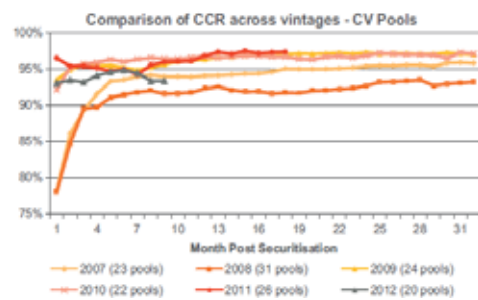


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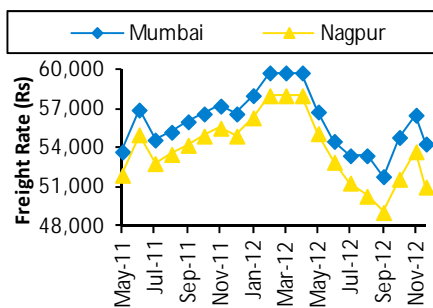
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Cumulative collections – CV pools – Sep-12 Update



Source: CRISIL, PL Research

Pre- Diwali hikes have been rolled back (Delhi to Mumbai and Nagpur)



Source: IFTRT, PL Research

We analyse securitised pool performance (CRISIL rated- Nov-12 issue) of various NBFCs as monthly collection trends provide early asset quality signals for various asset categories like CV, Cars and MFIs. Car pool performance continues to improve on expected lines, whereas collection rates for MFI pools securitised have been running at 99.9%. Overall collection in CVs has been holding relatively firm with just a marginal moderation in CV collections. However, CRISIL continues to sound cautious on the CV cycle given macro weakness and the latest freight rate/availability data is also not very inspiring.

- **Why securitised pool performance can provide early signals?** CRISIL rates/updates collections trends in all securitised pools rated by them on a quarterly basis and with NPA recognition in most NBFCs still at 180 days, monthly collection trends provide early signals into stress in any securitised asset class.
- **CV collections holding up; Freight rates a mixed bag:** Collection rates have moderated very marginally in CVs (Details on page 2). However, overall performance remains robust relative to CRISIL’s cautious view. Though asset quality is holding up still, latest freight rate data/feedback indicates that rates have corrected by 4-5% post the festive season and freight availability has also come off. The structured finance team at CRISIL also shares our cautious view “as it has seen some early delinquencies in portfolios of some NBFCs and believes that pool collections will be impacted if the macro does not improve”
- **Individual NBFC performance (page 4): (1) Mahindra Finance** - Only two pools rated by CRISIL being tractors: Collections continue to improve with CCR (cumulative collections) up over last 2-3 quarters. **(2) Shriram Transport:** Large sample set as CRISIL rates ~24 pools aggregating to ~Rs70bn: Collection rates have held up relatively well v/s expectations, with dip in collections in some pools and improvement in others. Overall, CRISIL has not seen any material deterioration but as mentioned above they remain cautious on the CV cycle.
- **Other Highlights: (1) Car pool collections** continues to remain above historic trend lines for older polls **(2) MFIs** now contribute ~25% of CRISIL rates securitised pools and collections in MFI rated pools is ~99.9% **(3) CRISIL** has seen a pickup in securitisation through PTC route and rate implications for originators have not changed materially v/s direct assignment transactions.
- **Frontline NBFC/HFCs not cheap anymore; Time to get selective:** Most NBFCs/HFCs have shown strong stock performance and valuations on some names are getting demanding now. We have downgraded IDFC/HDFC to ‘Accumulate’ from ‘BUY’ after Q2FY13 as valuations at 1.7x/4.0x FY14 do not leave room for upside. Shriram’s valuation is reasonable at ~1.8x FY14 book but we remain cautious on the CV cycle at the margin. Mahindra Finance has outperformed significantly and that will restrict near-term stock performance but MMFS remains our preferred structural NBFC play with a possible surprise on margins (easing rates) and higher growth (pre-election year) in FY14.

