SEC/FILING/BSE-NSE/23-24/68A-B February 1, 2024

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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: SHRIRAMFIN

Dear Sirs,

Sub.: Transcript of investors earnings call for the third quarter ended December 31, 2023.

Further to our letter dated 25th January 2024, regarding the audio link of the investors earnings call for the third quarter ended December 31 2023, we enclose herewith the transcript of the said call. The Transcript is also been uploaded on the Company website www.shriramfinance.in

Thanking you,

Yours faithfully,

For **SHRIRAM FINANCE LIMITED**

BALASUNDA RARAO UPPU

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COMPANY SECRETARY & COMPLIANCE OFFICER

Encl.:a/a.

"Shriram Finance Limited Q3 FY'24
Earnings Conference Call"

January 25, 2024

MANAGEMENT: **MR. UMESH G. REVANKAR – EXECUTIVE VICE CHAIRMAN**

MR. Y S CHAKRAVARTI – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

MR. PARAG AGARWAL – JOINT MANAGING DIRECTOR & CHIEF FINANCIAL OFFICER

MR. S. SUNDER – JOINT MANAGING DIRECTOR – HEAD OF ACCOUNTS & ADMIN

MR. SANJAY KUMAR MUNDRA – HEAD, INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to the Shriram Finance Limited Q3 FY'24 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.

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

Umesh G. Revankar: Yes. Thanks, Sagar. Good evening, friends from India and Asia. A warm welcome to all of you. Greetings and good morning to those who are joining from the western part of the world.

To present Q3 call today, I have with me our, Mr. Y. S Chakravarti – Managing Director and CEO; Mr. Parag Sharma – Joint Managing Director and CFO, Mr. Sunder – Joint Managing Director, Head of Accounts. We also have with us Mr. Agarwal from Shriram Housing. We also have Sanjay Kumar Mundra who is our Investor Relations Head.

It has been encouraging 3rd Quarter for the Shriram Finance. We are seeing fruitful dividend in our operation post-merger on the back of multi-products being offered across our branch network.

First, a quick look at the Indian Economy:

The Indian economy expanded by 7.6% growth in the 2nd Quarter, considerably higher than the consensus estimate. The surge was largely led by manufacturing sector. We jumped 13.9% YoY in the 2nd Quarter, helped by a few favorable base and improved volume growth. With the latest number, GDP added 7.7% during the first half of the year as compared to 9.5% a year ago. India's real GDP growth in '23-24 is estimated at 7.3% compared to 7.2% a year ago. As per the first advanced estimate released by NSO, which reckons the economy will outperform 7%, even endorsed by the RBI recently.

On the Retail Inflation:

December increased to four months high at 5.69%, slightly better than expected, but still rose mildly from 5.55% in the month of November. The wholesale inflation also rose to the nine-month high to 0.73% for the month of December from 0.23% recorded in the month of November. RBI in its MPC Meeting on December 8, 2023 has kept the key policy repo rate unchanged at 6.5% by unanimous decision. This is the fifth meeting on trot that MPC decided to maintain the status quo on repo rate. However, RBI raised GDP growth projection for FY'24 to 7% from 6.5% earlier on domestic demand and higher capacity utilization in the manufacturing sector. CPI inflation is projected at 5.4% for FY'24 with Q3 at 5.6%. We expect steady liquidity in the system with a stable interest rate environment.

The rural economy and monsoon, as per the Union Ministry Farmers Data, rabi crop sown in the country was 4.4% higher to 620.62 lakh hectare as compared to 594.62 lakh hectare sown from the previous cropping season. Year-on-year increase is higher in all crops with wheat being highest indicating healthy rural economy going forward. The cabinet committee has increased the minimum support price for the rabi crops in between 2% to 7% for the financial year '24-25 which includes wheat, pulses and oil seeds.

India's GST collection for the month of December '23 increased by 10.28% to 1.65 lakh crore as against 1.50 lakh crore in December '22. The December '23 collection however was lower than 1.68 lakh crore collected in November and even down from 1.72 lakh crore from October. It is the seventh time the gross GST collection have crossed 1.60 lakh crore mark in FY'23-24. The gross GST collection for the first nine months of FY'24 increased by 12% to 14.97 lakh crore is 12% higher than the GST collection in the year FY'22-23.

The government spend on infrastructure continues to remain strong with the strong GST collection. Government recently announced that textiles ministry has mapped eight sanctions of PM Mitra Parks on PM Gati Shakti National Master Plan Portal, while pharmaceuticals department has reported successful completion of 129 pharma clusters and 23 medical device clusters project. This in addition to other road and railway project helping better logistics to succeed the agenda of Make in India happen.

Coming to the "Auto Industry":

The total CV sales in Q3'24 were 2.35 lakh units against 2.27 lakh units in Q3'23 and for the nine months it was 6.99 lakh units against 6.83 lakh units. MHCV sales recorded 91,370 units against 85,678 for the Q3'23 and for the nine months it registered 9% growth, which is a number of 2.63 lakh units against 2.41 units sold.

