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August 02, 2022

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Dalal Street, Fort,
Mumbai – 400 001.
Scrip Code: 511218

National Stock Exchange of India Limited
Listing Department
Exchange Plaza, 5th Floor,
Plot no. C/1, G- Block,
Bandra-Kurla Complex,
Mumbai – 400 051.
NSE Symbol: SRTRANSFIN

Dear Sirs,

Sub.: Transcript of earnings conference call for the first quarter ended June 30, 2022.

Further to our letter dated 29th July 2022, regarding the audio link of the earnings call for the first quarter ended June 30 2022, we enclose herewith the transcript of the said call. The Transcript is also been uploaded on the Company website www.stfc.in

Thanking you,

Yours faithfully,

For SHRIRAM TRANSPORT FINANCE COMPANY LIMITED



VIVEK ACHWAL
COMPANY SECRETARY

Encl.:a/a.

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Website: www.stfc.in | Corporate Identity Number (CIN) – L65191TN1979PLC007874



“Shriram Transport Finance Q1 FY23 Earnings Conference Call”

July 28, 2022



**MANAGEMENT: MR. UMESH REVANKAR- VICE CHAIRMAN &
MANAGING DIRECTOR
MR. SUDARSHAN B HOLLA - JOINT MANAGING
DIRECTOR
MR. NILESH ODEDARA - JOINT MANAGING DIRECTOR
MR. SRIDHARAN P - JOINT MANAGING DIRECTOR
MR. S. SUNDER - JOINT MANAGING DIRECTOR
MR. PARAG SHARMA - JOINT MANAGING DIRECTOR &
CFO
MR. SANJAY K. MUNDRA – PRESIDENT**

Moderator: Ladies and gentlemen, good day and welcome to the Shriram Transport Finance Q1 FY23 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Umesh Revankar, Vice Chairman and Managing Director. Thank you, and over to you, sir.

Umesh Revankar: Thank you. Good evening, friends, and a warm welcome to all of you who have joined this call. Good morning to those who have joined from USA. Today, we have our Joint Managing Directors, Mr. Sudarshan, Sridharan, Nilesh, Sunder and Parag along with me and Mr. Sanjay who is our IR Head.

Firstly, on behalf of Company and Shriram Group, I would like to thank all the shareholders, investors in approving the arrangement embodied in the proposed composite scheme of arrangement and amalgamation between various Shriram Group companies at the holding company level and the merger of two operating company, that is Shriram Transport Finance and Shriram City Union Finance Limited. The scheme was approved by 97.13% votes by Shriram Transport shareholders and 99.56% by Shriram City Union Finance shareholders.

Coming to the economy, India's Gross Domestic Product Growth slowed to a four quarter low 4.1% during the Jan to March period from 5.4% in the preceding quarter. As a result, full year growth came in at 8.7%, lower than 8.9% projected earlier in the February.

Coming to the inflation, India's headline retail inflation rates as measured by CPI stood at 7.01% in June '22 from 7.04% in May '22 and 7.79% in April showing slight decline. This is sixth consecutive month that CPI data has breached RBI's upper margin of 6%. The stubborn inflation is definitely having some adverse effect on consumption and some indication on economy slowing down. The annual wholesale price index inflation rate is in a year fell to 15.18% in June from 15.88% in the prior month less than the market estimates of 15.5%.

Coming to the RBI monetary police, RBI in its monetary policy on June 8, '22 has increased the policy repo rate under liquidity adjustment facility by 50 basis points to 4.9% with immediate effect. Prior to this, RBI increased the repo rate to 4.4% in May '22. The inflation is projected at 6.7% for financial year '22 - '23, and MPC has retained GDP growth forecast of India at 7.2%.

The positive side is the GST revenue collection in the month of June 2022 is 1,44, 616 crores and is second highest collection after April 2022, which was 1,67,540 crores. The GST

collection crosses 1.40 lakh crore mark for fifth time since inception of GST and fourth month at a stretch since March 2022.

The monsoon trends seem to be positive and good. The latest data says that farmers have planted total area of 592.11 lakh hectare so far in this kharif season. This is more than 591.30 covered during the corresponding period last year.

