Secured NCD Issue

July 20, 2012

Summary: Shriram Transport Finance Company Ltd (STFC), one of the largest asset financing NBFCs in India, has come up with its fourth public issue of Secured Non Convertible Debentures (NCDs) aggregating up to Rs. 300 crore with an option to retain over-subscription of upto Rs. 300 crore for issuance of additional NCDs aggregating to a total of upto Rs. 600 crore. The Issue shall be open from **July 26, 2012 to August 10, 2012** (The Company has the option of closing the issue on an earlier date, once it receives the amount it has targeted). The company will be paying an interest ranging between 10.25% and 10.50% p.a. on these bonds.

Objects of the Issue: The funds raised will be used for various financing activities including lending and investments, to repay existing loans and for business operations including its working capital requirements.

Issue Details:

Options	I	II	III		IV	
Frequency of Interest Payment	Annual	Annual	Not Applicable		Not Applicable	
Minimum Application	**Rs. 10,000/-** (10 NCDs) (for all options of NCDs, namely Options I, Option II, Option III, Option IV either taken individually or collectively)					
In Multiples of	Rs. 1,000 (1 NCD)	Rs. 1,000 (1 NCD)	Rs. 1,000 (1 NCD)		Rs. 1,000 (1 NCD)	
Face Value of NCDs	Rs. 1,000	Rs. 1,000	Rs. 1,000		Rs. 1,000	
Issue Price	Rs. 1,000	Rs. 1,000	Rs. 1,000		Rs. 1,000	
Tenor	**36 months**	**60 months**	**36 months**		**60 months**	
Mode of Interest Payment	Direct Credit, NECS, RTGS, NEFT and Post.	Direct Credit, NECS, RTGS, NEFT and Post.	Direct Credit, NECS, RTGS, NEFT and Post.		Direct Credit, NECS, RTGS, NEFT and Post.	
Coupon (%) per annum)	10.25% per annum	10.50% per annum	Not Applicable		Not Applicable	
Coupon (%) for Holders who are individuals	11.15% per annum	11.40% per annum	Not Applicable		Not Applicable	
Coupon (%) for Holders who are Non-individuals	10.25% per annum	10.50% per annum	Not Applicable		Not Applicable	
Put and call option	Nil	Nil	Nil		Nil	
Redemption Date	**36 months** from the Deemed Date of Allotment*	**60 months** from the Deemed Date of Allotment.	**36 months** from the Deemed Date of Allotment*		**60 months** from the Deemed Date of Allotment.	
Redemption Amount (Rs/NCD)	Repayment of the Face Value plus any interest that may have accrued at the Redemption Date	Repayment of the Face Value plus any interest that may have accrued at the Redemption Date	NCD Holders who are Individuals NCDs, shall be redeemable at a premium of Rs 373.19 per Series	NCD Holders who are Non Individuals NCDs, shall be redeemable at a premium of Rs 340.10 per Series	NCD Holders who are Individuals NCDs, shall be redeemable at a premium of Rs 716.15 per Series	NCD Holders who are Non Individuals NCDs, shall be redeemable at a premium of Rs 647.90 per Series
Credit Rating	Crisil –'AA/Stable' Care – 'AA+' For an amount of upto Rs.600 Crs	Crisil –'AA/Stable' Care – 'AA+' For an amount of upto Rs.600 Crs	Crisil –'AA/Stable' Care – 'AA+' For an amount of upto Rs.600 Crs		Crisil –'AA/Stable' Care – 'AA+' For an amount of upto Rs.600 Crs	
Security	Security for the purpose of this Issue will be created in accordance with the terms of the Debenture Trust Deed. First charge on an identified immovable property and specified future receivables of the Company to ensure minimum one time security cover					

Who can apply?