LCV sales in Q3'24 were 1.44 lakh units against 1.41 lakh units, and for nine months it was 4.36 lakh units against 4.42 units.

Passenger vehicle has registered a growth of 8.3% with 10.12 lakh units being sold as against 9.35 lakh units in Q3'23. For the nine months it's registered 7.3% with 30.83 lakh units sold as against 28.72 lakh units sold in the same period last year.

Two-wheeler recorded robust a 22.6% with the sales of 47.31 lakh units in Q3'24 against 38.59 lakh units sold in Q3 FY'23. For the nine months it recorded a growth of 9.9% with 134.71 lakh units against 122.58 lakh units sold in the same period last year, indicating strong rural and semi-urban demand.

Three wheelers in FY'24 registered strong growth of 62.6% with 1.87 lakh units sold versus 1.39 lakh units sold in Q3'23. For the nine months it recorded 57.2% increased sales of 5.27 lakh units as against 3.35 lakh units sold in the same period last year, which implies e-commerce and last mile delivery is going very fast.

Tractor sales stand at 2.03 lakh units as against 2.16 lakh units in Q3'23 and for the nine months it recorded a growth of 6.8% with sales of 6.48 lakh units as again 6.06 lakh units in the same period last year. We believe both agri activity and income will continue to grow further and that will create increased demand for mechanized farming and better credit demand.

On construction equipment, the Q3'FY24 registered a strong growth of 29.6% with 33,121 units sold versus 25,565 units sold in Q3 FY'23, and for the nine months it recorded a growth of 26.8% with sales of 1,01,798 units as against 80,302 units sold in the same period last year, indicating continued strong infra-related spend and real estate activity.

Now, I shall ask my colleague – Mr. Chakravarti, to take through operational performance. Thank you.

Y S Chakravarti: Hello, all. This is Chakravarti here. I welcome all of you to our Q3 FY'24 Earnings Call and I trust you have had the opportunity to peruse our Results that are posted on the website of the stock exchanges.

We have registered a disbursement growth of 29.21% YoY and 9.2% QoQ. Our disbursements in Q3 FY'24 this year aggregated to Rs.37,787.84 crores versus Rs.29,245.26 crores in Q3 FY'23 and versus 34,605.60 crores in Q2 FY'24.

Our AUM as on 31st December 2023 registered a growth of 20.70% over Q3 FY'23 and a 5.7% sequentially. Our AUM stood at 2,14,233.47 crores as against. 1,77,498.02 crores a year ago and Rs.2,02,640.96 crores in Q2 FY'24.

Our net interest income in Q3 FY'24 registered a growth of 15.04% YoY and 5.72% QoQ. We earned a net interest income of Rs.5,093.93 crores in Q3 FY'24 this year as compared to Rs.4,427.88 crores in Q3 FY'23 and Rs.4,818.18 crores in Q2 FY'24. Our net interest margin was 8.99% as against 8.52% in Q3 FY'23 and 8.93% in Q2 FY'24.

Profit after tax grew by 2.33% in Q3 FY'24 over Q3 FY’23 and by 3.8.6% over Q2 FY'24. We registered a PAT of 1,818.34 crores for Q3 FY'24 as compared to Rs.1,776.97 crores in Q3 FY'23 and Rs.1,750.84 crores in Q2 FY'24. Our earnings per share for the quarter stood at Rs.48.42 as against Rs.47.46 in Q3 FY'23 and Rs.46.67 in Q2 FY'24.

On our asset quality, our gross Stage-III in Q3 FY'24 stood at 5.66% and net stage 3 at 2.72%. These numbers thus show an improvement over the corresponding numbers of 6.29% gross and 3.2% net in Q3 FY'23 and 5.79%

gross and 2.8% in Q2 FY'24. Our credit costs for Q3 FY'24 stood at 2.15% as against 1.75% for Q3 FY'23 and 2.02% for Q2 FY'24. Our cost-income ratio was 25.14% in Q3 FY'24 as against 22.23% recorded in Q3 FY'23. Our cost-income ratio for Q2 FY'24 was 25.68%.

Regarding our subsidiary, Shriram Housing Finance Limited, they registered a disbursement growth of 69.64% over the same quarter last year. Disbursements in Q3 this year were Rs.1,698.16 crores as against Rs.1,001.05 crores in Q3 FY'23.

Shriram Housing's AUM as on 31st December 2023 exhibited a growth of 67.53% YoY and 11.18% sequentially. AUM stood at 12,025.24 crores at the end of Q3 FY'24 as against Rs.7,178.16 crores in Q3 FY'23 and Rs.10,816.03 crores in Q2 FY'24.

