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May 02, 2023

BSE Limited
P. J. Towers,
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 fourth quarter and year ended March 31, 2023.

Further to our letter dated April 28, 2023, regarding the audio link of the investors earnings call for the fourth quarter and year ended March 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**

BALASUNDARARAO UPPU

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COMPANY SECRETARY

Encl.:a/a.

"Shriram Finance Limited Q4 and Full Year FY '23 Earnings Conference Call"

April 27, 2023

MANAGEMENT: **MR. UMESH REVANKAR- EXECUTIVE VICE CHAIRMAN**
MR Y. S. CHAKRAVARTI - MD AND CEO
MR. PARAG SHARMA - JOINT MANAGING DIRECTOR & CFO
MR. S. SUNDER - JOINT MANAGING DIRECTOR
MR. SUDARSHAN HOLLA - JOINT MANAGING DIRECTOR
MR. NILESH ODEDARA - JOINT MANAGING DIRECTOR
MR. G. M. JILANI - JOINT MANAGING DIRECTOR
MR. K. SRINIVAS - JOINT MANAGING DIRECTOR
MR. RAVI SUBRAMANIAN - MD AND CEO, SHRIRAM HOUSING FINANCE
MR. SANJAY MUNDRA – IR HEAD

Moderator: Ladies and gentlemen, good day and welcome to the Shriram Finance Limited Earnings Conference Call for the fourth quarter and full year ending 31st March 2023.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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 – Executive Vice Chairman for his initial remarks. Thank you, and over to you, sir.

Umesh Revankar: Thank you. Good evening, friends, from India and Asia and warm welcome to all of you who joined this call. Greetings to those who have joined the call from the western part of the world.

Today, with me we have Mr. Chakravarti – the Managing Director and CEO, the Joint Managing Directors – Mr. Parag Sharma, Mr. Sunder, Mr. Sudarshan Holla, Nilesh, Jilani and Srinivas. We also have Ravi Subramanian – MD and CEO of Shriram Housing Finance, and Sanjay Mundra, our IR Head.

Let me first give an update on the merger:

At the conclusion of Financial Year 2023, the merger of both Shriram Transport Finance and Shriram City Union Finance stand completed.

On the operation front, the majority of the branches of Shriram Finance now offer at least one product more than they were handling before the merger. The IT and HR functions have fully integrated.

Let me come to the growth in Indian economy. At Shriram Finance, our activities are closely linked to economic activities, and I shall start with a brief commentary on the latest economic scenario.

The Indian economy grew at 4.4% in the quarter ended December '22. Recent report by ADB among others indicates that economy would have grown 6.4% for the full year '23. Now, while pace of growth may have somewhat moderated on account of easing of demand post-COVID, but still India would continue to grow and is likely to be the fastest growing major economy with expectation of GDP growth around 6.5% in coming years.

On the Union budget, which was presented on the 1st of February, the government has termed it as Saptarishi, the seven sages, in the name of seven sages. There are seven major announcements, which are - inclusive development, reaching the last mile, infrastructure and investment, unleashing the potential of the country, green growth, youth power, and development of financial sector.

These are the seven areas on which the government is focusing in the budget. And the budget also reiterated the importance of infrastructure with the investment plan of Rs. 75,000 crores on major, including Rs. 15,000 crores from private sector, on the major transport infrastructure projects for last mile connectivity, for port, coal, feed, fertilizer and food grain sectors that augurs good for our segments.

The government also revamped the credit guarantee scheme for MSME to take effect from 1st April '23 with inclusion of Rs. 9,000 crores in the Corpus. This scheme would enable an additional collateral-free guaranteed credit of around Rs. 2 lakh crore and reduce the cost of credit to MSME by around 1%.

The government also announced in the Budget that the entity DigiLocker is set up for exclusive use of MSME and the charitable trusts to store and share document online for ensuring ease of credit flow.

On inflation, the CPI in India dropped to 15 months' low of 5.66% in the month of March as compared to 6.95 year ago. In March, rural inflation stood at 5.51%, while urban inflation stood at 5.89%.

RBI's Monetary Policy Committee, MPC, in its meeting on April 6th kept the repo rate unchanged. The repo rate thus continues to be at 6.5%.

On agriculture and rural economy, agriculture for long has been one of the pivots of Indian economy and Union budget for the financial year '24 has been cognizant of this in announcing the measures to bolster the Agri sector.

Some of the measures mentioned and taken in the budget are - setting up of Agricultural Accelerator Fund to encourage agri setup by young entrepreneurs in rural India, creating digital infrastructure for agri, developing massive, decentralized storage capacity to help farmers store their produce and realize remunerative price through the sale at appropriate time, promoting cultivation of high nutrition cereal such as millets, among others.