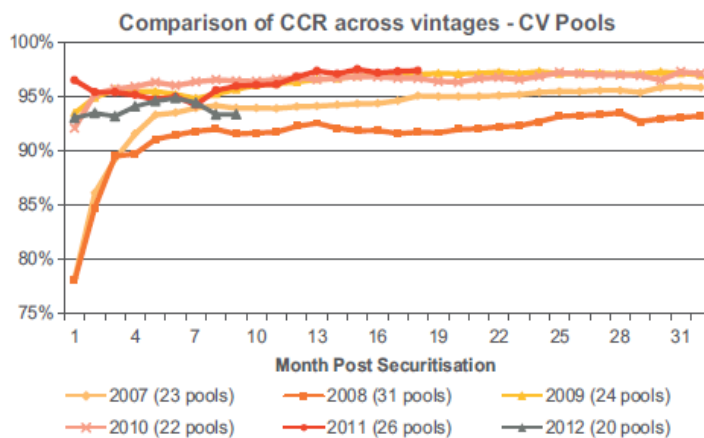
CV pool performance: Marginal blip but no material deterioration

We looked at the collections efficiency as reported by CRISIL in their quarterly structured Finance update. Trends for CV indicates that CCR (cumulative collection ratio) have marginally dipped for pools originated in 2012 but according to CRISIL, it is largely due to addition of unseasoned pools (**Exhibit 1 and 2**).

CCR – Cumulative collections measures total % of dues recovered

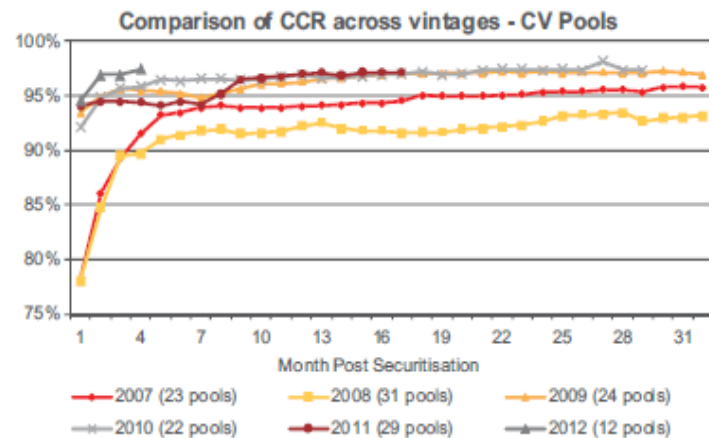
On a trend basis, collection ratios have moderated very marginally and there is still no material deterioration in CV collections (**Exhibit 3**). **But outlook by the structured finance team of CRISIL continues to be a little cautious as macro environment remains weak and it has its bearing on CV pool performance. Even the recent freight rate and availability performance is not very encouraging.**