The net interest income registered a growth of 33.44% in Q3 FY'24 over Q3 FY'23 and 6.3% over Q2 FY'24. Net interest income for Q3 FY'24 was Rs.103.57 crores as compared to Rs.77.62 crores in Q3 FY'23 and Rs.97.43 crores in Q2 FY'24.

Shriram Housing Finance has also registered a profit after tax growth of 69.08% in Q3 FY'24 over Q3 FY'23 and 27.57% over Q2 FY'24. PAT for the 3rd Quarter of this year was Rs.61.52 crores as compared to Rs.36.38 crores for Q3 FY'23 and Rs.48.22 crores for Q2 FY'24. The EPS stood at Rs.1.88 as against Rs.1.12 in Q3 FY'23 and against Rs.1.48 in Q2 FY'24.

Shriram Housing's gross Stage-III for Q3 FY'24 stood at 1.01% and their net Stage-III came in at 0.75%. In comparison, these numbers were 1.15% gross basis and 0.87% on net base in Q3 FY'23 and at 1.08% gross and 0.82% net in Q2 FY'24.

I shall now request our Whole-Time Director and CFO, Mr. Parag Sharma, to talk to you about our resource raising activities, after which our JMD, Mr. Sunder, will brief you about accounting and regulatory aspects.

One thing I'm very happy to tell you is that the board has declared an interim dividend of 100% in the just concluded board meeting. Thank you.

Parag Sharma: Good evening, everyone. I'm Parag here.

In the liabilities front, total liabilities stands at 1,77,000 crores which is up by 12,000 crores from the previous quarter. We continue to maintain diversity in our liabilities with 24% coming from retail deposits. The capital market is 21% of the overall liabilities. Securitization continues at 14%. The external commercial borrowing is at 13% and the term borrowing from banks and institutions is around 28%.

The total cost of debt is 8.96% as of December, which has gone up by around nine basis points from the September '23 period.

We continue to maintain three months of liability repayment into liquid assets which was Rs.17,453 crores, which is good enough to meet the liabilities for January, February, March. However, we have raised a substantial portion of external commercial borrowing in January, which is 750 million at 6.625 coupon, and this will enhance our liquidity to the four months of liability repayment. So, that money came in last week. The liquidity coverage ratio stands at 256.25% and the overall borrowing for the quarter September to December was Rs.24,337 crores. The ALM surplus up to one year, all buckets being positive and surplus up to one year is Rs.29,646 crores. The incremental cost of borrowing has slightly gone up to 8.95% now, which was around 8.7% in the previous quarter. The leverage ratio stands at 3.77x versus 3.59x in the previous period ended September '23.

With this. I hand over to Sunder.

S. Sunder: Good evening, everyone.

The employee count as on 31st December was 73,485 as against 71,373 as on September 2023, a net increase of 2,112 employees. Stage-III as on December was 5.66 as against 5.79 in September. The Stage-I PD was 7.89% as against 7.89% in the previous quarter. The Stage-II PD was at 18.25% as against 18.21% in the previous quarter, and the LGD was at 41.45% in December as against 41.39% in the previous quarter.

And with this, I would like to hand it over to the moderator for opening the forum for a question-and-answer session.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Mahrukh Adajania from Nuvama. Please go ahead.

Mahrukh Adajania: Sir, my first question is on margins. It has already surpassed your guidance and it has been very strong for the last two quarters, and the growth in interest expenses is also on the lower side. So, how do we look at margins from hear on? I know that an increase in the liquidity cover was mentioned earlier, but just in terms of margins, what range of margins do we now look at?

Umesh G. Revankar: So, I think we are actually hopeful that we will be able to hold the margins at around 8.9% going forward.

Mahrukh Adajania: So, you can hold it here with changing mix even though cost will rise or -?

Y S Chakravarti: The interest costs we don't believe that they'll rise any further as of now, I mean, we are hoping that it's not right. But even then as you put it, since the mix is also slightly altering, we are actually very confident that we will be able to hold it at 8.9%.

Umesh G. Revankar: Both the mix and our ability to pass on the increased cost will give us the confidence of keeping this margin intact.

Mahrukh Adajania: My next question is on AUM. I mean specially outlook for CV growth, how it gets, I mean, especially for your CV financing, not so much for the sector, how it could or if it at all would be impacted in elections and how do we look at it from like say a one-year perspective because the share of CVs has been coming down?

Umesh G. Revankar: If you look at the guidance, we gave the guidance of 12% to 15% growth in CV in the beginning even during the merger and we are maintaining that. If you look at the AUM growth, CV is growing at 13%. So, that is something we are maintaining, and we know that in economic ups and down CV can go up and down, therefore we are very steady in our CV, whereas high margin, high yielding businesses, we are increasing which are shorter tenors and better visibility because shorter tenors visibility will be better, margins are better. So, in our gold loan, two-wheeler and passenger vehicles we are focusing on, these are the products which can be done from all the 3,000 branches. So, that's how we have been able to manage. And the election will not have a big impact because CV demand mostly depends on infrastructure activity and overall economic activity. Both are being good, and we expect there is a very steady growth for CV and plus since the CV cycle has just started two years back and the used CV demand will come at a lag, so we expect the CV demand to continue to remain good for the next couple of years. And as I was telling you, we will maintain a 12% to 15% growth in CV, which is very steady.

