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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 third quarter ended December 31, 2022.

Further to our letter dated 1st February, 2023, regarding the audio link of the investors earnings call for the third quarter ended December 31, 2022, we enclose herewith the transcript of the said call. The Transcript is also been uploaded on the Company website https://www.shriramfinance.in/

Thanking you,

Yours faithfully,

For **SHRIRAM FINANCE LIMITED**

BALASUNDARARAO UPPU
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Date: 2023.02.06 15:34:44 +05'30'

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COMPANY SECRETARY

Encl.:a/a.

"Shriram Finance Limited

Q3 FY '23 Earnings Conference Call"

February 01, 2023

MANAGEMENT:

MR. UMESH REVANKAR – EXECUTIVE VICE CHAIRMAN – SHRIRAM FINANCE LTD.

MR. Y. S. CHAKRAVARTI – MANAGING DIRECTOR AND CEO – SHRIRAM FINANCE LTD.

MR. PARAG SHARMA– JOINT MANAGING DIRECTOR & CFO – SHRIRAM FINANCE LTD.

MR. S. SUNDER - JOINT MANAGING DIRECTOR– SHRIRAM FINANCE LTD.

MR. SRIDHARAN P. - JOINT MANAGING DIRECTOR– SHRIRAM FINANCE LTD.

MR. SUDARSHAN B. HOLLA - JOINT MANAGING DIRECTOR– SHRIRAM FINANCE LTD.

MR. NILESH ODEDARA - JOINT MANAGING DIRECTOR– SHRIRAM FINANCE LTD.

MR. G. M. JILANI - JOINT MANAGING DIRECTOR– SHRIRAM FINANCE LTD.

MR. K. SRINIVAS - JOINT MANAGING DIRECTOR– SHRIRAM FINANCE LTD.

MR. RAVI SUBRAMANIAN – MANAGING DIRECTOR AND CEO – SHRIRAM HOUSING FINANCE LTD.

MR. SANJAY K. MUNDRA - PRESIDENT

Moderator: Ladies and gentlemen, good morning, and welcome to Shriram Finance Limited Q3 FY '23 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 star then zero 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, Shriram Finance Limited for his opening remarks. Thank you, and over to you, sir.

Umesh Revankar: Yes. Thank you. Good morning friends from India and Asia, and warm welcome to everyone. Good evening to those who joined from the Western part of the world.

This is the first earnings call for the merged entity of Shriram Finance Limited.

We have with me Mr. Chakravarti, the Managing Director and CEO, Joint Managing Directors: Parag, Sunder, Jilani, Sudarshan, Sridharan, Nilesh and Srinivas. And we also have Mr. Ravi Subramanian who is the MD and CEO of our subsidiary, Shriram Housing Finance Limited and Sanjay Mundra, who is our IR Head.

First, let me go through the merger update. After nearly one year of the announcement of merger around 13, December '21, we announced the merger. As per the planned timeline, what we have given one year, we could complete the total merger process. On 5th of December, we officially announced our merger. In fact, we had received letter order from NCLT on 9th, but for us to complete the other formalities and announce, it took some time. For the shares and security trading, it started from December 28th after necessary formalities with exchanges.

Meanwhile, we had prepared ourselves well from April itself, in the beginning of the financial year, we had planned the integration and we had put five Joint Managing Directors in respective geographies to manage the business as a combined entity. And that preparation has helped us well in running a few pilots for the various products.

Today, out of 2,900 branches, I can say that around 85% of the branches, we have at least run one additional product. Depending upon the geography, depending upon the local needs we have been trying to push one additional product of each other’s companies, and that has been successfully done.

As far as the larger ticket lending on Commercial Vehicle and SME, we are taking a little more time because this needs to be done on more concentrated and better supervised way and underwriting part of it is done centrally in some of these locations. So we will be taking a little more time in rolling out large ticket products across India over the next one year.

Meanwhile, Indian economy is growing well. And last quarter, it recorded a 6.3% GDP growth. Overall, the first half, it is 9.7%. And as per the estimate, it is likely to be around 6.9%.

Yesterday, the government economic survey has indicated that it will be around 7% for this year and maybe 6.6% going forward for next year. That itself will make India the growth engine of the world, India will be growing the fastest among all the countries.

The inflation worry was there for some time, nearly six months now, mainly because of various commodity prices going up, fuel price going up and also the geopolitical tension. But now in India, the inflation numbers have come down significantly. December numbers, they're at 5.72%, which is below the 6% upper limit of RBI. And also, WPI has come down to 4.95%. And last December, it was 14.27%. So there is a substantial improvement in the WPI numbers. So it should help us in moderating our liability cost.