Category I (Institutional Investor):

- Resident Public financial institutions, statutory corporations, commercial banks, co-operative banks and regional rural banks incorporated in India and authorized to invest in the NCDs;
- Indian Provident funds, pension funds, superannuation funds and gratuity funds, authorized to invest in the NCDs;
- Indian venture capital funds registered with SEBI;
- Indian insurance companies registered with the IRDA;
- National Investment Fund; and
- Indian Mutual Funds registered with SEBI.

Category II (Non-Institutional Investor):

- Companies, bodies corporate and societies, registered under the applicable laws in India, and authorized to invest in the NCDs;
- Trusts settled under the Indian Trusts Act, 1882, public/private charitable/religious trusts settled and/or registered in India under applicable laws, which are authorized to invest in the NCDs

- Resident Indian scientific and/or industrial research organizations, authorized to invest in the NCDs;
- Partnership Firms in the name of the partner; and
- Limited liability partnerships formed and registered under the provisions of the Limited Liability Partnership Act, 2008 (No. 6 of 2009).

Category III (Reserved Individual Investor if application < Rs. 5 lacs and 'Unreserved Individual Investor if application > Rs. 5 lacs):

- Resident Indian individuals; and
- Hindu Undivided Families through the Karta.

Basis of Allotment:

Allotments in the first instance: (available for allotment on first come first serve basis)

- Applicants belonging to the Institutional Portion, in the first instance, will be allocated NCDs upto 10% of Overall Issue Size. (Up to Rs. 60 crore comprising Basic + Greenshoe options);

- Applicants belonging to the Non-Institutional Portion, in the first instance, will be allocated NCDs upto 10% of Overall Issue Size. (Up to Rs. 60 crore comprising Basic + Greenshoe options);

- Applicants belonging to the Reserved Individual Portion (who invest in below Rs. 5 lacs), in the first instance, will be allocated NCDs upto 40% of Overall Issue Size. (Up to Rs. 240 crore comprising Basic + Greenshoe options);

- Applicants belonging to the Unreserved Individual Portion (who invest in above Rs. 5 lacs), in the first instance, will be allocated NCDs upto 40% of Overall Issue Size. (Up to Rs. 240 crore comprising Basic + Greenshoe options).

In case of oversubscription, allotments will be made on a first-come first-serve basis and thereafter on proportionate basis. In case of under subscription, in any Portion, priority in allotments will be given in the following order (in decreasing order of priority): Reserved Individual Investor, Unreserved Individual Investor, Non Institutional Investor and Institutional Portion.

Credit Rating: The proposed NCD issues have been rated AA/Stable by CRISIL and AA+ by CARE, which indicates timely servicing of financial obligations and carrying very low credit risk.

Security: The principal amount of the NCDs together with all interest due on the NCDs and all costs shall be secured by way of first charge in favour of the Debenture Trustee on an identified immovable property and specified future receivables of the Company as may be decided mutually by STFC and the Debenture Trustee. STFC will create appropriate security in favour of the Debenture Trustee for the NCD holders on the assets adequate to ensure 100% asset cover for the NCDs, which shall be free from any encumbrances.

Payment of Interest: For NCDs subscribed under Option I and Option II, the relevant interest will be paid on the first day of April every year for the amount outstanding. The first interest payment will be made on April 1, 2013 for the period commencing from the Deemed Date of Allotment till March 31, 2013. The last interest payment will be made at the time of redemption of the NCD on a pro rata basis. Payment of Interest will be made to those NCD holders whose names appear in the register of NCD holders (or to first holder in case of joint-holders) as on record date. No TDS is applicable on debentures as they are proposed to be listed on stock exchanges and if held in demat form.

Liquidity and Exit Options:

- Secondary market exits – Listing on the NSE and BSE to provide tradability.

Interest on Application Money:

- On Allotment – 9.00% p.a.
- On Refund – 2.50% p.a.

Loan against NCDs: STFC, at its sole discretion, subject to applicable statutory and/or regulatory requirements, **may** consider granting of a loan facility to the holders of NCDs against the security of such NCDs.