Mahrukh Adajania: Even in FY'25? And what would be the overall AUM growth you would look at in FY'25?

Umesh G. Revankar: We will give guidance of 15% only because in the beginning we had given 15% guidance for three years and this year economic activity being quite good, we grew at 20%, but in the long run or maybe even in the next financial year, we would like to give a guidance of 15%.

Moderator: The next question is from the line of Vikram Raghavan from Moon Capital. Please go ahead.

Vikram Raghavan: I just have two questions. One is, what is your disbursements for the quarter, and second, the guidance on credit costs?

S. Sunder: Disbursements for the quarter were 37,787 crores as against 34,605 crores in the previous quarter.

Umesh G. Revankar: The credit cost guidance will be 2% for the full year. For the quarter it was 2.15%.

Moderator: The next question is from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: My question is on credit cost. I recall you explained some changes into the PD and LGD. I mean, this quarter has seen increased credit cost, and you are still maintaining 2% guidance. So, which product segment particularly has sort of led to or rather you are seeing your PD, LDG changing more and despite this increase you are still guiding for 2%, so I mean where do you sort of see that, okay this will moderate? The second one again related would be now on your personal loan segment, your overall GS3 PCR is 53%-odd whereas I mean in the personal loan that's largely unsecured and of course you are still kind of keeping it around 50%-odd, so what is sort of leading to that having a personal loan PCR being lower than your overall PCR?

S. Sunder: The quarter-on- quarter PD movement has not been significant. As you see the Stage-I PD was stable at 7.89, which was similar to what was there in the previous quarter and the Stage-II PD was 18.25, a marginal increase of four basis points compared to the previous quarter. And LGD also if you see it is six basis points increase compared to the previous quarter. Again, there is a combination of various factors of the mix and all those things which drives this number. Coming to your other question of personal loan, the coverage which we maintain is based on the ECL norms, which is based on the historical track record. So, as of now, the personal loan has been behaving pretty stable. And as we have also indicated in the previous calls that we extend these personal loans to customers who have already demonstrated by paying off the full two-wheeler loans and hence the default is comparatively lesser compared to the certain other segments.

Avinash Singh: On Shriram Housing, your subsidiary, also the growth is pretty strong and particularly on the core lending BS side. So, if you can help us understand, I mean who are your kind of a key partner among the banks, and also I mean there has been a sort of reporting of your plan to divest this, so I mean, what's going on there?

G S Agarwal: In terms of co-lending, we are basically doing co-lending with one PSU bank and one private bank and DA we are doing mostly with all the private banks and PSU banks and our total DA and co-lending volume is close to 20%, 21% of our total AUM.

Umesh G. Revankar: We are looking at capital infusion for the Shriram Housing because it is growing. So, we are looking at the various options and any one of the options that suits, we will take the call. It is basically to give growth capital. We are looking at the various options.

Moderator: The next question is from the line of Shweta Daptardar from Elara Capital. Please go ahead.

Shweta Daptardar: I have two questions. If you could throw light on the write-off trends this quarter vis-à-vis the previous quarter and also a bit on asset quality. I think you partially answered this in the previous question. So, what has changed besides in terms of across products or asset classes wherein certain products would have put up benign asset quality trend and others some swings there, which has led to such market improvement in GNPA and credit cost?

G S Agarwal: The breakup of the credit cost for the current quarter is write-offs are 725 crores and provisions are 525 crores totaling to 1,250 crores. This compares with the previous quarter write-off being 839 crores and provisions being 289 crores totaling to 1,128 crores. And the other question as regards the asset quality, it has been fairly holding up and then there has been a marginal reduction in the Stage-III asset and Stage-II assets also are more or less holding up compared to the previous quarter.

Umesh G. Revankar: The economic environment has been quite positive for all the businesses which we are in, whether it is infrastructure, whether it's logistics, whether it is a demand for a two-wheeler, that is the rural economy or semi-urban economy. So, we are quite confident that our asset quality will hold good in the coming quarters, even though the elections are likely to be there in the next financial year. Typically, in election time the diversion of mind or business activity is for 15, 20 days it will not have a bigger impact for the full year or maybe for a full quarter.

Shweta Daptardar: Does anything change on the goal post on growth outlook now that you're at 20%-plus?

Umesh G. Revankar: No. See, this year we definitely will be looking at 20% AUM growth, but for the longer period we have given 15% guidance during the merger announcement and post that. So, that will continue to remain.

