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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 first quarter ended June 30, 2023.

Further to our letter dated 27th July 2023, regarding the audio link of the investors earnings call for the first quarter ended June 30 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
Digitally signed by BALASUNDARARAO UPPU
Date: 2023.07.31 11:31:52 +05'30'

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COMPANY SECRETARY & COMPLIANCE OFFICER

Encl.:a/a.

"Shriram Finance Limited

Q1 FY '24 Earnings Conference Call"

July 27, 2023

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

Moderator: Ladies and gentlemen, good day and welcome to the Shriram Finance Limited Q1 FY '24 Earnings Conference Call. As a reminder, all participant lines will be in 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. I now hand the conference over to Mr. Umesh Revankar, Executive Vice Chairman. Thank you and over to you, sir.

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

To present our Q1 earning call today, I have with me Mr. Chakravarti, Managing Director, Joint Managing Director and CFO, Mr. Parag Sharma, and Joint Managing Directors, Mr. Sunder, Sridharan, Sudarshan, Nilesh and Mr. Jilani. We also have with us Mr. Ravi Subramanian:, MD & CEO of our Subsidiary, Shriram Housing Finance Limited and Sanjay Mundra, our Investor Relationship Head.

Financial year 2024 is also when Shriram Group is celebrating its Golden Jubilee. So this is the 50th year of our existence. I take this opportunity to thank all of our group customers, investors, deposit holders, team members, and all of the stakeholders for enabling our Group to reach this milestone of 50 years of existence. Thank you very much.

Coming to the economy, the performance of which is intertwined with our company's own performance, Indian economy grew at 7.2% in FY'23, exceeding government's projection. India was the fastest growing major economy in the world, and this performance underscored the country's resilience compared to general slowdown in Europe and other parts of the world.

The GDP growth outlook for FY24 is currently expected more than 6%. With good monsoon, well-contained inflation, increasing consumption would likely boost the private capex. The government spend on logistics infrastructure would encourage international manufacturing to move to India. And that means Indian economy is likely to exceed the expectation.

On inflation, the CPI index has been reasonably benign in the first quarter of FY'24. The month of April it was 4.7, and it is the lowest since October 21. In following month, May 23, it came down further to 4.25. And in the month of June, it went up to 4.81, but still below the RBI's tolerance limit.

The wholesale inflation was in negative territory throughout the first quarter. Meanwhile, RBI in its MPC meeting retained the repo rate at 6.5 and guided for the inflation for the FY'24 at 5.1. So we can expect the repo rate to remain at current level if that is the overall guidance.

On the rural economy, after having faced some headwinds in the last 18 or so months, mainly caused by the inflation and higher commodity prices, Indian rural economy appears to be doing well now. It has reflected in higher FMCG consumption plus two wheeler sales. The crop yields are up, the MSP prices are up, and therefore, the agricultural income and non-agricultural income should be helping the rural economy to revive.

As for the monsoon, southwest monsoon has covered entire country and we expect the kharif to be good. The kharif planting season is underway now. There is sufficient stocks of staple grains which are wheat and rice, the procurement of which has helped the agri-economy. While the official statistics on food grain production of FY'22-23 season are yet to be published, it is estimated to have been 324 million tons, which is 2.5% higher than the previous year estimate, and also represents record production levels for seventh year consecutively.

Meanwhile, the government has set a target of 332 million foot grain for this crop year, that is, 23-24, that is, July to June, which is 2.6% increase over the previous year. Overall, Kharif crop has been sown in around 53.6 million hectares till July 14, which is around 4.29% less than the previous year. But by the end of this month, it is likely to cover that deficit.

On GST collection, the Q1, 2024 has seen a robust GST collection. And April 23, we saw highest ever GST collection of 1.87 lakh crore. The strength of GST collection continued into May with 1.57 lakh crores and June at 1.61 lakh crore. This helps the government's planned infrastructure spend.

Now coming to the auto industry, the automobile industry has largely been doing good, despite the fact that first quarter normally is a dull one. The commercial vehicle, the CV sales aggregated 2,17,046 units, compared to 2,24,488 units. And within CV, M&HCV saw a growth of 2.5% year-on-year, that is 77,774 versus 75,854. Meanwhile LCV sales were slightly lower at 139,272 against 148,634 a year ago.