The RBI monetary policy, also MPC had hiked the repo rate by 35 basis points. And at present, it is 6.25%. And we expect maybe another rate hike, a modest rate hike or with inflation number being there, it may not increase, that is a possibility.

The GST collection is robust. In fact, today morning, if you have gone through, the GST January GST collection is Rs. 1.56 lakh crores. And with steady 1.45 lakh crores above collection for the last few months, we believe the government spend on infrastructure will continue. With the infrastructure spend continuing, our segments, especially Commercial Vehicle and construction-related activity will continue to grow, is what we strongly believe. The private capital is something which is not coming the way we expected, but this financial year, government seems to be confident - yesterday's report on the government economic survey suggest that private capital is likely to come in, in a reasonable way in this financial year.

The agri and rural economy has been doing very well. If you look at India's agri growth for the last three years, India is blessed with good climate, good rain for the last three to four years. And that is really helping. With the various programs of government supporting the agri income growth and also direct credit to the farmers, that also is helping. There are some numbers which suggest the government has announced that totally 2.16 lakh crores has been deposited directly into the bank accounts of farmer under Pradhan Mantri Fasal Bima Yojana and 1.24 lakh crores has been given to farmers in lieu of crop loss.

So this augurs well for the rural economy and to the income of the rural area. And government also has announced its plans to convert around 3.25 lakh fertilizer shops across the country as Pradhan Mantri Kisan Samridhi Kendras. These measures will definitely help the rural economy to be steady and consumption in the rural economy to grow.

Coming to the auto industry, overall, Commercial Vehicle sales have gone up by 16.6% to 227,111 units in Q3 against 194,709 units in Q3 '22. The heavy vehicle sales out of it is 683,000, which is 46.4% higher for the nine months period compared to 466,760. So the heavy vehicles have been growing much faster at 33% over the previous quarter, and LCVs have been growing at 8.2%. Three-wheeler is showing a robust growth of 67%. I believe it is mainly because of the expansion of e-commerce activity. E-commerce is expected to grow 18% through 2025. That means e-commerce is likely to reach to Tier 2, Tier 3 towns including all pin codes that's available, maybe that is the way the e-commerce is going to play a major role in the last mile reach and the transportation part of it.

The earthmoving and construction equipments also are growing very healthy at 26%. Tractor sales have grown by 23% of 209,918 units in Q3 versus previous year same period of 169,835. So two-wheeler also has been growing at 38,59,030 units at 6.3% growth for the nine months period. So which indicates that overall, there is buoyancy demand in the urban and rural market.

Now coming to the current quarter performance, I'll hand over the mic to Mr. Chakravarti, my colleague.

Y S Chakravart: Thank you, and I welcome all to the first earnings call of Shriram Finance Limited for the third quarter of financial year '23. I trust you have had the opportunity to look at the investor presentation that we have put up. And as Mr. Revankar mentioned in his opening remarks, financial year '23 has been an eventful year for us because of the merger, and all credit to our business and back office teams that this merger has been concluded smoothly.

I would also request you to note that the corresponding previous year figures are not comparable as the merger effective date is 1, April 2022. On the operational metrics, we clocked a disbursement growth of Rs. 29,245.26 crores as against Rs. 22,931.70 crores in the same period of the previous year and as against Rs. 25,789.32 crores in Q2 financial year '23. Our Assets under Management stands at Rs. 1,77,498.17 crores as compared to Rs. 1,56,848.63 crores in the previous year, an increase by 13.17% as compared to Rs. 1,59,358.20 crores in quarter 2 FY '23. Net interest income stands at Rs. 4,427.88 crores as against Rs. 2,387.97 crores in the same period of previous year and as against 4,104.86 crores in Q2 FY '23.

Our net interest margin was 8.52% as against 6.65% in the same period of previous year and 8.26% in Q2 FY '23. Profit after tax stands at 1,776.97 crores in quarter 3 FY '23, compared to 680.62 crores in quarter 3 FY '22 and as against 1,555.11 crores in Q2 FY '23. Our earnings per share stood at 47.46 Rs. as against Rs. 25.26 in the quarter Q3 FY '22 and Rs. 41.53 in Q2 FY '23.

Gross Stage 3 declined by 2 basis points and Net Stage 3 declined by 12 basis points over Q2 FY 2023. And hence, Gross Stage 3 stood at 6.29% compared to 8.4% in Q3 FY '22 and 6.31% in Q2 FY '23. The Net Stage 3 stood at 3.2% compared to 4.36% of Q3 FY '22 and 3.32% in Q2 FY '23.

The credit cost for the current quarter stood at 1.75% as against 1.73% for Q2 FY '23. The cost-to-income ratio was 22.29% in this quarter as against 24.5% recorded in Q2 FY '23.