Now coming to the commercial vehicle sales, in spite of chip shortage challenges, the commercial vehicle sales increased by 112% to 2,24,512 units in Q1 FY23 as against 1,05,800 units in the Q1 FY22. It has decreased marginally from the Q4 which was at 2,49,806 units.

The heavy and medium commercial vehicle showed positive growth of 160% with 75,685 units against 29,158 units during the corresponding period previous year. THE LCV numbers also showed growth of 94% to 1,48,827 units as compared to 76,642 units sold in the corresponding previous year.

The tractor sales has improved by 47.5% to 1,58,169 units in the Q1 compared to 1,07,231 units in the previous year.

The earthmoving and construction equipment showed 59% improvement in sales by the registering, 21,299 units sale compared to 13,153 in the same quarter previous year.

All the integration being very positive and good, coming to the first quarter performance, the collections were consistently good. Average collection of June quarter was 101.45% of the demand against 91.04% of the corresponding quarter in the previous year and against 104.28% in Q4 FY22.

We clocked the disbursement growth of 30.92% to 16,670 crores against 12,733 crores in the same period of previous year. The used vehicle disbursement increased by 26.42% to 15,754.52 crores against 12,462 in the same period previous year. The new vehicle disbursement also showed improvement by 256.7% to 784.96 crores against 220 crores in the same period previous year.

Overall, the AUM grew by 9.55% to 1,30,688 crores as compared to 119,301 crores in the previous year. The net Interest Income increased by 25.35% to 2,641.74 crores against 2107.45 crores in the same period previous year. The Net Interest Margin was 6.91% against 6.38% in the same period previous year and 6.96% in the Q4 FY22.

The Profit after Tax increased to 965.27 crores in Q1 FY23 compared to 169.94 crores in the previous year, which is 468% increase. The EPS stood at 35.68% compared to 6.64% in the previous year. Gross Stage 3 declined by 7 basis point and net Stage 3 declined by 15 basis point over Q4 '22 and hence the gross Stage 3 stood at 7% compared to 8.18% and 7.07% in

the previous quarter. The net Stage 3 stood at 3.52% compared to 4.74% in the previous year quarter and 3.67% against the previous quarter.

The credit cost for the current quarter stood at 2.09% against 2.68% for the full year ended '21-'22. The liquidity position now stands at 18,020 crores against 17,709 crores in the previous quarter, and during this quarter, company raised US \$250 million from United States Development Finance Corporation. The cost to income ratio was 19.46% in this quarter against 19.11% recorded same period previous year.

On the update of merger, we have received approval from both the stock exchanges NSE and BSE, RBI and recently convened the shareholder and shareholder has approved and also from IRDA. The only pending approval is now the CCI which is expected anytime.

We expect the merger progress to be completed in the month of October. During June quarter, Promoter Group Shriram Value Service Limited has acquired 77.10 lakh equity shares representing 2.85% of the share capital from open market and increased its stake to 3.24% from 0.39%. Hence the total promoter shareholding has increased to 29.30% from 26.45%.

On the growth outlook, we maintain the earlier indicated growth of 15% for the combined entity for the financial year. On the pilot project, we had a pilot run for 52 branches, 27 of STFC and 25 of SCUF and around 30 crores lead was generated and as a further plan, Pilot 2 will be starting from 1st of August in 1183 branches, which 602 branches of STFC and 581 branches of SCUF. So, that is the plan.

Now I will hand over to Mr. Parag Sharma to give update on the liability side and Sunder also would join the call on accounting numbers. Parag?

Parag Sharma:

Hello, everyone. On the liabilities, total liability stand at around 1,19,000 crores compared to March of 1,14,000 crores. The cost of liabilities have not changed much between March and June. The cost of liabilities will be around 8.6% on the balance sheet. When it comes to the quarter, we have mobilized more than 4,000 crore through securitization and assignment transaction which was higher than what the quantum we did in March quarter.

Total borrowing was 12,600 crores for the June quarter. We are carrying excess the liquidity of 18,000 and the maturities for next three months is 8,000 crore. This liquidity will be good enough to meet the maturities for next six months. There is a lumpy liability, foreign currency liability of dollar bonds, which is in October, and that is the prime reason of carrying excess liquidity as of now.