The government announced that total food grain production in the country is estimated for this crop year at 328 million, which is 4% more than the record food grain last crop year, that's '21 - '22. This is significant because the dependence of rural economy on agri and with increased MSP that augurs well for the rural economy, and it also helps in controlling the inflation for the overall country.

As regards the monsoon production, the Indian Meteorological Department has forecasted normal Southwest Monsoon this year. This again, despite some doubts on El Nino impact, this announcement really gives relief.

On GST collection, it continues to be good for the financial '23. and in March, Rs. 1.6 lakh crore was collected, being the second highest GST collection ever. The total GST collections in the financial year '23 were to the extent of 18.1 lakh crore, a growth of 22% over the previous year.

Coming to the auto industry, the Jan to March quarter '23, the total CV sales grew by 11.6% compared to Q4. The quarter saw 2,78,878 units being sold against 2,49,806 units corresponding year last year.

For the full year, the overall growth was 34.3 over the financial year '22. The sale stood at 9,62,468 units against 7,16,566 units in the financial year '22. Sale of medium, M&HCV units in Q4 grew by 25.3% with 1,17,710 units being sold against 93,974 units. For the full year, it grew by 49.2% over the previous year with the sale of 3,59,003 against 2,40,577 units.

Sale of light commercial vehicle grew by 3.4% over the previous quarter at 1,61,168 units compared to 1,55,832 units. For the full year LCV grew by 26.8% over FY '22. It's 6,03,465 units against 4,75,989 units.

Two-wheeler sales grew by 6.3% in Q4 versus the previous quarter. Sales amounted to 36,04,593 units against 33,89,792 units. For the full financial year, the two-wheeler sales grew by 16.9% over FY '22 with 1,58,62,000 units against 1,35,70,008 units.

The domestic tractor sales grew by 8.1% in Q4 over Q4 '22. Quarterly sales aggregating 2,22,910 units against 2,06,263 units in the same quarter last year. For the full financial year, tractor sales recorded 9,45,318 units compared to 8,42,266 units in FY '22, a growth of 12.2%.

The construction equipment sales in FY '23 grew by 25% over the last year, again, because of the infrastructure spend and the road building activities.

The MSME sector comprises of nearly 63 million enterprises, which contributes 30% of GDP, Indian GDP, and 45% of manufacturing, and 40% of export. It provides employment for 113 million people as per the government data, and also as per the IFC, the International Finance Corporation, the credit need of sector that is, the gap is Rs. 32.5 lakh crore. Despite this huge demand, less than 5 million MSMEs have access to formal credit.

I am very happy to say that all the segments which Shriram Finance represents as an industry leader and has significant presence have seen healthy growth, and we expect with the resale price of vehicle, equipment and property being robust, that will create a better credit demand plus which will also help in credit costs significantly.

In this year, we also have gone through the, we have done this stress test, and the results will, since we have integrated the two companies, and we have multi-products, we also have gone through, done the stress test, and the results will also have that in factor.

Now I hand over to Mr. Chakravati to go through the operation performance. Thank you very much.

Y. S. Chakravarti: Thank you, Umesh. Welcome all to our Q4 and Financial Year '23 Earnings Call. We have declared our results for the quarter and year earlier today, and I trust you had an opportunity to look at the related Investor Presentation.

It gives us pleasure to report that the merger process has been concluded successfully, and as Mr. Revankar has already mentioned in his opening remarks, the process, IT and workforce integration stands completed. The rolling out of additional products across integrated branches has commenced, and we are on track with regard to the introduction in phases of these products.

Before I start my commentary on key performance areas, I would request you to note that the corresponding previous year figures are not comparable, as the effective date for the merger is 1st April 2022.

On the performance metrics, in Q4 FY '23, we have registered disbursement growth of 6.19% over Q3 FY '23. Our disbursements in Q4 FY '23 were 31,054.10 crores as against 29,245.26 crores in Q3 FY '23. Our disbursements in Q4 FY '22 were 25,054.08 crores. For the full year '23 our disbursements were Rs. 1,11,848.44 crores, while in FY '22 we had disbursed 87,948.67 crores worth of loans.

Our AUM as on 31st March 2023 grew by 4.61% over Q3 FY '23, and it now stands at 1,85,682.90 crores as against 1,27,040.80 crores at the end of FY '22.