Exhibit 1: Cumulative collections – CV pools – Sep-12 Update



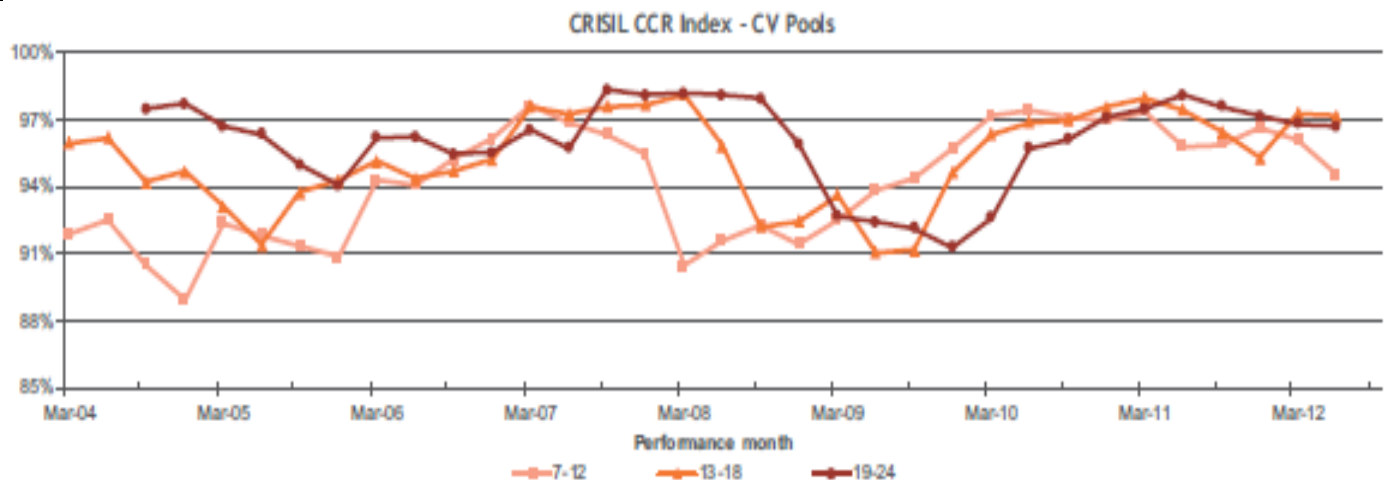
Source: CRISIL, PL Research

Exhibit 2: Cumulative collections – CV Pools – Jun-12 Update

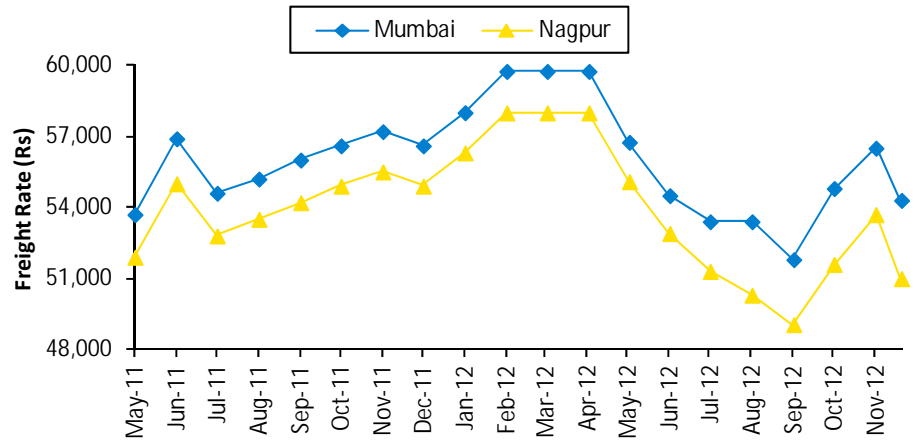


Source: CRISIL, PL Research

Exhibit 3: Cumulative collections Index – Marginal blip in trend but no material rise in delinquency still