On the ALM front, all the buckets are positive and up to one year the cumulative surplus will be more than 21,000 crore with up to 3 years being around 29,000 crores. Leverage ratio is maintained at around 4.45 times compared to March which was 4.4. Incremental cost of borrowing have gone up for the bonds what we have raised by around 50 basis points. The

bank borrowing rates have not gone up significantly. It is more or less same in this quarter compared to March quarter and securitization what we have done larger quantum, there has been a marginal increase in cost. So, overall incremental cost of borrowing is I think gone up by around 15 basis points, not very significant.

With this, I will hand it over to Sunder for his comments.

S. Sunder:

The employees count have gone 30th June was 25,720 as against March number of 24,456, marginal increase of 264 employees. The cost to income has been stable at 19.46 as against the March number of around 20% and as far as the one-time restructuring that we had done in the previous year because of COVID which was permitted by the Reserve Bank of India, we have extended the OTR facility to 39,410 borrowers amounting to 1,152 crores, out of which outstanding as on 30th June is 1,163 crores and the greater than 90 days upgrade is 1.5%.

And coming to the ECL, the PD for stage one was 7.34% as against the previous quarter number of 7.34%. Stage two was 21.75% as against March number of 21.72%. The LGD was 43.76% as against 44.65% in March quarter. The company is carrying an excess provision compared to the RBI recommend by around 6,730 crores. The capital adequacy is strong at 22.54%, tier one being 20.62% and the tier two being 1.92%.

That's it from me. Now thank you and we will now take the questions.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abhiram Iyer from Deutsche Bank. Please go ahead.

Abhiram Iyer:

I had two questions. One was, could the company give a general guidance over the upcoming quarters in terms of repayments and what they are expecting, considering that inflation is still high and fuel costs are still high? So, are they expecting say more defaults upcoming or is the company actively managing that? And the second question is a bit more pertinent to proposal that was placed in front of the Board for buyback of its debt securities. Could we get a bit more color on this whether this is going to be from the INR market or the USC market? And what kind of quantum or timing there would be?

Umesh Revankar:

See as far as the inflation is concerned and the collections are concerned, the difficulty is in collection. We don't really see that challenge because what happens when a person contracts the loan, he knows what is the EMI he is paying. So, if now a new customer coming this month and buying a vehicle which is at a higher cost because of inflation, price goes up. He exactly knows what EMI he is going to pay. So, depending upon the current situation, the EMI gets fixed. So, he may take longer duration to reduce his EMI. So, it doesn't get impacted because ours is all contract rates and also fixed EMI. So, it doesn't fluctuate. It doesn't go up in between and not like your housing loan. It doesn't go up. The EMI doesn't go up. So, therefore, there is a predictability is clear. So, the chances of the person having the challenge in repaying doesn't occur.

However, the increase in fuel price normally gets passed on to the end consumer. So, imagine if the fuel price goes up that to an extent the freight rate goes up and since freight rate goes up, the inflation goes up. So, end consumer will end up paying. So, truck operator normally don't bear the cost of increased fuel price. So, we don't expect any challenges due to increase in fuel price or inflation. Challenge is on collection because everything is depending upon the business.

Parag Sharma: Buyback we have already taking an enabling resolution that is keeping excess liquidity as of now. We have excess liquidity. We look at opportunities of closing any of the high cost debt what we have. So, nothing has been formed up. It is, things are being evaluated. As I mentioned, we do have a huge dollar amount liability and one of the reasons for higher liquidity is to meet that particular liability, but we will look at opportunities and then will communicate accordingly.

Abhiram Iyer: Could you also just explain a bit on your debt raising plans for the rest of the year? With the rising interest rates, are you finding conditions a bit difficult or is it still normalized pipeline for you?

Parag Sharma: No, I don't think there is any concerns when it comes to raising debt. That is the reason why we are looking at even buying back some of the high-cost debt. So, opportunities are ample and one of the large source is securitization, which is for priority sector assets, demand is good. The retail deposit mobilization program is also doing well. So, no challenges there. Increased cost of fund, I think we will have the wherewithal to pass onto the consumer.