Our net interest income in Q4 FY '23 grew by 0.41% over Q3 FY '23. Our net interest income for the fourth quarter stands at 4,445.89 crores as against 4,427.88 crores in Q3 FY '23. For Q4 FY '22, we have registered a net interest income of 2,627.82 crores. For the full financial year '23, our net interest income was 16,963.07 crores. Our net interest margin was 8.55% against 8.52% in Q3 and 6.96% in Q4 FY '22.

Profit after tax for the fourth quarter actually degrew a little over Q3 FY '23. Our PAT for Q4 FY '23 stands at 1,308.31 crores compared to 1,776.97 crores in Q3 FY '23. PAT for the full financial year was 5,979.34 crores, while in FY '22 it was 2,707.93 crores.

Our earnings per share stood at 34.94 as against 47.46 in Q3 FY '23 and 40.15 in Q4 FY '22.

As regards asset quality, gross stage 3 in Q4 FY '23 declined by 8 basis points and net stage 3 decreased by 1 basis point over Q3 FY '23. Accordingly, gross stage 3 stood at 6.21% compared to 6.29% in Q3, and net stage three stood at 3.19% compared to 3.20% in Q3. Our gross and net stage 3 figures as of Q4 FY '22 were 7.07% and 3.67% respectively.

The credit cost for the current quarter stood at 2.24% as against 1.75% for Q3 FY '23. Our credit cost at the end of Q4 FY '22 stood at 2.03%.

Our cost to income ratio was 28.29% in this quarter as against 22.23% recorded in Q3. The cost to income ratio at the end of Q4 FY '22 was 20%.

Regarding our subsidiary Shriram Housing Finance, our subsidiary registered disbursement growth of 16.43% year-on-year and 29.98% over Q3. Disbursements in Q4 FY '23 were 1,301.10 crore as against 1,117.60 crores in Q4 FY '22 and Rs. 1,001 crore in Q3 FY '23. For the full financial year 2023, disbursement growth was 51.36% over FY '22. FY '23 disbursements aggregated to Rs. 4,145.96 crores versus Rs. 2,739.20 crores in FY '22.

Shriram Housing's Assets under Management as on 31st March 2023 grew by 50.26% year-on-year and by 12.10% sequentially. AUM at the end of FY '23 stood at 8,046.60 crores as against 5,355 crores at the end of FY '22 and 7,178.20 crores as at Q3 FY '23.

Their net interest income in Q4 FY '23 showed a growth of 3.84% year-on-year and 44.62% quarter-on-quarter. Net interest income for Q4 FY '23 was Rs.105.30 crores as against Rs.72.80 crores in Q4 FY '22 and Rs. 101.40 crores in Q3 FY '23. Their net interest income for the full financial year of 2023 grew by 54.98% over FY '22 having come in at Rs.387.70 crores in FY '23 versus 250.10 crore in FY '22.

They have registered a profit after tax growth of 68.19% year-on-year and 2.10% quarter-on-quarter. PAT For Q4 FY '23 came in at 37.10 crore versus 22.10 crore in Q4 FY '22 and 36.30 crores in Q3 FY '23. PAT for the full financial year 2023 was higher by 71.45% over FY '22, the figures being 137.70 crores and 80.30 crores respectively.

Their earnings per share stood at Rs. 1.14 against Rs. 0.78 in Q4 FY '22 and against 1.12 in Q3 FY '23. Shriram Housing's gross stage 3 for Q4 FY '23 stood at 0.93%, and their net stage 3 was at 0.69%. These were 1.72% on gross basis and 1.32% on net basis in Q4 FY '22 and at 1.15% on gross basis and 0.87% on net basis in Q3 FY '23.

The company is investing, Shriram Housing Finance is investing in the expansion of its distribution through the addition across identified key focus states. The company has added 19 branches to its network in the second half of FY '23 taking the total branch strength to 131 as on March '23.

Shriram Housing Finance Limited is now a dominant player across southern states and Gujarat and plans to expand distribution in selected focused geographies.

I shall now request our Whole Time Director and CFO Mr. Parag Sharma to brief you on our fundraising activities and other liability related matters as they have evolved in the quarter. After that, our Joint Managing Director Mr. Sunder will give his commentary on accounting and regulatory aspects. Over to you, Parag.

Parag Sharma: A few numbers on the liabilities side. Our total liabilities stand at Rs. 1,57,906 crores broken up into 23% through retail deposit, which is close to Rs. 26,140 crores; capital market borrowings of Rs. 34,768 crores, which is close to 22% of liabilities: bank loans and institution loans of Rs. 41,000 crores, which is close to 26% of liability; and securitization of Rs. 22,106 crores, which is 14% of liability. Rest is offshore borrowing in the form of loan and bonds, which is close to around 14% of liability.