Moderator: The next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Just one clarification. Did I hear the incremental borrowing for -?

Parag Agarwal: If your question is regarding the incremental cost of borrowing, yes, I mentioned it at 8.95%.

Piran Engineer: And up 25 bps QoQ, is it?

Parag Agarwal: Correct.

Piran Engineer: So, this is because of the risk weight guidelines or what has caused this jump?

Parag Agarwal: In fact, there will be factors regarding mix of liabilities what we have borrowed. We have also increased our retail deposit rates. We have a higher duration of capital market borrowing. With the longer duration, the cost is generally up and also the other term borrowing for the bank, there has been a slight increase in cost.

Piran Engineer: So, this ECB rate, what would be the fully hedged cost?

Parag Agarwal: So, on fully hedged, what we have raised will be around 9.5%, but there is the withholding tax, which has to be grossed up, will be closer to around 10%.

Piran Engineer: Secondly, on Shriram Housing Finance, I just wanted to understand whether our distribution is from all our 1,800-odd branches or what is the distribution for the HFC subsidiary?

Y S Chakravarti: No, the HFC is focusing only on eight states, they're not present across the country, their focus area is eight states and probably we'll be adding one more state in this fiscal, but only here and their offices are exclusive, 149 offices and all of them are exclusive to the SFL network.

Piran Engineer: At this scale, we are at 12,000 crores and when we've looked at other affordable housing financials, we don't see players of this size growing at 60%, 70%. So, I just wanted to understand what's giving us this edge on growth versus some of the other players that are actually listed?

Y S Chakravarti: I think one is basically as I said strategy of focusing and going deep into territories. So, we have identified those eight, nine states I mean about 70% of the business is there and with the conscious strategy of going deep in those territories. For example, the southern states of Tamil Nadu, Karnataka, Andhra Pradesh, Telangana and Maharashtra, Gujarat, we actually have gone into it very deep. So, that actually is one. The other point is of course the team makes a difference. Then, third is they're coming off a small base. So, don't read that 66% growth, but because that's come from a small base. Probably going forward they may not grow at that 60%, 70% growth, probably they will grow at 25%, 30% growth.

Piran Engineer: How many employees do we have, sir, if you could just help me with that in the HFC subsidiary?

S. Sunder: In Shriram Housing, we have around 3,500 employees.

Moderator: The next question is from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: So, the question was maybe when we look at your three segments like two-wheeler, SMEs as well as PL, no doubt that there is a substantial increase on a QoQ basis in the AUM which is showing relatively lower Stage-III, but otherwise there is an absolute increase which is there in the GNPA. And in fact, the Stage-I provisions out there, they have also increased, okay, I think we have raised it across some most of this product segment. So, looking at this how comfortable we would be in terms of sustaining such a strong growth in these three products?

Y S Chakravarti: See, on this two-wheeler, I think this is like bread-and-butter product for the team. They've been doing it for the last 23, 24 years. We don't see any big risk there. And we are pretty confident that we'll be able to hold both GNPAs and the net at these rates.

S. Sunder: And replying to your other query on the provision, we have taken a hit of Rs.525 crores as incremental provision in the current quarter. That has mainly come out of the Stage-I asset which has increased by Rs.351 crores which is primarily again driven by the growth which is close to 11,200 crores of increase in stage-1 assets and in Stage-II assets we had taken a hit of 30 crores and the balance 143 crores in stage III .

Kunal Shah: If I have to look at it in terms of the percentage as well going up from 3.06 to 3.11, and if I broadly the split in terms of the segments wherein the Stage-I provision has gone up, it is largely MSME, two-wheeler and PL wherein again in each of these segments, the Stage-I provisions have gone by almost like 40, 50-odd basis points?

S. Sunder: Yes, correct. So, as I was explaining to the previous caller also, the provision requirement depends on the LGD and the PD rate and hence it is difficult to off-hand comment on that. So, I would request that you contact Mr. Mundra who will be able to give those finer details.

Kunal Shah: And in two-wheeler, no doubt it's a main stay, but if we look at the sequential momentum again like 16% QoQ growth in AUM, so that's again quite strong, so, obviously there would have been some increase in the market share and the positioning. But how much is coming on account of any synergy? So, if we look at the growth in some of these segments, can you highlight what is coming out of really the synergies post the merger?

Y S Chakravarti: See, two-wheeler largely has been mapped earlier also by the erstwhile SCUF team. So, basically all the dealers are already mapped. But one portion of the country where this new growth is coming from in two-wheelers is Odisha, West Bengal and the Northeast, and portions of UP and MP where the SCUF did not have a strong network. The other point is also basically QoQ quarter growth bound to be there because any quarter that has Diwali and Dussehra, Dhanteras coming in, the growth will be strong. The numbers would normally be about more than two times of what we do normally in any given month, particularly in November. So, that also is the reason for QoQ growth. But yes, because of the synergy, as I said, these states actually are giving us extra numbers.