Now, I would like to move on to our subsidiary, Shriram Housing Finance Limited. They registered a disbursement growth of 30.33% to Rs. 1,001 crores as against 768 crores in the same period last year and as against 1,049 crores in Q2 FY '23. Shriram Housing's assets under management grew by 55.84% to 7,178.16 crores as compared to Rs. 4,606.15 crores the previous year and by 9.66% as compared to 6,545.92 crores in Q2 FY '23.

Their net interest income increased by 86.26% to 79.61 crores as again Rs. 42.74 crores in the same period of previous year and as against 64.53 crores in Q2 FY '23. Profit after tax for Shriram Housing increased by 27.19% to Rs. 36.38 crores in Q3 FY '23 compared to 28.60 crores in Q3 FY '22 and as against Rs. 34.03 crores in Q2 FY '23.

Their earnings per share stood at Rs. 1.12 as against Rs. 0.88 in the quarter Q3 FY '22. Shriram Housing's Gross Stage 3 declined by 37 basis points and Net Stage 3 declined by 29 basis points over Q2 FY 2023, and accordingly, Gross Stage 3 stood at 1.15% compared to 2.47% in the Q3 FY '22 and 1.52% in Q2 FY '23. The Net Stage 3 stood at 0.87% compared to 1.99% of Q3 FY '22 and 1.16% in Q2 FY '23.

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. After that, our Joint Managing Director, Mr. Sunder, will talk about the accounting aspects. Thank you.

Parag Sharma: Hello, everyone. On the liabilities, total liabilities as of December stood at Rs. 1,53,228 crores, broken up into 27% through the term loan, bank loans route, around 23% from FD, retail FD, 24% is through the domestic bond market, capital market. Securitization is close to 13% and external commercial borrowing, including the bond and loan is at around 12%. That is the break-up of liabilities. The overall cost is at around 8.77% compared to 8.71% in the previous quarter, up by around 6 basis points.

Liability mix might change with more securitization to be done in the coming quarter and also some increase in the bond offering by the company. That would be the two changes. When it comes to mobilization for the quarter, we have mobilized in line with the previous quarters, close to around Rs. 12,200-odd crores of borrowing with the securitization being the largest contributor at Rs. 4,400 crores followed by retail deposit, which was Rs. 4,093 crores.

On the ALM front, all buckets, as in past, has been positive with cumulative surplus up to 1 year being in excess of Rs. 30,000 crores. Our liquidity coverage ratio is healthy. It is at around 240%. The overall liquidity is Rs. 17,400-odd crores, which is good for meeting our liability repayment for close to around five months of liabilities. The leverage ratio is down from 3.9 to 3.63 in the current quarter.

Rating agencies have reaffirmed rating of Shriram Finance Limited as AA+. All the four rating agencies, CRISIL, CARE, ICRA and India Ratings have reaffirmed the rating. So we are confident that this quarter, the cost may not go up. At 8.77, we should be able to reduce it, but we don't expect the cost to go up for sure for this quarter.

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

S. Sunder: Hi, everyone. A couple of data points. One is that the employees have, the count has increased by 3,536 numbers in the current quarter, with the closing employee count of 60,918. The cost-to-income ratio has stabilized at around 22.29% and we expect this to be the trend going forward in a broad band of 22% to 24%. And as you are aware that there was a one-time sales tax write-off, which happened in the previous quarter and hence, it was higher at 24.5% in September quarter. And most of the numbers have been already spoken by MD and CFO. And one additional data point is that the LGD for the current quarter of the combined entity is 42.39% and PD for Stage 1 is 7.17% and PD for Stage 2 is 17.4%.

And one more additional point, which I would like to clarify, is that the already reported numbers of STFC and SCUF in the previous two quarters have been restated to take into account some entries relating to the merger fair valuation accounting as per the Ind AS norms. So that may be a difference of around Rs. 100 crores in each quarter and which if any queries are there, we'll be happy to reply to it off-line through Mr. Sanjay Mundra.

With this, I would like to hand over the call back to the moderator and request the moderator to open the lines for Q&A. Thanks.

Moderator: The first question is from the line of Shubhranshu Mishra from PhillipCapital.

Shubhranshu Mishra: Just quickly, if you can give out the disbursements as per product? And sincere request if it can be part of the presentation going forward, sir. It will be slightly easier because we have so many products now. That's the only question I have.

S. Sunder: Okay. The disbursement for the quarter is Rs. 29,245 crores and as against the previous Q2 number of Rs. 25,789 crores. And coming to the segment-wise, the commercial vehicle segment, we had done Rs. 11,750 crores. The passenger vehicle was Rs. 5,057 crores, construction equipment was Rs. 1,808 crores, farm equipment Rs. 527 crores, MSME was Rs. 2,870 crores, two-wheeler Rs. 3,230 crores, gold loans Rs. 2,131 crores and personal loans contributed to Rs. 1,842 crores and others around Rs. 17 crores. So this is the broad breakup of the segment wise disbursements, and we will definitely take your suggestion and then try to incorporate the same in the future presentation. Thanks.