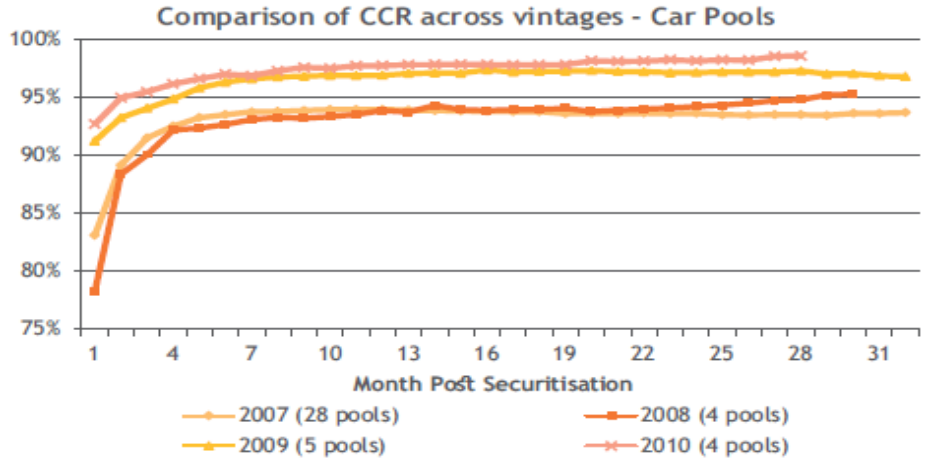


Source: CRISIL, PL Research

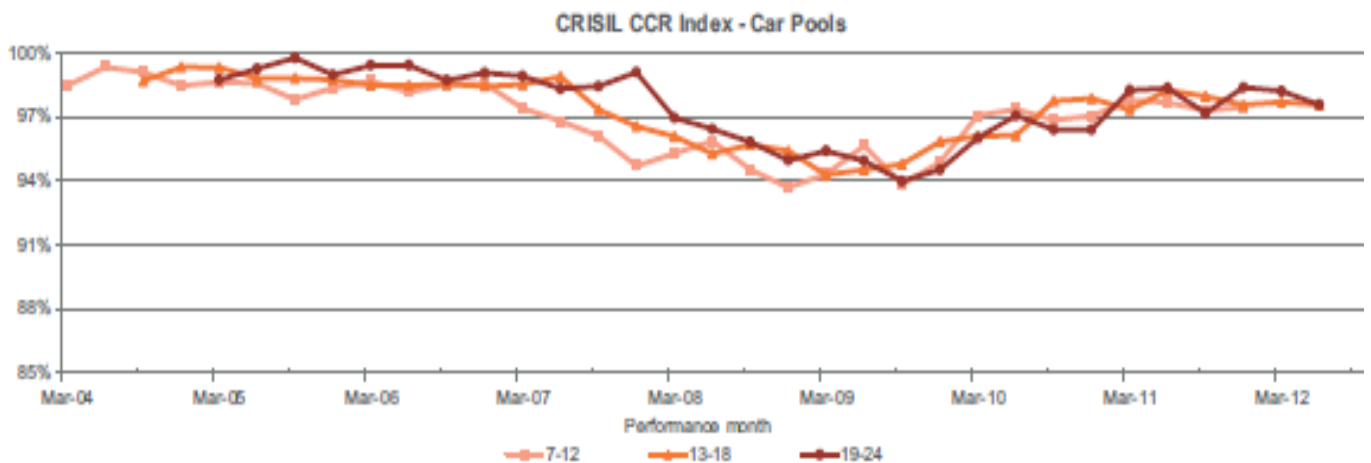
Exhibit 4: Pre-Diwali hikes have been rolled back (Delhi to Mumbai and Nagpur)


Source: IFTRT, PL Research

Car Pool performance continues to remain very robust

Exhibit 5: Collection ratios continue to remain above trend line for CAR pools


Source: CRISIL, PL Research

Exhibit 6: Cumulative collections Index – CARS – Robust collection trends continue


Source: CRISIL, PL Research

Performance of pools of Shriram Transport and Mahindra Finance

Shriram Transport – Rs72bn of CV pools: CRISIL rates ~Rs72bn of Shriram's securitised pools. Collection rates cumulatively indicate that some pools have seen collection rates come off and some have seen collections improve and hence, asset quality picture continues to remain mixed. But CRISIL has been sounding cautious on CV cycle and freight rate movement and rates are also not very encouraging.

Mahindra Finance – Small sample set of tractor pools: CRISIL rates only two tractor pools of Mahindra and hence, the sample set is small. However, we believe it is indicative but useful as it gives some firsthand information on Mahindra's tractor pools. Collections have largely remained stable or inched up marginally and are in line with management feedback of robust asset quality in the near term.