The cost of funds have gone up from 8.77% in the previous quarter to 8.82% now. There was a RBI policy rate increase on the 8th of February by 25 basis points, which has led to increased borrowing costs, and borrowing for the quarter was Rs. 20,000 odd crores, and this is being borrowed at close to around 9% through different sources.

Liquidity on balance sheet is close to around Rs. 17,659 crores, which is good enough to take care of more than three months of our liability repayment, which is Rs. 16,000 crores, and LCR is at around Rs. 209 crores against regulatory requirement of 70% accounts there, and debt equity is at 3.65, which is previous quarter of 3.61.

The ALM buckets have been positive and cumulative up to, ALM should be positive by Rs. 20,000 crore.

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

S. Sunder: Good evening everyone. The employee count as on 31st March was 64,052 as against 60,918. The cost to income was higher at 28.29% primarily because we are taking a hit of 302.58 crores on account of amortization of the intangibles, which we had created on account of the merger. And the PD of stage one was 8.04%. PD of stage two was 18%, and LGD was 42.27% for the quarter ended.

As Mr. Revankar had mentioned in his opening remarks, we had performed the stress testing on the entire portfolio post-merger. The stress testing was done by a Big Four and the impact of the same was Rs. 295 crores in the current quarter. It is a one-time hit which we have taken in the book, and hence the credit cost for the year has gone up about 2%, which is 2.01, stands at 2.01%.

And there will be some fair valuation differences when we, the standalone numbers of Shriram Finance and the standalone numbers of Shriram Housing, if you add 1 plus 1 will not be equal to 2. It will be slightly different. There is a difference of Rs. 23 crores on the PAT numbers for quarter four that is primarily on account of the fair valuation that we have done and for the entire, for the full year it is higher by Rs. 32 crores, again on account of fair valuation. It is more of an accounting comment. Nothing else.

With this, we open the floor for questions.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: Good evening. A few questions. The first one will be data keeping, if you can just provide segmental disbursement number for the quarter and for the year.

And the second question on your intangible amortization that you have taken for around 295 crore for the quarter, and it relates mostly to the branch asset and their useful life. So, now roughly around on 1,500 crores you have taken close to 300 crores. So, is it like going to be a first quarter run rate or is it like a kind of a 300 crore kind of an amortization run rate on an annual basis?

And lastly, if you can explain the elevated credit cost, I mean, particularly considering that you have dipped 500 crores into management overlay and still that credit cost is on the higher side. So, if you can explain. So, these are my three questions.

Y. S. Chakravarti: On the disbursement side this quarter, commercial vehicles was at Rs. 12,182.30 crores. Passenger vehicles at Rs. 5,592.10 crore. Construction equipment at Rs. 1,945.70 crores, Farm equipment at 623.30 crores, MSME 3,572.80 crores, Two-wheeler Rs. 2,339.50 crores. Gold Rs. 2523.30 crores. Personal loan Rs. 2,250.10 crore and a Rs. 25 crore others.

S. Sunder: And on the intangible, we had created an intangible of Rs. 1,513 crore during the merger on account of the network which we had acquired of SCUF, and we are amortizing it over a period of five years, and the hit for the current year has come to Rs. 302.58 crores. Going forward, in the next few years, four years, it will be Rs. 75 crores per quarter, meaning Rs. 300 crores per annum.

And coming to the credit cost, as we mentioned we had performed a stress testing on the entire portfolio, loan portfolio, and the additional hit on account of it comes to Rs. 295 crores.

Consequently, due to this, the credit cost goes at 2.01%, despite the fact that okay, we have reduced our COVID-related provisioning to Rs. 1,100 crores from the earlier Rs. 1,650 crores, and this as we have been guiding you earlier that this is being utilized for giving waivers to the customers who were impacted during COVID times.

Moderator: Thank you. The next question is from the line of Abhiram Iyer from Deutsche Bank. Please go ahead.

Abhiram Iyer: I wanted to talk regarding your cost of funds. You mentioned that it was currently around 8.8% with a potential 20 bps increase coming through. Given that your cost of funds all in would be somewhere around 9% right now, what are your fundraising plans going to be moving forward?

You've done a recent private placement of a USC bond. Is the gap between INR funding and onshore, offshore funding now sufficient enough for you to test the waters in the USC Market again?

Parag Sharma: Yes. So, incremental cost of fund has been slightly high. So, I don't expect the full 25 basis point RBI policy increase to be there for us for next quarter. There will be at least 10 basis point increase in the cost of fund for sure from the current level.

