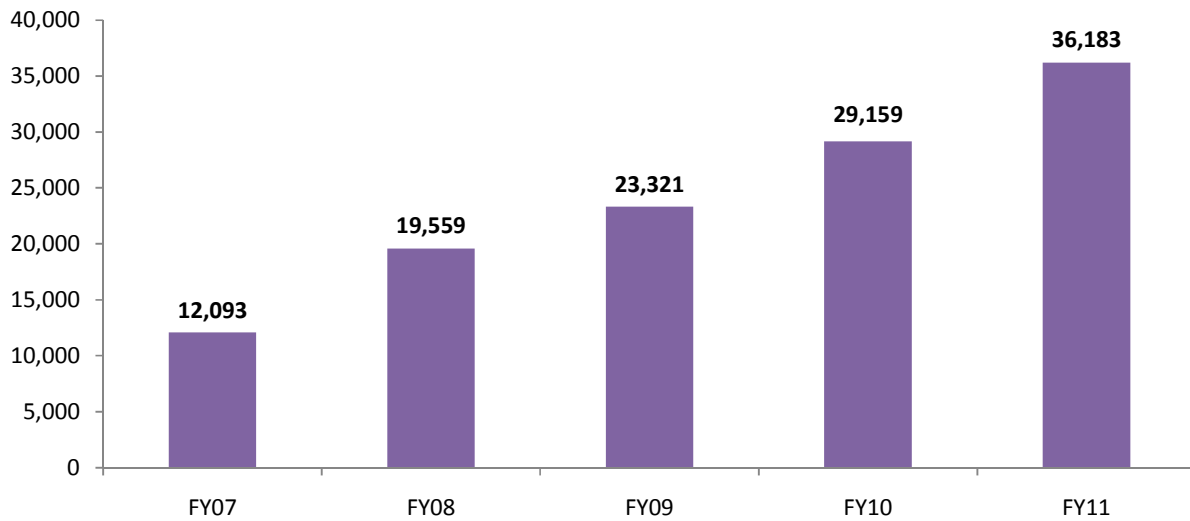
- Owns, operates and manages Automall, India's first pre-owned commercial vehicle physical auction platform through Shriram Automall India Limited, a 100% subsidiary.
- Sale of refurbished commercial vehicles through Shriram New Look.
- Operates Electronic Kiosks having intranet, to facilitate buying and selling of pre-owned commercial and passenger vehicles within our branches.