Company Background:

Incorporated in 1979, Shriram Transport Finance (STFC), the largest asset financing non-banking financial company (NBFC) in India, primarily engages in financing pre-owned commercial vehicles. It is among the leading financing institutions in the organized sector for the commercial vehicle industry in India for FTUs and SRTOs.

It also provides financing for passenger commercial vehicles, multi-utility vehicles, three wheelers, tractors and construction equipment. Besides financing commercial vehicles (both new and pre-owned) STFC also extends finance for tyres, engine replacement and working capital. STFC also provides ancillary services such as freight bill discounting besides offering co-branded credit cards.

STFC's widespread network of branches across India has been a key driver of its growth over the years. As of March 31, 2012 it had 502 branches across India, including at most of the major commercial vehicle hubs along various road transportation routes in India.

It has also strategically expanded its marketing network and operations by entering into partnership and co-financing arrangements with private financiers in the unorganized sector involved in commercial vehicle financing. As of March 31, 2012 its total employee strength was approximately 15,057.

Key Strengths of the company:

- Largest asset financing NBFC
- Access to a range of cost effective funding sources.
- Unique business model and a track record of strong financial performance.
- Strong brand name.
- Extensive experience and expertise in credit appraisal and collection processes.
- Experienced senior management team.

Strategies of the company:

- To expand operations further by growing STFC's branch network and increasing partnership and co-financing arrangements with private financiers.
- To continue to develop "Automall" business through wholly-owned subsidiary Shriram Automall India Limited.
- To Consolidate and expand construction and equipment finance business through wholly-owned subsidiary, Shriram Equipment Finance Company Limited.
- To diversify its product portfolio.
- To continue to Implement advanced processes and systems.

STFC faces **risks** of interest rate volatility, slowdown in new and preowned vehicle sales, heightened competition, possibilities of downgrade of credit ratings and possibility of rising NPAs if the macro situation deteriorates.

Financial summary:. STFC's gross non-performing assets increased to 3.1 per cent as on March 31, 2012, from 2% as on March 31, 2011, primarily because of the increased macroeconomic challenges and mining-related issues in some states. Its AUM growth, at 11 per cent in 2011-12 was however lower than that of other large CV financiers. Disbursements declined marginally by 2% to Rs.194.9 billion in 2011-12 because of increasing competition in new vehicle financing segment and reduction in loan to value ratios for incremental disbursements in pre-owned CV financing segment. Despite some moderation in net interest margin and increase in provisioning costs, the return on assets ratio was around 3.7 during 2011-12 (4.2 per cent in 2010-11), which is amongst the highest in the industry.

Rs in Lacs

Particulars	Mar 31, 2008	Mar 31, 2009	Mar 31, 2010	Mar 31, 2011	Mar 31, 2012
Assets Under Management	19,60,739.26	23,35,423.75	29,18,593.48	36,18,263.32	40,30,662.79
Net Non performing assets	13,553.78	14,746.53	12,488.76	7,445.92	9,772.14
Total Income	2,51,504.11	3,73,763.10	4,50,138.30	5,40,105.45	589,387.66
Net Profit after Tax	38,982.65	61,240.21	87,311.74	1,22,988.00	125,744.96

Consolidated Balance Sheet:

Rs in Lacs

Particulars	As at March 31,		
	2012	2011	2010
Equity and Liabilities			
Shareholder's fund			
Share Capital	22,632.5	22,618.5	22,554.2
Reserves and Surplus	580,631.7	466,717.3	361,852.7
Total Shareholder's fund	**603,264.1**	**489,335.8**	**384,406.8**
Non-current liabilities			
Long term borrowings	1,516,025.1	1,272,353.0	1,038,093.7
Other long term liabilities	183,804.1	235,715.6	176,145.7
Long term provisions	**137,648.5**	**100,762.9**	**63,644.9**
Total Non current liabilities	1,837,477.7	1,608,831.5	1,277,884.3
Current liabilities			
Short term borrowings	347,613.7	80,234.8	191,967.6
Trade payables	59,964.5	48,557.0	8,624.2
Other current liabilities	**836,649.5**	**966,410.9**	**821,986.1**
Short term provisions	18,815.1	18,797.7	15,017.4