When it comes to the dollar bond, what we have done is loans as of now on one private placement of a bond, as of now we are not envisaging issuing a dollar bond in the immediate future. That is maybe not for sure in the next month or so, because the rates still continue to be, the landed cost will still continue to be higher than what we have done through the loan format. We will continue to look at opportunities at loan rather than looking at bond market which until and unless markets sufficiently rates come down, we will not be able to tap it. Onshore liquidity continues to be good, and that is what we will focus upon both in the form of retail deposit and the domestic capital market.

Abhiram Iyer: And just a quick clarification. This is more sort of a technical question. You have given in your presentation that the NIM on AUM has slightly increased to 8.55% despite, you know, net interest income on an absolute terms being pretty much flat quarter-on-quarter and your AUM actually growing by about 4%, 5% quarter-on-quarter. Am I understanding this correctly on how the NIM on AUM is calculated, because it seems that they should go down with the higher denominator?

S. Sunder: So, we do an averaging on a daily basis, and hence on an absolute number, it will be difficult for you to compute. So, just opening and closing by two will not work out. It will be a day-based averaging. And hence, there will be some difference by what we have written and what we will be getting.

Abhiram Iyer: So, suffice to say there was chunky disbursements, I mean, one or two days where disbursements are much higher towards the end of the month which…?

S. Sunder: Yes, it should be. Yes, end of the quarter, it will be.

Umesh Revankar: End of the quarter normally yes.

Moderator: Thank you. The next question is from the line of Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise: Thanks for the opportunity. So, just wanted to understand more about this one-time hit. What led to this higher PD on the portfolio? And how could one see credit costs for FY '24, especially when we have guided for a potential 3% plus kind of an ROA?

S. Sunder: So, the PD have been again recalculated based on the current year up to December, and we have removed the fifth year, which was we are using, and hence there will be some shifts. This is an yearly activity that we do, and because of that there has been some changes in the PD. And also the mixture of the mix of the portfolio also will have an impact on the PD and LGD numbers.

Umesh Revankar: See, basically, when we do these stress test, what happens is depending upon the inflation, the interest rate changes, overall liability cost changes, the people who prepare it, they also give a weightage to the kind of segment which you are lending to. And definitely, it will be little conservative in the way we account it.

So, the PDs will be normally little higher, elevated, but we take it in our stride because it is very conservative, and it's good for us to be conservative in this environment. Even though the economic activities are good, the credit cost has actually come down, but to be conservative and having a stress test calculated and taking into account helps us in preparing for the worst.

Sameer Bhise: That is helpful. And secondly, on the MSME and personal loans piece, just wanted to understand given that SCUF historically probably did not grow as fast, but what gives us confidence that these two segments can meaningfully pick up than SCUF has historically grown, especially in these two segments? That's it from my side.

Y. S. Chakravarti: See, the basic thing is MSME, we have been growing. It's not that we have not grown, but what gives us the confidence that we will be able to grow it faster is the availability of number one, network; number two, availability of people with vintage within the group where we will be, the idea that we should be able to leverage on these two. So, that means since we have access to lot more locations and with MSME being a focused product for the organization, we feel confident that we will be able to grow it.

Moderator: Thank you. We have the next question from the line of Gaurav Kochar from Mirae Asset. Please go ahead.

Gaurav Kochar: Thank you for taking my question. Few questions. Firstly, if I look at the credit cost for this quarter, while you mentioned you have changed the PD assumptions and all, the write-offs were elevated at Rs. 629 crore, if I just calculate the differential in provisions. So, going forward, what is the sort of steady state credit cost? Because 2% is what you had always guided for. So, taking cues from that and given that we are in a kind of benign environment, does this PD assumptions change that and the overall guidance, I think Sameer alluded to earlier, at 3% ROA, does this have any bearing on that number?

Umesh Revankar: The credit cost if you look at, it is 2% for the year ended March, for the full year. So, I think our guidance of credit cost at 2% will continue to remain.

Gaurav Kochar: So, going ahead also, the guidance is 2%, despite the PD?

Umesh Revankar: Yes, that will remain.

Gaurav Kochar: And for the margins, sir, if I look at this last quarter, there was a 138 crore, because of the accounting changes that we had done for acquisition or during merger, that related 138 crore was there on the NII line. In this quarter, was there a 109 crore, you know, positive impact on NII in this quarter?

S. Sunder: It is 145 crores in the current quarter.

Gaurav Kochar: Sorry. How much is it?

S. Sunder: 145.

Gaurav Kochar: 145, okay. So, just removing 145 crore from the current quarter and removing 138 crore from previous quarter, on a core NII, if I were to just compare the two, the NIMS have actually declined, and AUM has grown by around 8,000 crores. So, net-net, the NIM on AUM, on average AUM would have declined. So, what would explain that, sir?