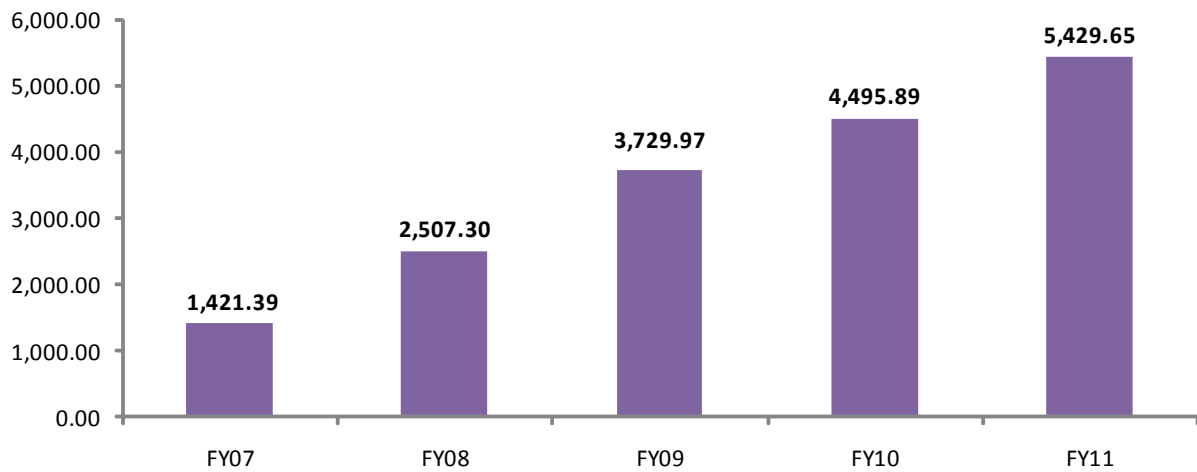
### Key Financial Parameters

#### Assets under Management (Rs.Cr)

#### AUM (Rs.Cr)

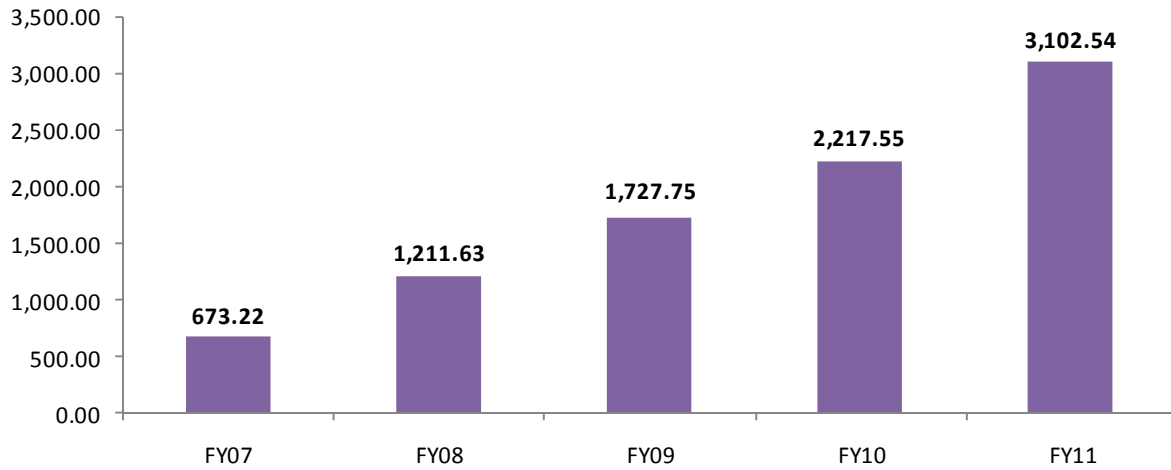


#### Total Income (Rs.Cr)

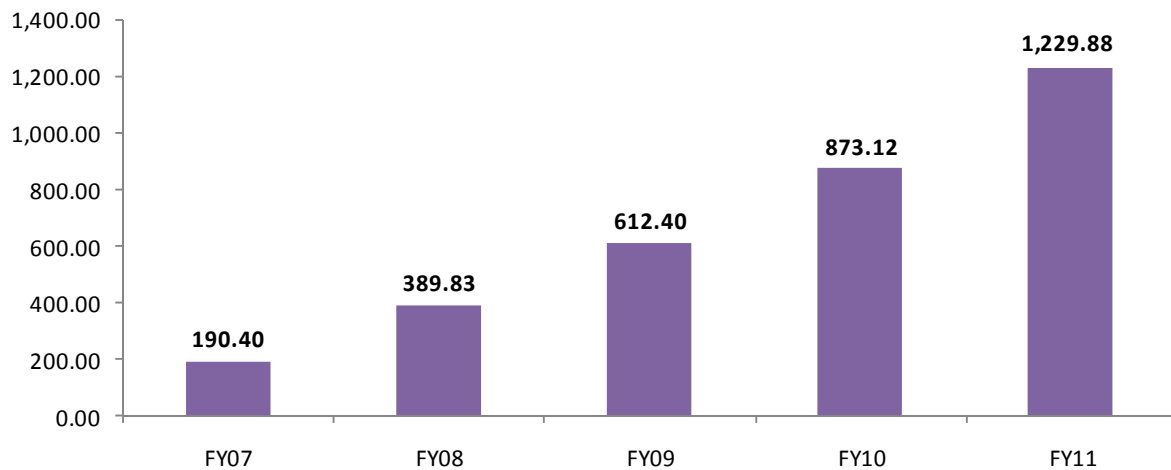