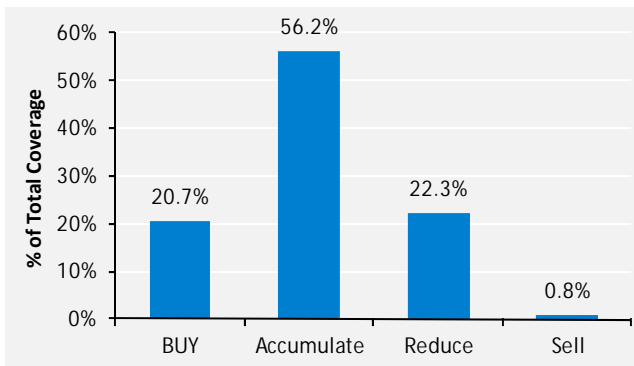
Exhibit 7: Tractor pools continues to perform well; Shriram transport – No significant deterioration in CV asset quality as of now

NBFC	Pools	Principal (Rs bn)	CCR (Cumulative Collections)			Delinquency			
			Jun-12	Sep-12	Change	Jun-12		Sep-12	
						90 day	180 day	90 day	180 day
Mahindra Financials - Collection rates remain stable to marginally improving									
1	Mar 09	2,472	97.4%	97.4%	0.0%	2.6%	1.8%	3.4%	1.9%
2	Feb 12	5,644	91.3%	92.4%	1.1%	4.5%	0.3%		
Shriram Transport - Is a mixed bag with some dip in Collections in some pools and improvement in some									
1	Mar 09	1,790	105.2%			3.0%	0.7%	3.2%	0.4%
2	Nov 09	1,751	99.9%	96.7%	-3.2%	1.9%	0.8%	1.8%	0.7%
3	Jan 10	4,892	97.4%	97.1%	-0.3%	1.8%	0.7%	1.9%	0.7%
4	ILSS 1/1/2010	972	94.8%	95.0%	0.2%	1.5%	0.9%	1.8%	0.9%
5	Mar 10	1,507	95.7%	95.6%	-0.1%	2.3%	0.8%	2.2%	0.8%
6	March 2010 -2	2,344	97.1%	97.0%	-0.1%	2.7%	1.0%	2.4%	0.9%
7	Sep 10	2,327	89.7%	89.9%	0.2%	2.7%	0.6%	2.4%	0.5%
8	Sept 2010 -3	1,002	94.9%	95.0%	0.1%	2.3%	0.6%	2.1%	0.5%
9	Sept 2010 -5	1,999	94.6%	94.9%	0.3%	3.2%	0.8%	3.2%	0.6%
10	Sept 2010 -4	1,769	95.6%	95.7%	0.1%	2.3%	0.4%	2.2%	0.4%
11	Nov 10	5,001	94.2%	94.5%	0.3%	2.9%	0.5%	2.6%	0.4%
12	Dec 10	2,980	88.6%	88.9%	0.3%	4.0%	0.7%	3.5%	0.6%
13	Dec 2010-2	1,000	94.0%	93.2%	-0.8%	3.5%	0.6%	2.8%	0.3%
14	Jan 11	1,485	89.1%	90.1%	1.0%	3.2%	0.4%	2.4%	0.3%
15	Feb 2011-1	4,945	90.7%	90.6%	-0.1%	3.6%	0.7%	3.0%	0.5%
16	Sep 11	2,953	95.5%	95.7%	0.2%	2.2%	0.2%	1.3%	0.0%
17	Nov 11	5,194	92.1%	92.5%	0.4%	2.9%	0.2%	1.5%	0.0%
18	Dec 11	1,871	98.0%	95.1%	-2.9%	1.6%	0.0%	0.1%	0.0%
19	Dec 2011-5	6,933	93.1%	93.4%	0.3%	1.8%	0.0%	0.4%	0.0%
20	Dec 2011-6	4,433	94.3%	93.3%	-1.0%	1.0%	0.0%	0.0%	0.0%
21	Dec 2011-1	1,899	92.1%	91.5%	-0.6%	2.1%	0.0%	0.0%	0.0%
22	STFCL 2012	245	87.8%	89.5%	1.7%	0.7%	0.0%		
23	2012	3,973	85.9%	88.3%	2.4%	0.0%	0.0%		
24	2012 2	8,019	89.6%	91.4%	1.8%	0.2%	0.0%		

Source: CRISIL, PL Research

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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