S. Sunder: See, it is difficult to compare between the December quarter and the March quarter, primarily because in December quarter, you have two additional days, whereas in March quarter, you have 31 days in Jan and March, but 28 days in February. And hence there is an impact of two days, and it is substantial. So, that also you need to factor.

Gaurav Kochar: Sure. So, that would be, but still, I mean, the difference is even if I adjust for that, the difference is large, because you have grown, the AUM has grown by around Rs. 8,000 crores, unless the bulk of the growth came in the last week of March.

S. Sunder: Yes. We have the recent gain. You can contact Sanjay tomorrow, and then he will provide you.

Umesh Revankar: Gaurav, you also understand in the last quarter and last few days, normally, the booking, loan booking is very high. So, that also need to be factored.

Gaurav Kochar: Okay. Probably, I will take this offline.

Umesh Revankar: The AUM growth will be very high because of that.

Gaurav Kochar: Sure, sir. I will take this offline probably. And lastly, on this goodwill or the intangible write-off that you have taken, can you tell me what is the outstanding balance of this intangible of which 300 crore or 295 crore has been marked down? So, what is now the balance which is left?

S. Sunder: See, we had that 1,513 minus 303. It is 1,210 is outstanding.

Umesh Revankar: See, 1,513 equally divided by 5 years.

Gaurav Kochar: So, this 300 odd crore will come every year?

Umesh Revankar: Every year. Correct.

S. Sunder: Correct. For the four years, it will come.

Gaurav Kochar: So, this will be like a Q4 phenomenon or it will be like Rs. 75 crores each quarter?

S. Sunder: No, no. See, it will be spread over each quarter. So that every quarter we will get 75 point something.

Umesh Revankar: The last quarter we did not take it in account. Therefore, it has come together.

S. Sunder: Full year. Full year it has come.

Umesh Revankar: Full year. So, full year we have to mark it now. So, the impact of the full year has come in this quarter. But next year onwards, every quarter it is 75.

Gaurav Kochar: Sure. And on the goodwill front, that impairment is still --

S. Sunder: See, that will be tested for impairment, but it should be done every year end, and it's unlikely to have an impact in the next few years at least. That's what we are continuing to guide.

Gaurav Kochar: So, what's different between a goodwill impairment versus the intangible impairment that we have done now? Sorry, I joined the call late. So, maybe if you would explain?

S. Sunder: No, the intangible is primarily has been created to get the benefit of tax. So, goodwill, as you are aware, it will be disallowed by the tax department, and there will be an impact of tax on that, whereas the intangible, you get a tax break. So, this can be claimed as an expenditure, and income tax allows that.

Gaurav Kochar: No, no, my question was the logic of writing this off and not writing goodwill off. Given that the entire acquisition was done and the…

S. Sunder: See, the intangible has been created for the usage of the network of Shriram City Union Finance branches, and we have taken an independent valuer's opinion, wherein we feel that the usage of these branches will be for five years, and it needs to be amortized over the life of the useful asset. That is the logic. And whereas the goodwill will be tested for impairment, and there again, this year also we tested for impairment. It was not impaired. So, next year again, we will go and test for impairment, and we need to take a call at that point of time. So, the accounting treatment for both are different.

Y. S. Chakravarti: So, basically as he's explained, goodwill, you don't get a tax break. Impairment on intangible, you get a tax break.

Gaurav Kochar: Sure. My question was more on the treatment, not on -- but I will take that also offline, I guess. And just final question, sir, on growth. This quarter, we saw a strong growth in AUM. So, for next, let's say, couple of years, while you have maintained 15% growth guidance, but given that the merger synergies will play through in the next two years and slowly and steadily we will see more and more branches, you know, doing more disbursements of each other's loans, Shriram City Union branches selling Transport loans and Transport branches selling SCUF loans. So, taking that cue, do you see any sort of improvement in the loan growth guidance that we have given at 15%?

Y. S. Chakravarti: No, right now we are committed to this 15%. The other point is Shriram City Union Finance branches may not be very accretive for the commercial vehicle business because, in fact, if you look at it, Shriram Transport has a much, much larger network than Shriram City Union Finance. So, it will be actually the retail side which will grow faster because of the erstwhile Shriram Transport branches.

Umesh Revankar: Gaurav, the focus will be to improve on the net profits bottom line rather than the top line growth.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from Philip Capital. Please go ahead.

Shubhranshu Mishra: Thank you for this opportunity. I just want to stress upon the liabilities again. Have you done any kind of repayment of ECBs and how is the bond market looking at us, and what kind of domestic bond experiences are we looking at in this fiscal? That is first.