Kunal Shah: And lastly, slightly revising the guidance earlier on the credit cost, we were at somewhere around 1.5% to 1%, now maybe this quarter also credit cost continues to be 2.4% not coming off and we are now saying that it will be like around about 2%-odd. So, any worries in any of the segments that we are doing with this kind of growth?

Y S Chakravarti: To be honest with you, no, because each of these segments we operate as an individual. Each of the business teams have responsibility for a product and they operate within their known environment, so there's no worries on any specific segment as of today.

Moderator: The next question is from the line of Viral Shah from IIFL Securities. Please go ahead.

Viral Shah: So, I have three or four questions. First is on the PL book. So, you mentioned that the provisioning on that is based on the historical track record. So, is this the SCUF track record that you are referring to?

Y S Chakravarti: Yes.

Viral Shah: Is the incremental book that is being sourced in this segment, the customer profile of it, is it similar to what the SCUF customers were?

Y S Chakravarti: It is exactly the same, because this is basically 99% of this incremental book is coming from mostly two-wheeler customers or customers who have finished one, also, customers who have finished one cycle of two-wheeler and the PL and coming back for another PL.

Umesh G. Revankar: Two-wheeler is a short-term tenure, 18 months, 24 months. So, it's very easy to offer to them and keep them in our books.

Viral Shah: The second is basically if I look at the slippages trend, so that has been actually inching up; in last quarter it increased by 30 basis points and in this quarter it has again increased by now 45 basis points. So, what is driving this?

Umesh G. Revankar: Which segment you are saying?

Viral Shah: On an overall basis, the net slippages?

Umesh G. Revankar: Stage-III has actually come down from 6.2 to 5.6.

Viral Shah: So, if you add back the write-off, right, then basically that slippages number is inching up?

S. Sunder: Correct. See, if you see the overall Stage-III number of absolute amounts, in percentage terms it is coming down absolute amount, there is an increase, there is no denying of the fact. And similarly, the Stage-I and Stage-II assets also are going up because the overall book size itself is going up.

Viral Shah: In terms of the growth driver, right, so now primarily we see that the growth for the SCUF segments is coming from the expanded distribution that we are now enjoying. So, how much more juice is left in terms of being able to scale up these products in the erstwhile Shriram Transport branches, and how much should we expect going ahead, because these products are growing at 30%, 35%?

Y S Chakravarti: I'll do it this way. If you look at the overall growth of the company itself, where we have guided for about 15% growth at the beginning of the year, I think the growth is also largely a factor, or in some of these products as you said, expanded network. For example, gold, we have actually introduced in about 600 of the CV branches. There is still work-in progress and these branches have also started producing results, but they have not yet reached the full potential, #1. #2, then gold probably we will introduce in another 600 branches going forward in the next year. So, this is a work-in-progress. We'll have to keep on introducing this. Similarly, the MSME loans, basically we need a people trade. So, it's not that I recruit and deploy people at one go. It's a stage-by-stage process that we're doing. So, we do feel that gold and MSME will continue to grow strongly. The reason again on the personal loan growing so strongly also is major factor is the distribution. Because earlier we were in SCUF, we were struggling to reach these customers because we had close to 3 million eligible customers and we were struggling to reach them. Now, with that expanded network, we were able to reach them and service them. So, that's why you see that 60%, 65% growth in personal loans.

Viral Shah: And if I have to ask you to ascribe a number at what potential are these products reached from these new branches so as to just get a sense.

Y S Chakravarti: Sorry, I didn't get your question properly.

Viral Shah: Like for example, the gold loan of 600 branches where you have already rolled it out, so in those 600 branches, what's the gold loan AUM and how is it compared to your erstwhile SCUF gold loan in those branches?

Y S Chakravarti: I don't have the number off-hand, but I think, if you can reach out to Sanjay, he can give you those numbers.

Viral Shah: On the status of the fintech partnerships on the PL and the MSME piece, if you can talk on that, what's the status of the progress?

Y S Chakravarti: See, we are only working with one partner, that is only a sourcing partner. We've been working with them for the last six, seven years. So, we are not pushing that. Basically, it's happening about 4, 5 crores per month is what we're doing with them. Now, on the MSME side, we have only tied up with Paytm to do only merchant loans. But that is we are still finding our way around. So, it's not a full-fledged operation as that. We are actually exploring the area, so probably we will only see how we will be able to guide you how much we will do probably down a quarter.

Viral Shah: Lastly, basically, in terms of the share of the personal loans, last quarter, you had said that we will probably be capping it at around 4.5%, 5%. We have now reached around 4.5%. So, should we now expect that the growth going ahead will be in line with the overall loan book growth?

Y S Chakravarti: Yes. Though we have an 8% cap authorized by the board, we would like to keep it below 6%.