Shubhranshu Mishra: Within CV, sir, what is used and new, sir?

S. Sunder: It will be roughly, say, around 10% will be new and the balance will be used.

Moderator: We have the next question from the line of Nischint from Kotak Mutual Fund.

Nischint: This is Nischint, from Kotak Securities. Just one question to Parag. What gives you confidence that cost of borrowing will not increase next quarter? You mentioned that we are at 8.4% and it will not go up from this quarter?

Parag Sharma: Nischint, I said, it is 8.77%. Currently, whatever we are borrowing is at much lower level. We are borrowing at between 8.5% to 8.6%. So I don't expect the cost to go up. It can only come down. We did repay some of the high-cost debt in the month of October end, towards October end. So I don't expect, because incremental cost is lower than the on-balance sheet cost as of now, that is the reason I am confident that it will not go up for this quarter.

Nischint Chawathe: No, but I would assume that some of the bank borrowing, as you would see...

Parag Sharma: Bank borrowing is happening, Nischint, at the rate of around 8.5% to 8.65% range only, nothing beyond that. And overall liability cost is around 8.77%. That is why I'm confident it will not go up.

Nischint Chawathe: No, I understand that, but I'm saying that some of the bank borrowings that you're currently having, let's say, if something is like at this point of time, let's say, 7.5% or 7.7%, when it -- and I believe this is one year before repricing. So when it comes to repricing maybe next month or two, three months down the line, then it probably gets repriced at a higher rate, depending on what has been the rise in MCLR in the last 12 months?

Parag Sharma: Yes. So there is nothing called annual repricing, when it comes to the large borrowing which is from public sector banks, that is all MCLR-linked. And there was nothing, at around 7% level there is no borrowing. All the borrowings stood at around, MCLR at that point of time will be around 8% to 8.25% only. So I don't expect there will be a major change. We do expect to increase our securitization volumes. We do expect to increase our bond offerings. And even bonds what we are currently borrowing at are not at the levels which is the balance sheet cost as of now. That is why I'm confident about cost not going up.

Nischint Chawathe: Can you just remind last quarter, I mean, we can -- maybe let's look at standalone Shriram Transport, what would have been the cost of borrowing as against to 8.77%?

Parag Sharma: The incremental was around 8.25% to 8.30% only.

Nischint Chawathe: Outstanding, if you are at 8.77% in December.

Parag Sharma: Yes, that includes Shriram City Union liabilities also. And also, whatever we have borrowed from the offshore, everything included was 8.77%. But incremental what we have borrowed is between 8.25% to 8.30% range only. That is why I'm saying it will not go up.

Nischint Chawathe: And outstanding last quarter only for standalone Shriram Transport would be how much?

Parag Sharma: That was at around 8.5%. 8.54% is what we reported for the September quarter.

Moderator: The next question is from the line of Mahrukh Adajania from Nuvama Wealth Management.

Mahrukh Adajania: So what is the quantum of one-off in operating expenses?

S. Sunder: This quarter, there was no one-off. The one-off was in the previous quarter of Rs. 65 crores, which was on account of write-off of the earlier litigations regarding the sales tax. There was an amnesty scheme launched by certain state governments, and we had availed of it. And whatever was the amount payable, we had paid and written-off in the books of accounts. That amounted to Rs. 65 crores in the previous quarter. And that was a one-off. Current quarter, there is nothing to this.

Mahrukh Adajania: And the merger-related expenses, have they come in opex?

S. Sunder: Yes. The expense related to merger is around INR 19 crores, and it will be deferred over a period of five years. And whatever is pertaining to the current quarter has already been factored and it's not significant compared to our size of the expenses.

Mahrukh Adajania: So it will be deferred over five years?

S. Sunder: Yes, correct.

Mahrukh Adajania: Over every quarter, okay. And then just in terms of credit cost, so this is where it settles, is it? The Q3 level, is that where it settles now? Or how do we look at it going ahead?

S. Sunder: We have been -- yes.

Umesh Revankar: The credit cost, we always have given an indication that it will be around at 2%. So this current year, it is 1.94% as of -- for the nine months period. And we should be around 2% at any point of time, which is our long-term history if you go up 10 years back and also forward-looking also we have always been indicating that it will be around 2% credit cost.

Mahrukh Adajania: And when you expense the intangibles of Rs. 100 crores every month, is it tax deductible or it's not?