Second is, again, you mentioned on the growth and the growth guidance. So, are we to look at some amount of product mix change going forward in '24, '25, if retail is to be more dominant? That's the second.

And third is just a data keeping question. If you can just tell maybe two-wheeler disbursement again, sir?

Parag Sharma: On the buyback of offshore bonds, we have not done anything in the current quarter. We did it in the previous quarter, and in fact previous two quarters we did close to around 230 odd million, which was well received by the investors. In fact, the secondaries also performed well. Current quarter, we have not done anything. We have maturities in the month of July and August, and that is what we are looking at. When it comes to the other data points, be it two-wheeler disbursement you wanted, and growth…

Y. S. Chakravarti: Two-wheeler disbursement, you know, current, actually that's one point that I missed out in my statement. We have disbursed nearly close to 1.2 million two-wheelers in the current financial year. So, we expect this to grow by about, see, we are actually more focused on the number of two-wheelers funded rather than on the amount. So, the targets to the team is also on the number of two-wheelers. So, we expect it to grow by about 10% to 12% depending on how the industry is faring.

See, one thing in this is the South is not, I would say, the South markets, there is a degrowth in the South markets. The growth is coming from Bihar, UP, Madhya Pradesh, Rajasthan, plus some of the North-eastern like West Bengal. These are the states that the market is growing at a faster phase. So, going forward, we will see the growth there.

Shubhranshu Mishra: And any bond issuances that we are looking in this fiscal year FY '24? What's the quantum, sir?

Parag Sharma: Domestic or offshore, we will look at the market opportunities. Domestic we do keep doing the regular private placement, which we will continue.

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

Abhijit Tibrewal: Thanks for taking the question. So, again, going back to the margin question, sorry to bother you with it again, but, I mean, if we look at the reported margins, we have really not seen any compression in the reported margins. As a matter of fact, on a sequential basis, it's expanded by three basis points.

But if we look at the accretion to the interest income, again, I am just looking at the last three quarters from 2Q, 3Q and 4Q. I mean, last quarter also, we added close to, I would say, 8,100 crores in AUM. This quarter also broadly similar number. So, while we accreted 300 crores in interest income last quarter, we have not seen the same accretion in interest income this quarter. So, are there any one-offs in the interest income in the form of any interest income reversals?

S. Sunder: See, we will do one thing. Okay. You contact Mr. Sanjay. He will be able to provide it tomorrow morning. We don't have the number right now. We will provide it in the morning.

Abhijit Tibrewal: Sir, again, one last question. While we have done that stress testing and like you suggested taking a onetime hit of 295 crores, if you could help understand this onetime hit is in the nature of higher provisions driven by higher PDs or these are in the nature of write-offs of about 295 crores that you have taken during the quarter?

And also a related question. In which particular product segments, I mean, were these most pronounced? This stress testing, I mean, what was the outcome of that? And are there any particular product segments which were relatively more stressed than the others?

S. Sunder: The stress testing, when it was performed, apart from the PD, LGD, what the company has been taking into account based on the historical data, the consultant also looked into macroeconomics factors like GDP, CPI and bank lending rate. And basis that he had performed this stress test, and the number was marginally elevated for almost all the products whatever we are into, and they had come out with a number, and whatever was the differential provision, see, we were, let us say, we were holding 11,000 crores of provision in our book, and they were saying that 11,295, the differential 295 was taken as a provision and not as a write-off. And in case you require the product wise PD, LGD, okay, maybe we will try to extract that and then try to give it, but as of now we don't have it right now.

Abhijit Tibrewal: Sir, again, squeezing in one last question in the interest of time, I mean, the effective tax rate that we see in this quarter was elevated. I mean, was it anything to do with this impairment of intangible assets?

S. Sunder: No, not to do with it. It was more to do with the benefits that we had taken over the past few years. So, this tax rate will be elevated for the next couple of years. That is what we want to guide. We are disallowing the ECL provision, which we have already claimed in the previous year. So, that we are required to pay and hence the impact is coming on the tax front.

Abhijit Tibrewal: So, sir, if I kind of, I mean, understand you right. We had taken some benefits on ECL provisions in the prior years.

S. Sunder: Yes, earlier it was, see, we used to maintain separate set of books few years back, and we used to claim it as an expenditure, and the department was allowing it. Once the Ind AS came into picture, then we started moving out of maintaining two sets of books for income tax and the shareholders, and whatever benefit we got in those years, now we are required to, it's more of a timing difference. So, it will be next couple of years at least that tax rate will be at around 30%, I would say.