Viral Shah: Below 6%.?

Y S Chakravarti: Yes. 4.45% now.

Viral Shah: So, you'll probably take this up to 6%?

Y S Chakravarti: It's not a question of taking it up to 6%. As I told you, we have a 3 million eligible customer's database, eligible customers in the sense basically basing on their payment factor and basing on their income sources, we have a 3 million database. It is available there and those customers are our existing customers, they are not market customers. It's not that I'm consciously pushing it since we have the data, CV branches are also involved, it has grown, but going forward, it should grow at about 20%, 25%.

Viral Shah: I would say a bit of data keeping question. So, the cost of funds you mentioned has sequentially gone up. But when I look at the calculated funding cost that is actually showing a 20-bps decline QoQ. Is that the intra-quarter adjustment averaging effect?

S. Sunder: That has been mainly driven by the liquidity. Okay, that reconciliation anyway, Sanjay can help you out offline.

Moderator: The next question is from the line of Nilesh Jethani from Bank of India Mutual Fund. Please go ahead.

Nilesh Jethani: My first question is in line with the previous participant only. So, on this 20%-odd AUM growth, wanted to understand what you would attribute to branch expansion, cross-selling, etc., via the Shriram Transport branches, and what could be the actual growth which you ascribe to this 20%, a)? Second question is on the passenger vehicles growth. So, growth seems to be higher for us. So, what you would ascribe to pricing and volume? And how do you see this phase of high growth to continue over the next two-to-three-year period, what is your sense on that? And third is on the credit cost. So, directionally as the share of SCUF product increases, do we attribute from a two to three-year perspective, credit cost can actually go up to 2.5, 3, which is normal for a two-wheeler and a personal loan business?

Y S Chakravarti: Answer to your last question is, no, we don't anticipate the credit cost to go beyond 2%. Basically, they're holding pretty steady there, and in fact, if you look at the two-wheeler credit cost, it's slightly lower than the personal loan, which is expected. The other question on the growth ascribed to the product expansion to branches, as we said in the beginning of the merger time, we have guided for a 15% and today we are at 20%. I think you can expect the growth in gold loan, personal loan and to some extent MSME and passenger vehicles to the merger effect also, expanded network effect also. Commercial vehicles, not so much from the erstwhile Shriram City branches, but mostly the existing CV branches because it's difficult to actually evaluate those vehicles source customers from these branches. Because, again, most of the cities and branches are situated in the center of the city or a town, whereas for this business, you need branches in peripheries.

Nilesh Jethani: In the passenger vehicles piece, in volume versus price growth what you're seeing, if any can you attribute and how to look at growth from two to three-year perspective for us?

Y S Chakravarti: We hope the demand will continue to be there. Two things; one is personal mobility vehicles and the other one is your commercial passenger vehicles. Both are growing. And with the improved infrastructure, I think that will keep growing. There's also a lot of upgradations from a two-wheeler customer to used car.

Umesh G. Revankar: Aspirational demand is coming to passenger vehicles, that is really helping us, and the previous track record of a two-wheeler customer who wants to upgrade, that helps us to grow faster in passenger vehicles. So, that is really helping us to grow faster in passenger vehicles where we are growing around 30% YoY.

Nilesh Jethani: Our branch count from 2,900 has only increased to 3,137. Wanted to understand what is our strategy -- maybe this year or next year are we focusing on cross-selling and probably start on the branch expansion from a year or a two later, what's the thought process of the branch expansion?

Umesh G. Revankar: Most of these branch expansions are happening where we are having rural centers. We're converting that into branch after reaching a certain growth. So, that is the main addition into the branches. And also, there are some locations where we feel we can offer gold loan to the customer in the residential area. There, we are putting the branches. So, totally we have added 136 branches in the last one year if you look at last year same period to now. So, our guidance was that we would be opening around 100 to 150 branches, which is a combination of conversion of rural center and the new branches.

Moderator: The next question is from the line of Chandrasekhar from Fidelity. Please go ahead.

Chandrasekhar: I had a few questions. One, could you please remind us within this how large is the used bus segment? Then maybe how large is our fleet operators within this segment? And what is the average ticket size right now on the passenger vehicles segment?

Umesh G. Revankar: We don't have a large bus segment which is financed, because tourist bus we don't lend much, and the normal transportation buses where the government has the monopoly, we don't lend. So, most of our lending will be for the four wheelers and the local transportation.

Chandrasekhar: Sorry. I meant school buses.

Umesh G. Revankar: School buses, we have a reasonably large portfolio, but see, post-COVID it has not really grown big, during the COVID it came to a standstill, and after that it has not really grown big. But that's a least credit cost portfolio, it is one of the good portfolios which we may consider growing as the business picks up.