The passenger vehicle registered a growth of 9.4% with 9,95,974 units against 9,10,495 units previous year. Two Wheeler again has seen the growth with 11.2% in Q1, 2024 versus Q1 FY'23, which was 41,40,964 units compared to 37,24,533 units. Three wheelers have seen the maximum growth of 89.4% growth with 1,44,475 units against 76,293 units. Tractors have again seen growth of 19.23% over the previous year with 2,25,234 units, against 1,88,903 units.

India's construction equipment industry turned out a best ever performance in FY'23 with 26% year-on-year increase in sales with 24,806 units being sold against 21,299 units. India with this kind of consumption or the sales is likely to become third largest market for construction equipment overtaking Japan in the year 2024.

On the other prominent loan product that Shriram Finance offers is MSME. India has an estimated 63 million MSME units registered and Shriram largely caters to Micro and Small with average ticket size of around 1 million and with which the company has been nurturing for nearly two decades now and wanting to scale it across the country post-merger with large number of branches and the network being there.

The growth of formal retail credit demand in India is in upward trajectory overall. And we see a lot of involvement happening from urban and rural region also. The surge in demand is largely driven by digitally literate, tech savvy, younger generation who have embraced mobile technology for their daily transaction. Even the rural credit, which was dependent on local moneylenders, is now moving towards formal credit option with the JAM Trinity helping them become part of digital economy.

Recognizing this opportunity, we have forged a strategic collaboration with pioneering mobile payment platform, Paytm, to extend financial services across the nation. As a prominent player in delivering financial solutions to unbanked populations, this partnership holds immense significance for Shriram Finance. Being the largest retail NBFC in the country, this alliance will facilitate issuance of loans to credit starved segment of the economy through a few taps of smartphones. With this new digital alliance, the company aims to reduce downtime for customers seeking instant credit, while retaining its position as trusted financial service partner.

Paytm, a trailblazer in QR and mobile payment, has redefined the traditional loan distribution model with its focus on digital first credit distribution, ensuring access to users at the last mile. By combining Paytm's extensive reach and technological infrastructure with Shriram Finance's expertise in lending and underwriting, this partnership forms a potent force in financial services sector.

With sourcing, distribution, and servicing moving on to digital platforms, the cost of borrowing would certainly get reduced to the customers over the period. This is going to be a game changer for small enterprises in improving business margins, increasing sales, and expanding their market.

We also are happy to inform that the S&P international rating agency upgraded our international ratings from BB minus to BB. On merger synergies, the synergies arising out of last year's amalgamation of Shriram Transport Finance and Shriram City Union Finance, we continue to expand our product suite in our combined network of branches in Shriram Finance Limited. The process of two companies coming together and working has been relatively seamless and a year down road, it appears to all of us at Shriram Finance, it has always been one entity.

Now, I request my colleague, Mr. Chakravarti, to take over and run through the operational performance. Thank you.

Y S Chakravarti: Thank you. Ladies and gentlemen, welcome to the earnings call for the first quarter of the new financial year.

We have declared our results for the quarter earlier today and I trust you had the opportunity to peruse them and the related investor presentation, which are available on the website of the stock exchanges.

Post the merger which came into effect last year, our combined efforts are reflected in the results of the first quarter, and we hope they will only grow stronger progressively. We registered disbursement growth of 21.26% Y-O-Y, our disbursements in the first quarter aggregated to INR30,454.80 crores versus INR25,114.78 crores in Q1 FY'23 and versus INR31,054.10 crores in Q4 FY'23.

Our asset under management as on 30th June 2023 has registered a growth of 18.56% over Q1 FY'23 and of 4.06% over Q4 FY'23. Our AUM stood at INR1,93,214.67 crores as against INR1,62,970.04 crores a year ago and INR1,85,682.86 crores a quarter ago.

Our net interest income in Q1 FY'24 registered growth of 11.31% year-on-year to INR4,435.27 crores in the quarter as compared to INR3,984.44 crores in Q1 FY'23 and INR4,445.89 crores in Q4 FY'23.

Our net interest margin was 8.32% as against 8.12% in Q1 FY'23 and 8.55% in Q4 FY'23.

We registered a PAT growth of 25.13% to INR1,675.44 crores for the first quarter of FY'24 as compared to INR1,338.95 crores in Q1 FY'23 and INR1,308.31 crores in Q4 FY'23.

Our earnings per share for the quarter stood at INR44.73 as against INR35.76 in Q1 FY'23 and INR34.94 in Q4 FY'23.