Umesh Revankar: We have the pricing power. Since we are in the niche segment of lending to used vehicle and in the rural market, we have that pricing power to pass on any increase in borrowing cost and since it is as, I was telling you, it is a contracted rate, whatever increase, the rate will remain throughout the period.

Moderator: The next question is from the line of Shubhramshu Mishra from UBS. Please go ahead.

Shubhramshu Mishra: Couple of questions. The first one is, I don't think in the initial comments we spoke about the disbursements. If we can just have that hear on this question, sir? The second part is if we can also speak about the number of vehicles that is financed in these categories new and used both? The third is what proportion of our bank borrowings are on EBLR, external benchmark and what proportion would be on MCLR? And I see a sharp decline in the proportion of securitization. Is that because the cash collateral being asked for securitization has increased with the interest rate hike or any other specific reason because of that if you can speak on these few questions, sir?

Umesh Revankar: See, disbursement number I did mention, but I would like to repeat it. 16,670 crore was the disbursements for the quarter and out of that 15,754 towards used vehicle and 784 crores against new vehicles.

- Parag Sharma:** Coming to your other question regarding the bank loans, most of it will be MCLR linked around, I will say, 75% will be MCLR linked, 25% will be external benchmarks. That is on the bank side. When it comes to securitization, the quantum of securitization for this quarter has gone up. Your other question was whether the collateral requirement from the rating agencies, whether that is up? That is not the case. We are not seeing any increase there. So, though as percentage of the debt outstanding, securitization has come down from 17% to 16%, but the overall quantum of securitization for the quarter has gone up and we do see that trend to continue, a higher securitization to continue, and we should go back to around 18% to 19% in coming quarters.
- Shubhanshu Mishra:** One question remains unanswered, sir. The number of vehicles--
- Umesh Revankar:** Number of vehicles, I don't have a number. Sanjay will do it back to you.
- Moderator:** The next question is from the line of Varun from Nippon Mutual Fund. Please go ahead.
- Varun:** I just wanted to understand a little bit more on the maturing liability of the US dollar bonds. So, I recollect correctly, that is about 750 million. So, are you going to look into refinance it? And in which case, how are your rates looking like now because of the increase in the rate generally?
- Umesh Revankar:** The 750 million is maturing. What you were saying is right in October and this was one of the earlier bonds what we did, it was slightly higher cost. Even we as of now have no plans. We have no plans to get any refinance facility for this. It's a very short maturity now. So, we will repay it out of our current excess liquidity only and onshore what we are borrowing right now is much, much cheaper than compared to what we borrowed three years bank for this dollar bond. So, no refinance option is what, we are not evaluating anything.
- Varun:** So, what is the total liability cost for that?
- Parag Sharma:** At that point of time, it was close to around 10%.
- Varun:** And the 250 million that you have invested in, what is the total hedge complete liability cost for that?
- Parag Sharma:** The coupon is 4%. The overall fully hedge cost will be around 8.8%.
- Varun:** And just one point I wanted to understand in terms of the fixed versus floating nature on an overall basis for your liability side, and also how you are able to translate this on the asset side? Is it only on new disbursements or I would imagine that most of the asset side would be on a fixed basis, right?