S. Sunder: The intangibles we will be adjusting for impairment. And it's most likely that it will come maybe after a couple of years only, not before that. That is what is our estimation, but it's up to the independent valuer to take a call, but we'll be testing for impairment every year-end.

Mahrukh Adajania: But whatever is written-off through P&L or expense there, is that tax deductible or not?

S. Sunder: The goodwill is not tax deductible, but the intangibles, yes, it is tax deductible.

Moderator: The next question is from the line of Param Subramanian from Macquarie.

Param Subramanian: So my first question was on understanding this NII that you've reported on the merged basis, so if I just do an addition of the 2Q NII of Shriram Transport and Shriram City Union and compare with what you have reported for pro forma, there's a gap of -- or an incremental addition of about Rs. 180 crores. So could you explain what exactly is giving this delta?

S. Sunder: See, as I telling you in the opening remarks that as per the accounting standard, on merger, we have done some fair valuation of the liabilities, the loans that we have borrowed as well as loans that we have given. And roughly around Rs. 1,000 crores is the fair value that we have taken a hit at the time of, in the opening balance sheet. And the benefit will come over a period of three years; maximum will come in the current year. That's what we were indicating that it will be around INR 100 crores per quarter will be the addition to the NII in the next couple of quarters, three, four quarters, at least. Then it will come down.

Param Subramanian: Rs. 100 crores per quarter for the next three, four quarters?

S. Sunder: Correct. Yes.

Param Subramanian: You said it is a hit to the balance sheet, so how is it giving you credit on the P&L?

S. Sunder: No, it is a credit to P&L and opening balance, we have taken a hit. It is adjusted against the reserves.

Param Subramanian: And what is the corresponding impact on net worth? Because even if I do a net worth comparison even adjusting for goodwill, is it also added to your net worth, this...

S. Sunder: See, the net worth, if you see the standalone STFC and standalone SCUF, as on 31st March and add your current nine months profit minus dividend what we already paid, and there will be difference of around INR 2,800 crores is on account of the goodwill and intangibles that we have created, which is kept as an asset. That is the difference.

Param Subramanian: So goodwill is 1,400 and the remaining 1,400 is also...

S. Sunder: 1,300 is the goodwill and 1,500 is the intangibles. And these primarily have been bifurcated to get a benefit of tax claim at least as far as this is concerned. And it is supported by independent valuer's assessment and all those things. And the charge to P&L may happen maybe after the next couple of years, not before that.

Param Subramanian: Sir, if I can just ask, so considering the one offs you are seeing post-merger in the P&L currently, so what is the sustainable level of RoA and RoE. This time, you are reporting 3.4% RoA, but what is on a sustainable basis, what do you think where should these numbers stand?

Umesh Revankar: RoA is 3% on a long-term basis, and RoE will be anywhere between 16% to 18%, depending upon the environment.

Moderator: The next question is from the line of Umang Shah from Kotak Mahindra AMC.

Umang Shah: Congratulations on a good quarter and the merger. Sir, a couple of questions. One is on the merger-related expenses, just wanted to reconfirm the expenses which you mentioned were just about Rs. 19-odd crores, is it?

S. Sunder: Yes, Rs. 19 crores.

Umang Shah: And if I recall correctly, initially when the merger was announced, we were anticipating some merger-related costs to the tune of about anywhere between Rs. 200 crores to Rs.300-odd crores. Does that still stand or has that number got on revised downwards?

S. Sunder: When we announced the merger at that time, there was a likelihood of an amendment in the Stamp Duty Act in Tamil Nadu. And foreseeing that we had indicated that it will be around 200 crores to INR 300 crores. However, as on date also the amendment has not taken place. And since our merger is already in place, so there's unlikely that there will be a retrospective impact of the same. And hence, the management is confident that no further expenses on account of stamp duty is applicable to the company.

Umang Shah: Sir, the other question was on the growth outlook. And ideally, how should we now look at our AUM mix shaping up progressively maybe a year or two years out from here. Should we assume that the share of vehicle finance business gradually just keeps coming off in the overall mix? Or how should we look at it? And what's broadly the growth outlook over the next 12 to 18 months?

Umesh Revankar: See, the overall AUM growth, which we had earlier indicated of 15% CAGR growth should continue is what we feel very confidently because Indian economy is growing. And with this growth, 15% CAGR growth is a possibility. We are leaders in commercial vehicle and two-wheeler. So our leadership will continue to remain. We are trying to reach out for SME business in the geographies which we have not been servicing till now. Earlier, the SME lending was focused mostly in the South and Western part. Rest of India, even though there is enough growth opportunity in the SME business, especially large states like UP, MP, Rajasthan and Punjab, Haryana, we had not been doing much. So with that network being available today across and having the experience and the expertise of both customers and the expertise of doing SME business in the Southern part, Southern and Western part, we would be expanding it.