Total Current liabilities	1,263,042.8	1,114,000.3	1,037,595.2
Total Equity and Liabilities	**3,703,784.6**	**3,212,167.7**	**2,699,886.4**
Assets			
Non-current assets			
Fixed assets	5,366.2	4,351.6	4,406.6
Non-current investments	27,207.8	22,317.0	4,120.9
Deferred tax assets (net)	21,834.0	15,416.7	7,472.9
Long term loans and advances	1,652,865.1	1,469,645.4	1,253,277.0
Other non-current assets	10,368.3	8,055.9	15,755.9
Total Non- current assets	**1,717,641.4**	**1,519,786.6**	**1,285,033.3**
Current assets			
Current investments	339,417.2	325,423.2	181,431.5
Inventories	92.9	1,293.6	-
Trade receivables	25.8	1.6	-
Cash and bank balances	532,180.7	371,142.8	441,332.0
Short term loans and advances	1,106,414.4	987,823.3	786,508.5
Other current assets	8,012.2	6,696.6	5,581.1
Total Current assets	1,986,143.2	1,692,381.1	1,414,853.1
Total Assets	**3,703,784.6**	**3,212,167.7**	**2,699,886.4**

Consolidated Profit and Loss Account:

Rs in Lacs

Particulars	**FY12**	**FY11**	**FY10**
Income			
Revenue from operations	618,691.2	545,472.8	446,445.1
Other Income	72.0	2,865.4	3,698.0
Total Income	618,763.1	548,338.2	450,143.1
Expenditure			
Adjustment due to decrease/(increase) in inventory of vehicles	1,197.5	-1,293.6	-
Purchase of used commercial vehicles	4,443.6	6,924.2	-
Refurbishment expenses	202.2	271.5	-
Employee benefit expenses	40,759.6	37,106.9	22,508.2
Finance cost	253,174.8	229,282.6	225,142.2
Depreciation and amortization	1,737.4	1,129.0	1,495.8
Other expenses	43,924.0	38,657.6	27,303.1
Provisions & write offs	77,572.8	52,505.9	41,237.1
Total Expenditure	**423,011.8**	**364,584.1**	**317,686.4**
Net Profit Before Taxation	195,751.3	183,754.1	132,456.7
Provision for taxation			
Current tax	71,293.3	69,985.7	49,980.2
Deferred tax	-6,417.3	-7,943.7	-4,833.5
Total tax expense / (income)	**64,876.0**	**62,041.9**	**45,146.7**
Profit after tax from continuing operations	130,875.3	121,712.2	87,310.0
Share of Profit / (Loss) of Associate	6.0	-1.0	-7.4
Net profit after taxes, Minority Interest andShare of Profit/(Loss) of Associate	**130,881.3**	**121,711.2**	**87,302.6**

Capital Adequacy Ratio: The capital adequacy ratio of STFC as of March, 31, 2012 was at 22.26% as compared to RBI requirements of 15% which indicating a healthy liquidity position. Tier I capital as of March 31, 2012 was Rs 4,77,200.43 lacs on an unconsolidated basis.

Particulars	**Mar 31, 2008**	**Mar 31, 2009**	**Mar 31, 2010**	**Mar 31, 2011**	**Mar 31, 2012**
Capital adequacy ratio	12.69%	16.35%	21.33%	24.82%	22.26%
Tier 1 capital	9.83%	11.13%	16.02%	16.62%	17.26%

Debt to equity ratio: The debt-equity ratio prior to this Issue is 4.03 times which is calculated based on a total consolidated debt of Rs 2413667.30 lacs (including secured and unsecured loans) and total shareholders' equity amounting to Rs 599313.71 lacs as on March 31, 2012. The debt equity ratio post the Issue, (assuming subscription of NCDs aggregating to Rs 600 crs) would be 4.13 times.

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