On our asset quality, Gross Stage 3 in Q1 FY'24 stood at 6.03%, and Net Stage 3 at 2.96% as against 6.27% Gross Stage 3 and 3.32% Net Stage 3 in Q1 FY'23, and 6.21% Gross Stage 3 and 3.19% Net Stage 3 in Q4 FY'23.

Our credit cost for Q1 FY'24 stood at 1.62% as against 2.34% for Q1 FY'23 and 2.24% for Q4 FY'23. Our cost-to-income ratio was 27.29% in the first quarter as against 23.18% in Q1 FY'23. Our cost-to-income ratio in Q4 FY'23 was 28.29%.

Regarding our subsidiary, Shriram Housing Finance, they have registered a disbursement growth of 139.42% over Q1 FY'23. Disbursements in the first quarter of this year were 1,902.61 crores as against 794.68 crores in Q1 FY'23 and INR1,301.13 crores in Q4 FY'23.

The asset under management for Shriram Housing Finance as on 30th June 2023 has grown by 64.39% year-on-year to INR9,539.20 crores as against INR5,802.64 crores in Q1 FY'23 and INR8,046.60 crores in Q4 FY'23.

Their net interest income registered at growth of 41% in Q1 FY'24 to INR85.27 crores as compared to INR60.47 crores a year ago and INR66.63 crores a quarter ago. Shriram Housing Finance registered a profit after tax growth of 51.07% to INR45.64 crores as compared to INR30.21 crores for Q1 FY'23 and INR37.14 crores for Q4 FY'23.

Their EPS stood at INR1.40 against INR0.93 in Q1 FY'23 and against INR1.14 in Q4 FY'23. Their Gross Stage 3 for the first quarter of this year stood at 1% and Net Stage 3 came in at 0.75% as compared to Gross Stage 3 at 1.56 and Net Stage 3 at 1.19 in Q1 FY'23 and at 0.93 Gross Stage 3 and 0.69 at Net Stage 3 in quarter 4 FY'23.

I shall now request our Whole-Time Director and CFO, Mr. Parag Sharma, to highlight the activities centered around raising of resources and credit rating upgrades, after which our Joint Managing Director, Mr. Sunder will brief you about accounting and other aspects. Thank you. Parag?

Parag Sharma: Hello everyone, I am Parag. On the debt, we have total debt outstanding of INR1,61,931 as of the June quarter and the cost has gone up by around 7 basis points from 8.82 to 8.89. We are maintaining diversity of liability sources with the retail deposit at around 24%, external commercial borrowing both in the loan and bond format at close to 15%, the domestic capital market at 21%, bank borrowing at around 25%, and securitization, which is done for priority sector assets at around 15%.

The liquidity is close to around INR16,165 crores, and this will take care of our next three months of maturity, which is close to around INR15,790 crores. We always had a policy of maintaining three months of liability repayment into liquid assets, and that continues to be there. The LCR ratio is at 202.83% versus 209% in the previous quarter. The debt to equity has slightly come down from 3.65% to 3.6%. This is on account of utilization of the excess liquidity what we had. And the ALM buckets continue to be positive. And up to one year bucket the cumulative surplus will be in excess of INR26,000 crores.

We had taken an ECB loan of 200 million in the last quarter through – this is on the loan format through different banks. I'll hand over to Sunder for his comments.

S. Sunder: Hello everyone. The employee count as of 30th June 2023 was 66,343, an increase of 2,291 compared to the March number. And while on the ECL positioning, the stage 1 PD was 8.05%, and the stage 2 PD was 18.88%, and LGD was 42.32. As against the March number of 8.04 of stage 1 PD, 18% of stage 2 PD, and 42.27 of the LGD. And we continue to hold this COVID provision. The amount as of 30th June was INR1,008 crores and as against an opening balance of INR1,107 crores. We had utilized INR99 crores in the current quarter. And that's it from me and we would open the forum for questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is in the line of Digant Haria from Green Edge Wealth. Please go ahead.

Digant Haria: Hi, congratulations on the good performance and thanks for this opportunity. So, two questions from my side. First is a little on the recent performance that, see our -- in the last 12 months we have seen fast growth in, the old SCUF portfolio, which is the personal loans and MSME loans. These are typically, these are higher yielding loans, but still, our margins this quarter has been under pressure. So, if you can just explain that like it's from the borrowing cost side or what is it?