There may not be a significant shift in overall ratios, but slowly and steadily, SME growth will be much faster than the CV and two-wheeler is what we feel. So it may not alter immediately in two years, but over the 10 years, you can expect because SME industry is so large and ability to reach out to these sectors and segments through the branch network is possible. So next two years, there may not be a big change, marginal change. But over the 10 years, there will be a significant change.

Umang Shah: And on the cost to income, just to reconfirm, in our opening comments, we mentioned that the steady state cost-to-income ratio should be close to about 22%, 23%-odd. Did I hear that right? Currently, we are at about 26%, 27%-odd?

Umesh Revankar: Yes, we had earlier said 26%, but this quarter, it has been 22.45%, but in the long run, it will be 24%, 25%.

Umang Shah: And just last one. On the housing finance side, now that the merger is behind us, how should we look at it? Will that continue to operate as a wholly owned subsidiary or at some point of time, we look at some value unlocking happening in via that subsidiary or a separate listing something, any plans on that front?

Umesh Revankar: No such plans. It will continue to run as a wholly owned subsidiary.

S. Sunder: So it is not wholly owned, it is 85% stake is with SFL.

Umesh Revankar: Yes, 85%, right.

Moderator: The next question is from the line of Shweta from Elara Capital.

Shweta: Congratulations on great quarter. Sir, what cross-sell opportunities across products do you think that you can derive from the synergistic benefit due to merger?

Umesh Revankar: Okay. See, we have the two businesses, if you look at, the Shriram City Union businesses, they were mostly in the south and western part. They did not have reach across the country. Now with Shriram Transport branch and the experience in these geographies being available, you would be able to take the Shriram City Union product across all the geographies. So that loan products get expanded in the both sides. Even in Shriram City Union branches, you will be able to offer CV and construction equipment, on agriculture equipment lending. So we'll be expanding the loan product across all branches and all products depending upon the potential in each of the geographies. So that is the synergy benefit. Additionally, since we have a large customer base, we would be able to cross-sell insurance and other investment products. Apart from sourcing deposits, we would be able to cross-sell insurance and other investment products. That will give us additional fee income. So that is the total synergy.

Moderator: The next question is from the line of Abhijit Tibrewal from Motilal Oswal Financial Services.

Abhijit Tibrewal: Sir, again, just going back to the merger-related opex, merger-related expenses. I was going through the call that we had hosted at the time when we announced the merger. That point in time, our expectation was including the stamp duty cost which is not there, something around Rs. 350 crores. So I mean, is it that, I mean, merger-related expenses have actually come in much lower than what we anticipated? You already said that we are not required to pay that stamp duty that we anticipated of about Rs. 190 crores, Rs. 200 crores. But other than that, I think we talked about HR integration cost of about Rs. 60 crores, Rs. 70 crores, branding and advertisement cost of about Rs. 70 crores. So those expenses are not really coming or I mean, they are being capitalized now and they will be expensed over the next two years?

S. Sunder: When we guided one year back, we had expected a high stamp duty expenses which not there now, as I had mentioned to the previous caller. When it comes to the other expenses, the Rs. 19 crores that we are talking about is the advisors and immediate merger-related expenses, which has been deferred over a period of five years. And the advertisement and other charges will be on ongoing thing, which will be debited to the P&L as and when it is incurred. And the cost of advertising, which we had guided maybe around Rs. 50 crores to Rs. 100 crores, will be happening over a period of time, and it has not already happened.

Abhijit Tibrewal: And your guidance of 24%, 25% cost-to-income ratio takes that into account?

S. Sunder: Yes, it takes into account. Yes.

Abhijit Tibrewal; And sir, just one more question here. Just wanted to understand, I mean though it's one merged entity now, the branding is Shriram Finance. But wanted to understand, there are still employees who are part of either Shriram Transport or Shriram City and who are maybe people who understood the respective products a whole lot better. So I mean, what incentives have been put in place to kind of drive this cross-selling?

Umesh Revankar: See, incentive programs are, our business model, if you look at all our field and branch team is where the variable component is quite high. So both in Shriram Transport and Shriram City Union business model, that was factored in, and that's how we have been functioning. So same thing is continuing. The incentives would be given for own product and also in cross-selling products, whether it is insurance or whether it is investment product tomorrow or whether it is a multiproduct today, the variable component will continue to play a major role in our business model.

Moderator: The next question is from the line of Uday Pai from Investec.

Uday Pai: Can you quantify the amount of interest expense saved on account of buyback done in October?

S. Sunder: Okay. We don't have the number right now. You can just touch this with Mr. Mundra. He will help you out offline.

Moderator; The next question is from the line of Rahul Jain from Goldman Sachs.