### Net Interest Income (Rs.Cr)

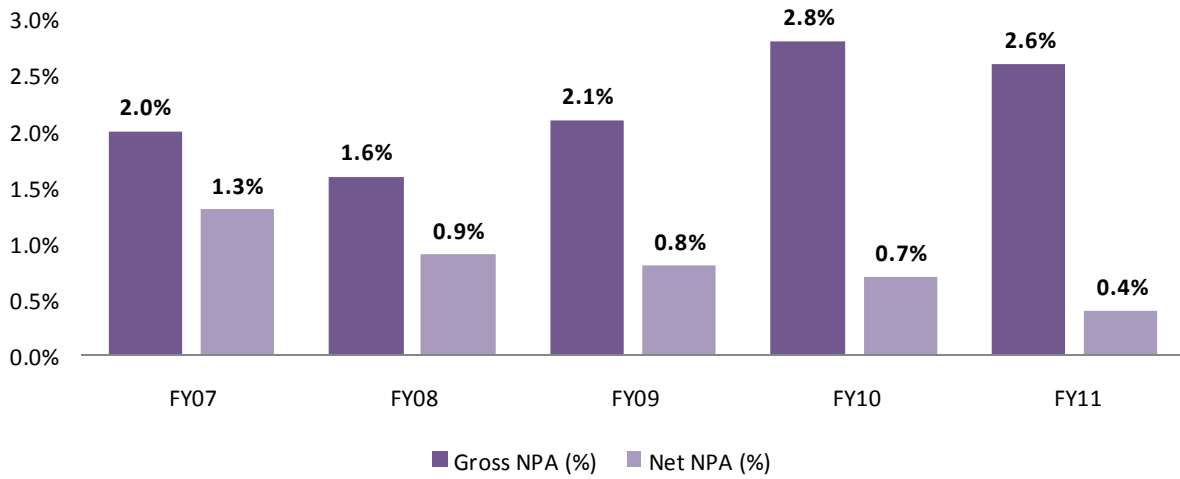


### Net Profit (Rs.Cr)





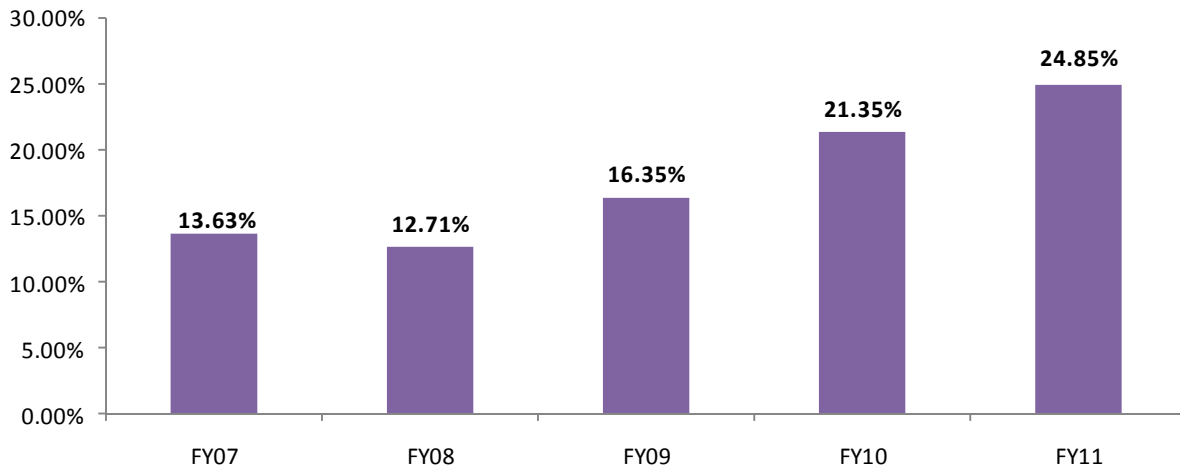
### Asset Quality



### Capital Adequacy Ratio

Minimum CAR stipulated by RBI is 12.00%.