S. Sunder: It's a combination of both on the yields as well as the cost. The interest cost has gone up marginally by around 7 basis point. And the yields have come down by 8 basis points to 9 basis points and that has caused the pressure on the NIMs.

Digant Haria: Why would the yields come down because there is a faster growth in the SCUF portfolio?

Y S Chakravarti: Digant, I am Chakravarti here. So, that's basically because in the last quarter, we have funded -- the share of our new vehicles have gone up. Funding of new vehicles has gone up. That has primarily led to both passenger and commercial vehicles has gone up, which has led to a slight compression in yield.

Digant Haria: Okay, perfect, perfect. That's helpful. Thank you. And the second question is – maybe to both of you, Mr. Chakravarti and Revankar that, see when we look at this period of 2015 to 2020 both Shriram Transport and SCUF had credit costs in excess of 3% if we look at the whole five-six year bucket. I understand we were migrating from 180 days to 90 days and there was ILFS and some economy itself was patchy but what has changed internally that we are now so confident of 2% kind of a credit cost. Is it our collections, our credit writing, or is it just that the vehicle prices are so high that even if we have to repossess, we'll not lose money? Is there any qualitative color you can give on this particular question?

Umesh Revankar: Yes. It's a combination of everything. One is the economy is really doing well, and the vehicle utilization levels have gone up and vehicle values or prices have gone up. All this matters a lot for the operator. When the vehicle prices go up, people would like to hold on to vehicle, not to default, because the moment they default they lose the value of the vehicle or rather they lose the increased value of the vehicle. That is one thing primarily making them work little extra hard to retain the vehicle and operate.

And second, their operating income has gone up. See, on an average, a vehicle used to operate around 19 days, 20 days earlier. And in the best of the days, it used to work for 22 days to 23 days in a month. But today, consistently in the last two years, if you see, vehicles run around 25 days, 26 days in a month because there is a good utilization, good demand for the vehicle. The number of vehicles have not increased in the last three years, even in spite of the economy growing because the vehicle prices have gone up steeply by 25%-30%.

Since the vehicle prices have gone up, the buying of a new vehicle has slowed down. That enabled us and also the operator to use the existing vehicle for longer time and also with the best profitability. All this has helped. It is not only in the vehicle department, whether it is a personal vehicle or a passenger vehicle or a commercial vehicle. Even in the business also, there is a significant improvement in the environment. Earlier, around 60%, 70% of our collection used to be in cash, where we have to go to the customer and collect the cash. But last four, five years, the cash component has come down. Most of them are digital transactions.

That saves a lot of time. And there is a substantial improvement in the productivity for both customer and the employee. That also helps the efficiency in the overall collection. So, all these things really matter a lot. So, the credit cost, as you rightly put it, from around 2.5% in the last couple of years back, it has come down below 2%. And we believe, this will continue to remain, and I don't see any further deterioration, and it should below at 2% in any point of time. One is environment, one is vehicle prices being up and the business overall operating levels have gone up. All this have resulted in this.

Digant Haria: Perfect, perfect. Sir, thank you. That was a detailed response. And just on the SCUF portfolio also, if you can just comment on the same because SCUF was usually 3.5% to 4% kind of credit cost in the past. And on the Shriram City Union portfolio also, you can give those comments.

Y S Chakravarti: That portfolio, Digant, as I was telling you, we were, you remember, that we have been working on both credit and collections for quite some time, and I think, plus added to that, the economy doing well, has resulted in what you see. I think this is not a flash in the pan, it's work across probably about five-six years of hard work.

Digant Haria: Right, right. Of course, of course. Just one more thing if I can squeeze in that, whenever the environment deteriorates next, someday in the next 10 years, it is going to deteriorate again. But those days, we will have lesser credit cost than in the past because of all these operating efficiencies that you talked about

Y S Chakravarti: Exactly, exactly.

Digant Haria: Perfect. Thank you so much for clarifying. All the best. That's it from my side.

Moderator: The next question is from the line of Gaurav Kochar from Mirae Assets. Please go ahead. Gaurav your line is unmuted.