Chandrasekhar: So, is the delta coming in from people upgrading their fleets over here like the fleet operators, Ubers and OLAs are upgrading their fleets because I mean my understanding is that the entire used PV segment is like 100,000 crores market size and our book is already 35,000 crores over here. So, I'm just trying to get some sense around the market sizing and then this how large we are related to the bus?

Umesh G. Revankar: See, normally what happens is, you can't just have a strict monitoring of a passenger vehicle. Thumb rule is one-third, two-third. One-third is used for what we call commercial use, two-third is for personal use. Even the vehicles registered in a personal use, used in the commercial activity in the semi-urban and rural area, not in the urban area, urban area is strictly monitored. So, many of the customers would be having a vehicle which is registered as a personal vehicle but using for commercial purpose in the smaller towns. So, the business in the semi-urban, rural area, that is where we are very active, and many of them are SUVs or NUVs or a car and not much in buses, we don't have large bus portfolio.

Chandrasekhar: Is it safe to say that the average ticket size will be about 150,000 approximately?

Y S Chakravarti: Chandra, it's about 2.5-3 lakhs. The used car sizes have also gone up substantially.

Chandrasekhar: On the MSME segment, are there any changes in the ticket sizes of tenures which we have done? I mean, we used to have 8 to 10, it came down to 6 to 8. Is it going up towards 8 to 10 again?

Y S Chakravarti: No, it's still the same; it's still about 8 to 10 only and no change in tenors.

Chandrasekhar: There was 100 bps of capital consumption in the quarter, tier-1 down to 20. So, maybe just help me understand where this 100 bps get consumed within one quarter itself?

S. Sunder: This is mainly because of the growth, and some 20 basis points increased due to the risk weight attributed to the personal loans.

Moderator: The next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: If you can provide the product-wise split of your disbursements?

S. Sunder: The CV 14,449, passenger vehicles 6,092, construction equipment 2,780, farm equipment 464, MSME 4,328, two-wheeler 3,699, gold 3,120, personal loans 2,853, totaling 37,787.

Abhijit Tibrewal: The second question I had was on the liabilities. Obviously, there were multiple questions on where the cost of borrowings have moved up, where the incremental cost of borrowings are. I wanted to understand, I mean, the impacts from this RBI risk weight circular where it has increased risk weight on bank loans to NBFCs. Is that impact already there in cost of borrowings or do you think that last part of our borrowings or as PSL they will not be impacted by the increase in this circular? Broadly, what I'm trying to understand is, how are the banks posturing on the liability side? And the other thing is from what I understand, given the deficit liquidity in the system, short-term rates have actually spiked up. Will it not have any impact on your cost of borrowing because somewhere I remember hearing that you're saying that we don't expect cost of borrowings to go up further?

Parag Agarwal: I think two, three things. One, what you said right was immediately after RBI notification on the higher risk weight for lending to NBFC, two, three banks have actually increased the overall rate for us. Most of the other banks have only said that on incremental lending they will increase the rates. As I mentioned, the incremental cost of fund for us for the quarter was 8.95% which previously the banks were lending at around 8.60% to 8.75%. That is why we don't expect even at higher lending rates this to breach beyond 8.95% is something which is not foreseen. So, that we don't look at any substantial increase because of the incremental borrowing from the banks be at a higher cost, that is not foreseen. Any other your liquidity related concerns, whether there will be a further spike, I think that liquidity tightness is there for some time. The capital market rates had gone up. And that is all factored in. We are not seeing any further increase in the capital market rates. So, beyond this, as of now we don't foresee any substantial increase in the liability cost.

Abhijit Tibrewal: My last question was again kind of circling back to Shriram Housing. While I understand you have already partly answered that we'll be looking for capital infusion in your housing subsidiary. So, from what I recall earlier, the discourse used to be that we will maybe look to get an external investor in the housing subsidiary for maybe primary equity infusion. I mean, what recent media articles are suggesting is that you yourself acknowledge that you are looking at various options. The articles have even gone to the extent of stating that you are even looking at completely selling down the HFC subsidiary rather than I mean doing an IPO of the subsidiary at some point in time. So, if you could just briefly elaborate on that?

Umesh G. Revankar: At the time being, we're looking at all the options with the open mind. We're not either choosing anything right now. So, we will not be able to give you a very specific answer because we are still looking at all the options or various options.

Moderator: We would take that as our last question for today. I would now like to hand the conference over to Mr. Umesh Revankar for closing comments.

Umesh G. Revankar: Thank you very much for joining this call. As you are aware, the last quarter will be always the biggest quarter and we all are looking at the final quarter for this financial year as going to be a very large quarter and also a busy quarter. And we also have interim budget even though, which gives some indication on government's plan on the infra spend, which is actually giving in the last couple of years big boost for most of the demand for commercial vehicle and the construction equipment. We all hope that will continue to remain as the primary objective of the government of building infrastructure for Make in India and therefore we expect a busy quarter and also a good set of numbers. Thank you very much for calling. We'll meet you again in the next call.

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