Rahul Jain: Just two or three questions. Number one, on this cross-selling bit, can you give us an indicative sense as to how the loan book would look like a couple of years down the line? Would it be, would the CV proportion come down over a period of time as the other products we cross-sell to other customers?

Umesh Revankar: Rahul, I think I just answered it just five, 10 minutes before, See, we are leaders in CV and two-wheelers. So there, it will not change much. Overall ratio will remain. The SME focus, we will increase because SME business, which we are mostly doing in the southern part, we'll be taking to the rest of India. And scope and opportunity to grow will be faster. So we may grow there at around 20%, 25%, where in other businesses, we may still grow at 14%, 15%. So it will not...

Rahul Jain: The other question was on goodwill. So over how many years will this goodwill need to be written-off?

S. Sunder: Goodwill will be tested for impairment by an independent valuer and basis that it will be provided. But the management feels that at least for the next two years, there will not be any impairment on this count.

Rahul Jain: The other question was on cost of funds in Shriram City Union. Would there be any benefit if there's any rating upgrade. I mean, of course, now you'll borrow in Shriram Transport, but the incremental borrowing should be a lot lower on that portfolio also, right, as you do disbursals in the Shriram City Union portfolio, how much benefit can we get out of that?

Parag Sharma: Shriram City Union was AA, and now the labilities will get repriced to AA+ level. So there should be 25 to 30 basis point benefit, which will come out of repricing of Shriram City Union liabilities.

Rahul Jain: And then that's the reason why next year, you're saying cost of funds would not increase much. I mean some benefit will come from here as well. Is that a fair insight?

Parag Sharma: I said for the March quarter, it will not go up. But if RBI increases rate, that has to be adjusted for next year. But this quarter, it won't be up.

Rahul Jain: Just a last question in terms of the fair value that you were talking about earlier. Can you explain how do you arrive at this? Is there an element of NPV calculation also that goes in there and that's why you had to sort of adjust the book by INR 1,000 crores or there is something else?

S. Sunder: See, the last quarter that is March quarter of '22, whatever was the loans disbursal and liabilities mobilized, the benchmark rate is considered, and it is restated for the earlier entire book. And basis that, based on the NPV calculation, the fair valuation arrived.

Moderator: The next question is from the line of Ankur Jain, an Individual Investor.

Ankur Jain: I have a question on capital allocation. So Shriram Finance has paid an interim dividend of Rs. 15. And in the past, both Shriram Transport and Shriram City Union have given healthy dividends. So my question is, has the management thought about the idea of doing a buyback with some part of the money, which could be more beneficial to the shareholders?

Umesh Revankar: See, finance companies or banks normally don't do any buybacks because the capital is always required in the business.

Ankur Jain: Even with the large amounts that you are paying, which are not required because ultimately, they have been paid to the shareholders?

Umesh Revankar: So dividend is an expectation. There are some shareholders who are invested for a steady dividend. So that is a different aspect altogether. So rewarding shareholders continuously with good dividend is part of a good governance and also appreciating the shareholders, that's all.

Moderator: The next question is from the line of Chandrasekhar Sridhar from Fidelity International.

Chandrasekhar Sridhar: I have a few questions. Parag, just how do you think of liquidity right now? So as I see, I think, on the merged entity also the excess liquidity has actually stayed constant as you've moved on and you actually cut it by one month. How do you see that over, on a sustainable basis, one?

Secondly, Shriram City Union had a liability duration, which had extended pretty reasonably over the last few years, longer, much longer than the asset duration. Now that we are working on a merged entity, how do you just think on liability durations given we have a merged balance sheet? For Mr. Sunder, I have a couple of questions. One is, even if I understand the fair valuation, but if I look at the GNPLs also on a combined basis, I mean, the pro forma numbers in the GNPLs also, there's a difference of 40, 50 bps. So what would explain the differential in the GNPLs? And for Mr. Ravi, just in Shriram Housing, was there any portfolio buyout done during the quarter?

Parag Sharma: On liquidity, we always had a stated policy of maintaining three months of liability repayment as a liquidity buffer, which we enhanced during the COVID period to six months. Now we are at around five months, but I think, we'll continue with the liquidity buffer of Rs. 17,000 crores until the March quarter and then based on market scenario, we will look at diluting it or continue to maintain slightly higher liquidity. But as of now, until March quarter, I think we'll continue to have Rs. 17,000 crores of liquidity.

When it comes to duration, I think duration in Shriram Transport also, the assets is not longer, that is, used vehicle is typically three to four years. So there's not too much of duration difference which comes because of Shriram City. And Shriram Transport also, the liability was longer than the assets. So that doesn't change. Sunder?