Abhijit Tibrewal: So, sir, I mean, essentially for the next few years, the effective tax rate is now going to be at 30%.

S. Sunder: Couple of years, Yes.

(THE MANAGEMENT CLARIFIED IN AN INTERACTION IMMEDIATELY FOLLOWING THIS EARNINGS CALL THAT THE INCOME TAX RATE FOR THE SUBSEQUENT YEARS WOULD BE AT APPROXIMATELY 26%)

Moderator: Thank you. The next question is from the line of Bunty Chawla from IDBI Capital. Please go ahead.

Bunty Chawla: Thank you for the opportunity. All my questions are answered. Just a data point if you can share write-offs for the full year and write-off for the Q4 FY '23?

S. Sunder: The write-off for the current quarter is 805 crores and for the full year is 2,615 crores. And the provision including the one-off provision of 295 crores is 379 crores, and for the full year the provision is 1,545 crore, and the credit cost for the quarter amount which is 805 plus 329 is 1,184 crore, and for the full year 2,615 plus 1,545 is 4,159 crores.

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

Piran Engineer: Just a couple on personal loans and gold loan. So, you know, in personal loans, what really gives us the confidence to grow so fast in an unsecured product? Can you give us some more color on this business in terms of, you know, are these cross-sell customers? What is the average ticket size, if there's any bureau data of these customers?

And secondly on gold loans, you know, our plan was to scale it up in the last analyst meet when we met. Gold prices are also up, but if we look at the book, it's been flat in the last two, three quarters if you can throw some light on that.

Y. S. Chakravarti: Yes, on the personal loan, we are now almost done with our legacy book, which is a market, where we were doing personal loans in the market. Today, it's entirely the in-house database of our existing customers who have either completed a cycle or who have completed at least 75% plus percentage of their loans. One.

Two, was average ticket size is around 55,000 today. This is also because there are also a lot of customers who have serviced these loans a couple of times, two, three times, and they are small businessmen where we give them up to 1 lakh loan. So, the average is about Rs. 55,000 today, and the average tenure is about 20 odd months.

So, the confidence is that we have mined about close to 4.5%, 5% of the eligible database of our customers so far. So, the idea is to go ahead and mine it a little more aggressively. Now as I said earlier, now that we also have the support of the erstwhile STFC team and the branch network, we will be able to service these customers. So, that's one.

The other point on the gold loan is, see, on the gold loan, yes, we will scale it. We are in the process of scaling it up. For starting or setting up gold loans, one is, you need to set up the infrastructure and also train people. See, we do not have appraisers on a contract basis. We go with our own team. We train our people on appraisal, appraising the gold.

Second is we need to provide a secured room, you know, CCTV cameras, so all this infrastructure, which we are doing on a phase wise basis. So, probably by the end of the year, you will see the impact of all the new branches adding to the disbursement of gold. Does it answer your question?

Moderator: Sir, the line for the current participant has disconnected. We will proceed with the next question from the line of Ashwin Kumar Balasubramanian from HSBC Asset Management. Please go ahead.

A. K. Balasubramanian: Just wanted to understand in terms of the liquidity policy, so prior to merger, you know, Shriram Transport used to carry about Rs. 17,000 crores - Rs. 18,000 crore of cash and bank balances and SCUF used to carry about 5,000 odd crores. Now the total currently are up about 16,000 crores. So, it's come down a little bit. So, just wanted to understand is there any thought process in terms of as a proportion of the balance sheet, what is the liquidity that you would like to maintain?

Parag Sharma: I think we always had a policy of maintaining three months of liability repayment as liquid cash, and that has not been changed. Only during COVID period, we enhanced that liquidity buffer from three months to close to around six months. So, as of now what we have is 17,600 odd crores. I said the debt which is maturing for the next three months is 16,000. So, that is good enough to take care of three months of liability repayment, and that policy has been there for last, I think, more than 15 years. So, that we are not going to dilute.

But there has been a constant demand that why we are carrying a higher liquidity buffer and not reduce it. So, we said, we will always maintain three months and that continues. So, as of now what we have is for three months of repayment, which is close to 17,000 crore, and in case liabilities goes up, this will be further increased but not going to be diluted for three months of liability repayment.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Umesh Revankar for closing comments. Over to you, sir.

Umesh Revankar: Thank you for participating in this call. As I was telling you, our economy is doing well, and our segment which we are in are growing, and we feel that the growth will continue. And as we have given guidance for three years 15% AUM growth will continue, will be our focus. And also, the underlying focus will be to grow more on the bottom line and improve our profitability. Thank you very much for participating again. We will meet again in the next call. Thank you.

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