- Parag Sharma:** Yes, liability side other than the bank loans, everything is fixed and bank loans also which are linked to MCLR or external benchmarks, the increase doesn't happen significantly. So, asset side is completely fixed. What you were saying is right, but any other liability, be it securitization, be it deposit, be it the external commercial borrowing, all are fixed rate loans.
- Moderator:** The next question is from the line of Rikin Ketan Shah from Credit Suisse. Please go ahead.
- Rikin Ketan Shah:** So, this question is pertaining to the funding cost and the lame outlook. So, given that you will be using your existing funds to repay the dollar liability maturing that could have a positive read through on margins as you bring down the liquidity instead of refinancing it. The second benefit is also from repricing of existing domestic bonds that would be maturing this calendar year, but on the offset, the incremental costs have started to go up. So, if one were to think about funding cost trajectory on the next 12 months, what kind of increase one should expect and also the same for margin?
- Parag Sharma:** Funding cost, I don't, because of excess liquidity, we are incurring a huge negative, there is a huge negative carry on this liquidity. So, with liquidity coming down, there will definitely be a benefit. What you are saying is right. Incremental cost is up on the bonds what we raise. When it comes to other borrowings, be it securitization, bank borrowing, the rates have not gone up significantly. Overall blended if you look at I think rates further not going up, the overall cost to us will go up by around 15- 20 basis points,
- Rikin Ketan Shah:** And could you clarify what's the current liquidity buffer of 188 billion, what number would be a normalized level that you would be comfortable operating it?
- Parag Sharma:** So, we used to have a policy of maintaining three months of liability as the liquidity buffer and three months of liability is close to around 8,000 crore. So, that is what we will continue to have liquidity. We have currently I think 10,000 excess.
- Moderator:** The next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.
- Abhijit Tibrewal:** Just wanted to understand what's the demand environment looking like now? I think somewhere during last month, we were beginning to hear that there is some perceptible slowdown in the HCV segment that is kind of being witnessed by the linked financials. Now had that not been the case? Financials would have done even higher disbursements. Just wanted to understand, what's the demand outlook looking like? And if at all, whatever macro outlook or whatever macro uncertainties that we are in, can it have any bearing on the demand in the coming quarters? That's my first question.
- Umesh Revankar:** See, basically, there are multiple factor that is impacting the demand. If you go back to the 2018, '19, the peak sale on commercial vehicle was 1 million units being sold and from 1 million, it came down to 5,50,000 during the 2021 and last year it went up to 720,000. And normally, whenever there is a down trend and the next peak season, it normally crosses the

previous high. So, I still see, we believe, there is a huge opportunity and scope for the number of units to go up. It may take another couple of years to increase to go up to the peak, but there are several challenges faced by the commercial vehicle in between.

One is the vehicle price going up because of the BS-VI and second is because of the steel price going up, the vehicle price going up. So, vehicle prices have gone up by 30, 35% over the last three years. That made people for acquiring a new vehicle, it becomes a little challenge. So, it is getting little postponed, but Indian economy looks very robust currently.

If you look at the fuel price increase or inflation has not bettered or not really brought down the growth. Everywhere I see growth being reasonably good. Even though the urban inflation has some negative impact in the urban market, in the rural market I don't see the same, because of the good monsoon and consistently good agricultural output and better price realization in the last three, four months. Because of geopolitical tension, the wheat prices went up. Edible oil prices went up. So, the rural economy did not have a negative income. In fact, they had a positive impact because they had a better realization. So, the rural consumption seems to be quite good and till now the real estate also is holding reasonably good in the urban market.

So, all the indication is that the momentum is likely to sustain. Maybe the rate of growth can come little down. From 8.7% GDP growth last year, it may come down to around 7.2%, but still India is the fastest growing economy in the world and probably it may improve in the next financial year is what I believe.

So, we still believe demand is quite decent and reasonable and as far as our customers are concerned, if the new vehicle prices go up, they normally prefer to buy used vehicle and remain at that level so that depending upon the application for which they are using the vehicle, they remain at that level.

But one trend which is very positive is in the construction equipment and the construction related vehicle. The demand for dumpers are very high. There is a waiting period. There is a demand for construction equipment is quite high and there is a waiting period. So, since there is a waiting period and demand still continues to be good in the heavy vehicle sales, normally, this dumper get included in the commercial vehicle. It doesn't get included in the construction equipment. So, whatever the new vehicle are selling in heavy, it's mostly they are tippers. So, we feel that the government's spend is reasonably good and it is continuing and if that is continuing, I feel the commercial vehicle demand will continue to remain well. And e-commerce demand is quite good, and therefore, there is a large demand for Last Mile connectivity or Last Mile distribution.

So, I believe that the commercial vehicle sales or demand and even the resale values will remain good for at least another couple of years or more.