S. Sunder: Yes. Coming to the Gross Stage 3 numbers. If you recollect, the AUM of Shriram City Union Finance around 31, March was Rs. 33,000 crores, and they were carrying an ECL provision of close to -- slightly more than Rs. 2,000 crores. So net Rs. 31,000 crores was acquired by Shriram Transport by way of the merger transaction. And this Rs. 31,000 crores was accounted as a loan outstanding from the customer. And hence, this amount is added to the Gross Stage 3. And you would find that the normalized, if you take one plus one, had it been taken at a gross level of Rs. 33,000 crores, the NPA would have been at around 25 bps higher than what we are reporting. And that explains the reduced number of the gross stage 3 of 6.29% in the current quarter. The same thing has been restated in the previous quarters also.

Ravi Subramanian: And on the housing finance side, out of Rs. 1,000 crores gross disbursement, we've,the bought out portfolio was about Rs. 6 crores, hardly anything.

Chandrasekhar Sridhar: Sure. Maybe if I could just follow up with a couple of more questions, Umesh, one is just how do we think of just right pricing now, how much we're charging to the insurance business on a sustainable basis. This has stepped up like a couple of years back, but didn't seem to go anywhere after that? What's your thoughts on that?

And second is we are still carrying the COVID provision buffer at this point in time. Now the buffers were created in Q4 FY '20 and Q1 FY '21 and then some later. Now obviously, the contracts are, and our understanding was they'll be utilized over a period of time once the contracts mature. Given the duration of the book, the contract should be maturing by now, but they're still carrying a large buffer and we have utilized very little. So what do we think of some of these provision buffers which you're carrying?

Umesh Revankar; Yes. See, as far as the insurance is concerned, the insurance cross-sell is done to help the customers to get better claims and quicker claims. That is the main objective. The earnings out of it, the commission occurring out of the insurance, whatever is statutorily available or can be given, that we are getting from the insurance companies, both life and the general business.

So our focus has been to provide better service to customers. For example, earlier, we used to get claims on accident at around 180 to 200 days, after 180 to 200 days, putting customer into a lot of difficulties. By providing the insurance service now in-house, we're able to get the claim in 20 days. So that's the benefit customer gets. And indirectly, company benefits because of quick settlement of the claim. So there is no NPA due to, or there's no delay due to the claim being delayed. So that is the biggest advantage. So the benefit will improve over the period as we penetrate more. Today, the penetration level of insurance cross-sell is much lower, both life and general. Once we increase it across, then benefit will get more pronounced, and then bottom line will reflect very healthy growth in the fee income.

S. Sunder: And on the COVID provisioning, we had created a provision of Rs. 2,850 crores in Shriram Transport books. And as we have been guiding everyone that it has been allocated to the respective contracts, and as and when the contracts settle, it will be written back or charged off is what we have been indicating. And as on 31st December, an outstanding of Rs. 1,651 crores is available in the books. And we expect this to be cleared maybe in the next one year or so, by March '24, maximum will come out.

Chandrasekhar Sridhar: But I mean, that should actually extend beyond the contract duration, just given the duration of the book by now, that should have been flushed out, right? It was my understanding.

S. Sunder: No. See, if you recollect, we had also given a moratorium of six months and hence, entire book was postponed by six months. So in a normal scenario, it would have been maximum should come to an end by September '23. So that's likely to be pushed beyond close to March '24. So this I am saying, majority of the book, but still there can be some provision lying still.

Moderator: The next follow-up question is from the line of Nischint from Kotak Securities.

Nischint: Can you share what was the absolute valuation of Shriram City considered during the merger, if you can share the number of rupees in thousand crores.

S. Sunder: Yes. Nischint, I'll just take this question offline and give it to you.

Moderator: The next follow-up question is from the line of Mahrukh Adajania from Nuvama Wealth Management.

Mahrukh Adajania: Can you please quantify the fair value gains in NII and then through other line items of the P&L in this quarter?

S. Sunder: Fair valuation gains in the current quarter? Okay. I'll do one thing, I'll just send it across through Sanjay, both the impact on the PAT as well as the NII.

Moderator: Thank you. As that was the last question for today, I would now like to hand the conference over to Mr. Umesh Revankar, Executive Vice Chairman, Shriram Finance Limited for his closing comments. Over to you, sir.

Umesh Revankar: Thank you. Thank you all for joining this call. We had a good set of numbers in this quarter. And going forward, we feel that fourth quarter should be equally good or maybe even larger, because demand seems to be quite good in the fourth quarter. And going forward also, we feel that post, since all merger-related integration issues are addressed, we should be able to continue to grow and do our business very comfortably and keep growing our bottom line and good progress. Thank you, everybody.

Moderator: Thank you, sir. Ladies and gentlemen, on behalf of Shriram Finance Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.