### CAR (%)

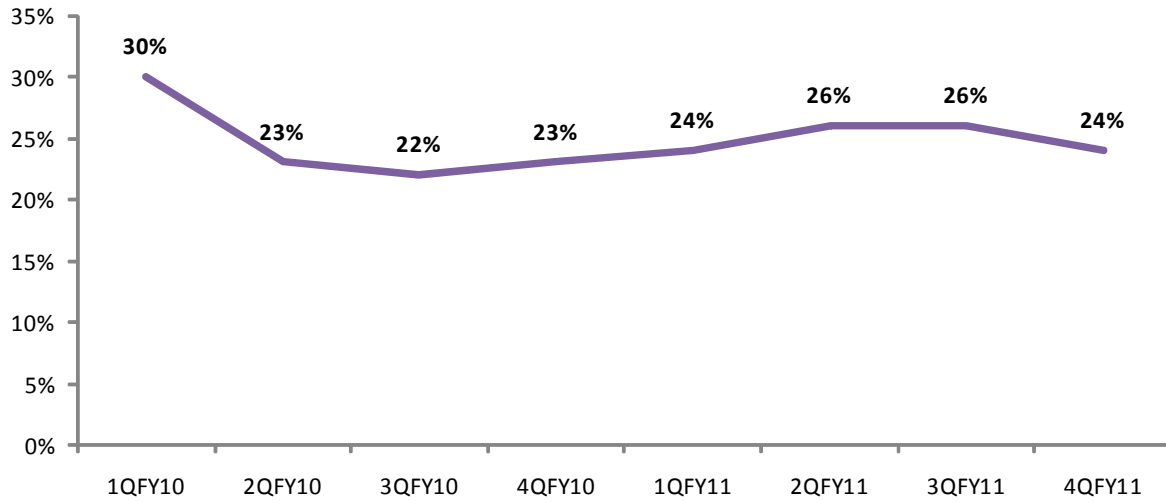




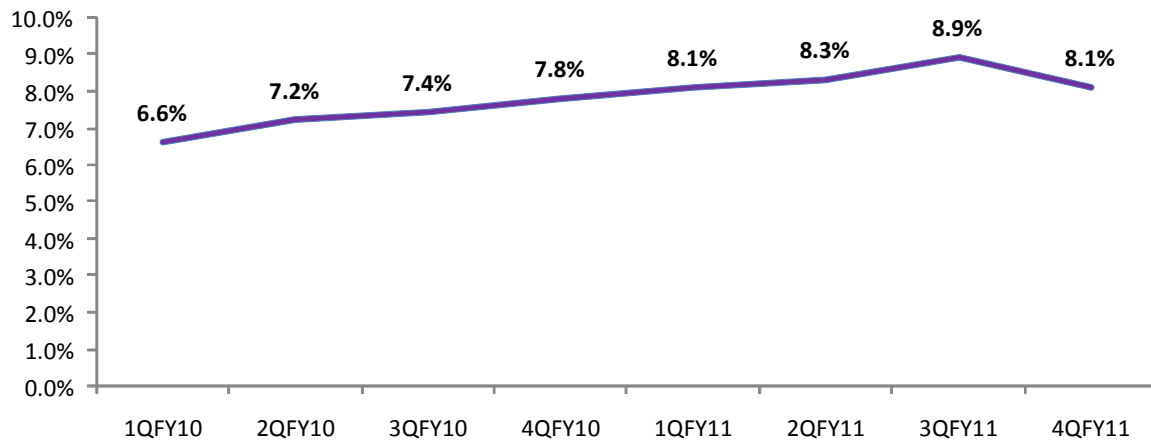
### Cost to Income ratio (%)

Management expects C/I ratio to remain below 25%

### Cost to Income ratio (%)



### Net Interest Margin (%)





## Future Goal

### Target to reach AUM of over Rs.50,000 Cr by FY13

- Expanding operations by increasing the no. of branches, thereby enhancing the reach
- Developing partnerships & co-financing arrangements with private financiers
- Increasing the focus on branding
- Developing new innovative products:
  - ✓ Freight Bill Discounting, Passenger Commercial Vehicle Financing, Tractor Financing
  - ✓ Introduce top-up products such as finance for tyres, working capital and engine replacement
  - ✓ Build partnership with private financiers in the unorganized market to leverage their local knowledge to enhance market share. Partnered with more than 500 private financiers as of March 31, 2011
  - ✓ Construction Equipment Financing
  - ✓ Auto Malls, Shriram New Look, Electronic kiosks

All these initiatives would help STFC market its financial products and develop new customers

## Risks & its Mitigation

### 1) Economy Risk

A slowdown in the economy has a direct impact on the sale of CVs.