Gaurav Kochar: Yes, hi. Good evening sir. Thanks for taking my question. Firstly congratulation's on the quarter. Just three questions from my side. First, I'm just extending the question asked by the previous participant. It is on the yield on loans. If I look at the mix today, gold loan, personal loan, MSME loans, all these are typically higher yielding loans. The share of these loans have been going up as the AUM mix is moving faster towards these loans. Going forward, sir, taking a slightly longer term view, maybe two, three years, what do you think would be the overall share of these products, gold, personal loan and MSME, all of this combined? Today, it's about 20% of the overall AUM. In two to three years, can we expect this to be at least 25%-26% of the overall loan? And if that is the case, then structurally, don't you think we can have better yields on the overall portfolio?

Umesh Revankar: Yes, see, as you rightly put it, there will be a small shift in the portfolio towards high yielding. So, naturally the net interest margins will improve. We are aiming at around 8.5 level of net interest margin by the last quarter. So, that is one. And one of the reasons for the margin crease for this quarter was because normally during the end of financial year, that is March, the demand for new vehicle goes up. So, many of our customers upgraded to new vehicle during the March and this quarter. So, what happens is when the new vehicle component goes up, the margins are a little lower in new vehicles.

So, this, normally you will see the demand coming up in the March, April, May. So these are the three months normally the new vehicle offtake is high for our customers. So, these are the two reasons. And as you rightly put it, by making slight changes in the overall portfolio, we'll be able to improve our margins as per the plan.

Gaurav Kochar: Sure, sure. Thanks. And then on AUM growth, this quarter we grew 19% Y-o-Y. Your overall guidance has been 15%. There is also a tie-up that you have done with, new FinTechs and you plan to do more tie-ups in the near term. So, taking that cue and, given that the growth and overall demand has been strong, do you see, upgrading your guidance of 15% AUM growth?

Umesh Revankar: See, as of now, we will stick to 15% guidance, but coming to the end of the second quarter, we'll be able to clearly say what is likely growth for the full year, because we would like to see the monsoon coverage fully and see how the rural economy shapes up and that will help us to give a concrete number. But as you indicated, this 18%-19% is something in the first quarter is a good sign and we can expect these numbers to be maintained for the full year.

Gaurav Kochar: Understood. Understood. And sir, in that the FinTech partnerships that you will be doing, any sort of cap that you would have internally decided what percentage of AUM would be attributable to these FinTechs or what percentage of your AUM can be sourced from these FinTechs? Any sort of cap or any sort of number that you have in mind?

Umesh Revankar: Right now we are looking at around 5% of the total AUM. So, that should be the target. And we will be growing very slowly there. We are not in a hurry to grow because we have the branch network reach. And this will be additional sourcing for us. Plus, we'll be combining both to see that we are most,very effective in our disbursement and collection. Because for us, the relationship and collection matters much more than the sourcing. But this will help us to reach out to new set of customers who are young, who are tech savvy and who would like to do business on digital mode.

Gaurav Kochar: Sure, sure. Understood. And on the cost, coming to cost, this quarter cost to income was slightly elevated at 30% versus your guidance of 27%, 28% kind of cost to income steady state. So, on a full year basis, do you see any risk to that 27%, 28% kind of cost-to-income guidance or you believe we can still achieve 28% kind of cost-to-income ratio for four years?

Umesh Revankar: Yes, we should be around 27-28. I think we're very confident of managing it within that level.

Gaurav Kochar: Sure, and just last question, if I may squeeze in. If I look at the subsidiary, Shriram Housing, I mean, very strong performance in this quarter. AUM growth was 18%, Q-on-Q. Even margin expanded by 130 basis points sequentially. So, just wanted some color around where the growth is coming from. I see the share of LAP has gone up. So, any sort of color that you'd like to give on this portfolio? And secondly, if I look at the capital position, clearly it has, it's just a shade over 20% on the capital adequacy front. So, do you see any capital raising in the subsidiary in this financial year? And whether it will be Shriram Finance who will put in the capital or you're looking for some strategic partners?

Ravi Subramanian: So hi, this is Ravi Subramanian here. As far as the split of growth is concerned, given that we are governed by NHB, there are certain, there is a certain mix that we have to maintain between HL and LAP to maintain our principal business criteria. And any origination that we do will actually be in line with that. We built a new team this quarter and that's the reason why you see the origination of LAP going up slightly higher than normal. That will stabilize and home loan will stay in the 62% to 65% range for us going forward.

As far as the capital position is concerned, I think statutorily we are required to be somewhere around 15% capital adequacy. We are still 7%, 7.5% away from that and as a subsidiary of a large NBFC, I think we are in a reasonably strong position to capitalize as and when required. So, at this point in time, I don't see too much of a stress on that point at all.