- Abhijit Tibrewal:** And sir, if I were to kind of extrapolate it, based on your commentary, we are fairly confident that given all these tailwinds, the kind of sequential improvement that we have been kind of demonstrating that we are typically used to see first quarter to the fourth quarter in a fiscal year should sustain this year as well.
- Umesh Revankar:** Correct.
- Abhijit Tibrewal:** And lastly on the credit cost, given that things are now absolutely normal and obviously, none of us are really kind of talking about the pandemic and COVID anymore, very fair that we have started utilizing our COVID provisions over the last. So, two sub-questions here. First question is will we kind of keep utilizing these COVID provisions gradually in the subsequent quarters? And if we do that, then is there a case for credit cost for the full year to come below that 2 to 2.3% that we kind of keep guiding for in a good year?
- Umesh Revankar:** Yes, we are still carrying around 18,000 crores of COVID provisioning. We have used this quarter around 216 crores being utilized. I believe over the next three to four quarter, the rest of it maybe utilized depending upon how each of these portfolio which we disbursed during the COVID or maybe prior to that is behaving. So, we are adequately provided and credit cost should remain around 2%. Last quarter it was around 2.09% and we expect it to remain at that level throughout this financial year and probably next year it may come down further.
- Moderator:** The next question is from the line of Chandra Sridhar from Fidelity. Please go ahead.
- Chandra Sridhar:** One is just, have we just stopped this working capital loans etc., completely, because I couldn't hear of any disbursement number there? And also obviously, on the AUM it's been just coming off pretty substantially, which is 2% in this others. So, that's the first question. Second is the whole NIM expansion. So, earlier we constantly used to hear that the Board used to say that we are going to keep excess liquidity. The Board is asked to keep excess liquidity for a slightly longer period. That period is passed. Now we have a bond maturity coming. These things will keep coming. We passed the point where I think funding was a major issue. So, are we fairly certain at least because we have been hearing this for about two years now that the Board is recommended that we keep running excess liquidity. At what point in time do we, I mean, very confident that we can come back to three, four months of liquidity. Second, and the third is just what is the incremental yield on loans? Have we started making pricing action at this point of the market just the incremental yields on the loan this quarter mostly in the book?
- Umesh Revankar:** To answer your liquidity questions, see, the Board has been recommending us to keep excess liquidity, but this time around we had a discussion with the Board on the liquidity and the Board has suggested us that we can look at some buyback arrangement so that liquidity slowly gets phased out or gets reduced from six months to three months level. So, we will be still looking at the environment and depending upon that we will be working on that. but from this quarter onwards, every quarter we will be looking at reducing the excess liquidity in the system.

The first question was child loan. So, on the working capital loan, it is not that we have totally stopped lending. There are two factor in that. One is the business loan and another one is the working capital loan. Bunch together, it was around 4% of the portfolio. On the business loan, we have reduced the ticket size and we have made it smaller ticket. Therefore, the number of disbursements have gone up, but not the volume and on the other working capital loan, we had slowed it down during the COVID because we wanted to restrict the working capital loan, but now since everything is behind us, we have started increasing the working capital loan. So, we believe next year probably we will go back to that 3.5 to 4% level and ultimately we wanted to keep not more than 5% at any point of time. So, temporarily it has come down because of the environment. That will now improve over the next couple of years.

Chandra Sridhar: And what were the incremental yields during the quarter?

Umesh Revankar: Yield, we had increased the lending rate by 25 basis point in the month of June. For the quarter it has not changed much. It has remained almost the same as previous quarter.

Chandra Sridhar: And should we assume that there will be more pricing action over there?

Umesh Revankar: Yes, the lending rate will further go up. Net interest margin will remain almost same.

Chandra Sridhar: So, IDE should improve, right, as you start withdrawing some of this liquidity?

Umesh Revankar: The incremental cost of borrowing is going up. So, it may not significantly improve. There could be some three, four basis point plus or minus. So, we do not know what is the actual incremental cost going to go up and also as I was telling you, it may take another two to three quarters for us to reduce the excess liquidity.

Moderator: As there are no further questions, I now hand over the conference to Mr. Umesh Revankar – Vice Chairman and Managing Director for closing comments.

Umesh Revankar: Thank you, friends. Thank you for joining this call. Maybe this was one of the good quarter for us because normally, first quarter is little slow and this time we got started quite well off. This quarter results have been quite decent and good and we believe going forward, it will become better in this financial year and happy to meet you again in the next quarter. Thank you very much.

Moderator: Thank you. On behalf of Shriram Transport Finance, that concludes the conference call. Thank you for joining us. And you may now disconnect your lines.