#### Risk mitigation

- An economic slowdown generally affects the new CV industry.
- The pre-owned CV market remains largely unaffected because of the unique customers as well as lower deal size
- Close to 76 percent of the Company's total portfolio consists of pre-owned CVs
- Further, the Company has also initiated measures to diversify its portfolio by entering construction equipment, tractors, passenger CVs, working capital requirements of CV owners, etc.





## 2) Interest rate risk

While the Company borrows at both fixed and floating rates, it lends at a fixed rate. If the Company has a large proportion of borrowings at a floating rate, a sharp fluctuation in interest rate may lead to a reduction in the Company's net interest margin. Higher interest cost would also lead to a higher cost of lending which may reduce the attractiveness of the Company for borrowers and affect the Company's ability to grow its business.

### Risk mitigation

- Majority of the Company's loan portfolio qualify as Priority Sector assets for banks, which enables the Company to raise funds at lower costs.
- Nearly 80% of borrowed funds are at fixed interest rates & 100 % of lending is at fixed interest rates, thereby mitigating fluctuations in interest rates.
- There is a strategic mix of retail deposits (25%) and institutional funding (75%). Average cost of funds declined over the years with increase in Bank/ Institutions liabilities.
- The Company enjoys high credit ratings for its long term (AA+ from CARE and AA from CRISIL) as well as short term (F1+ from Fitch and P1+ from CRISIL) credit requirements enables access to low cost funds
- Securitization of loan book at regular intervals to fund new originations and maintain growth momentum

### Past Issues of Non-Convertible Debentures (NCDs) by STFC

#### 1) July 2009

- The size of the issue was Rs.500 Cr with an option to retain over subscription up to Rs.500 Cr.
- The NCDs had a coupon rate between 10.75 % - 11.25 % under different investment options
- The NCDs issue was rated "AA+" by CARE and "AA (IND)" by Fitch
- The NCDs issue had received a good response from the investors and was oversubscribed which had led to early closure of the issue

#### 2) May 2010

- The size of the issue was Rs.250 Cr with an option to retain over subscription up to Rs.250 Cr.
- The NCDs had a coupon rate between 9.50 % - 11.25 % under different investment options
- The NCDs issue was rated "AA+" by CARE
- The NCDs issue had received a good response from the investors and was oversubscribed which had led to early closure of the issue

**Recommendation:**

We advise long term investors to subscribe to **5 yr tenor NCD @ 11.60% (Option I)** at the earliest (preferably first day) as the allotment will be done on first come first serve basis & experience from past issues shows that the issue may be fully subscribed on day 1 itself. The main reasons for our recommendation are:

**1) Safety**

The NCDs issue has been rated “AA/Stable” by CRISIL & “AA+” by CARE

**2) Attractive Return**

The NCDs are offering a coupon rate between 11.00% -11.60% for a period of 3-5 years under different investment options. The interest will be paid annually. A comparison of interest rates of recent NCDs by Tata Capital, SBI Capital & different banks with similar period & is shown below:

	<b>SBI Capital</b>	<b>Tata Capital</b>	<b>Shriram Transport</b>
<b>Rating</b>	AA/Stable by CRISIL AAA by CARE	AA+ by CARE LAA+ by ICRA	AA/Stable by CRISIL AA+ by CARE
<b>Face Value</b>	Rs.10,000	Rs.1000	Rs.1000
<b>Coupon Rate</b>	9.75%	12.00%	11.60%
<b>Maturity</b>	10 yrs	5yrs	5yrs
<b>Redemption Date</b>	March 2021	March 2016	July 2016

	<b>Interest Rate (%) for 3-5 years</b>
<b>State Bank Of India</b>	8.25%
<b>Central Bank Of India</b>	8.80%
<b>Dena Bank</b>	9.25%
<b>HDFC Bank</b>	8.25%
<b>ICICI Bank</b>	8.75%
<b>Karur Vysya Bank</b>	9.50%

(Source: Individual Bank Websites)



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