Gaurav Kochar: Okay, understood. And on the profitability, the ROA for the subsidiary was at 2.2%. Steady state, what is the ROA and ROE you're looking at, let's say, by the end of this year?

Ravi Subramanian: For the subsidiary, given the leverage is high, my ROAs should be somewhere in the region of about 2.75 to 2.8 on a steady state basis. And at the leverage levels that I am at right now, I think we would be, for the full year, FY'24, we would be somewhere around 15.5% in terms of an ROE. Because we are also investing heavily in growth and as a result of that, we will be at about 15.5% ROE. The benefits of this growth will actually come in FY'25.

Gaurav Kochar: Understood. Great. Congratulations again and thanks for taking my question. Thank you.

Moderator: Thank you. Next question is from the line of Raghav Garg from Ambit Capital. Please go ahead.

Raghav Garg: Yes, hi. Thanks for the opportunity. So, when I look at the overall auto portfolio of CVs, passenger vehicles, construction equipment, all of this cumulatively, that portfolio has grown by about 16%. And this is while it's good on a standalone basis, but when we compare to peers, the growth is lower. So, what would be the reason why we've been lagging our peers in terms of the overall growth as far as the auto finance portfolio is concerned? Should I take up my other question right now or should we go one by one?

Umesh Revankar: See, as far as the growth is concerned, please understand and appreciate that we are fairly large. If you add our commercial vehicle and passenger vehicle put together, we are INR1,32,000 crores. So, our growth rates will be definitely, cannot be compared with the smaller companies' growth rate because of the sheer denominator. So, overall increase in AUM will be still one of the highest is what I believe.

Raghav Garg: Sure, sir. And sir, another thing which I wanted to ask is, so you've been pointing out since a few quarters that the vehicle prices, especially in the used vehicle market have gone up quite a bit, maybe in the range of 15%, 20%, even 25%. But then, what I wanted to understand is that, what is the growth in the number of vehicles that you would have financed in say Q1 or maybe even last year? Is there a growth in the number of vehicles financed by you?

Umesh Revankar: Number wise, I think around 6% to 7% growth would be there and the rest is because of the value growth.

Raghav Garg: Sure, sir. Thank you. And, sir, my last question is, so one of the large NBFCs, just yesterday highlighted some bit of caution on the rural personal loans. Since you are, present in that business segment or at least geographically, your presence is there. What is your sense about whether there's stress in the rural segments or not and the kind of leverage levels that they have and whether it is prudent to continue to lend to them and grow at the rate which we are growing in the personal loan segment. That will be all from my side. Thank you. Yes.

Y S Chakravarti: Yes. Hi, this is Chakravarti. The entire personal loan book, you see that is there is totally consists of our existing customers. right, number one. Number two, majority of these customers are, 100% of these customers are two-wheeler customers where either they would have completed 75% of their existing two-wheeler loan, or, and above, basically, tenure would have been completed and we would have offered them a personal loan. Two things we must note here is that our two-wheeler portfolio, about close to 70% is semi-urban and rural, as you pointed out, and again, about 70% of them have no prior credit history. That is, they have minus one score. So, their ability to leverage outside is very limited. And we do offer them credit basing on their performance, on their loan performance. So, we are not too, to be honest with you, I'm not worried about any stress on this portfolio. In fact, I'm very, very positive on this personal loan portfolio. We also make sure that the EMI for the customer does not cross the two-wheeler EMI that he was paying us. So, we do take precautions before lending. It's not just that it's a blind lending. And since they are all proven customer base, I don't find a reason to worry about this portfolio at all.

Raghav Garg: Sure. Thank you, sir. What I see is that in the personal loan segment, I think the gross Stage 3 may have gone up a little bit. I think it was 5.53% in the last quarter, gone up 5.6%, and that too we've seen a decent amount of growth in this quarter. So, but you think there's nothing really to worry about here?

Y S Chakravarti: Nothing to worry about.

Raghav Garg: Probably because it's a seasonally lean quarter, that could be one explanation right?

Y S Chakravarti: See, these small bumps happens, but it's not something that we really need to worry that the portfolio, about the portfolio.

Raghav Garg: Sure. Thanks a lot sir. Thanks

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

Bunty Chawla: Thank you, sir. Thank you for giving me the opportunity. Actually, I've joined late, so sorry for being repetitive. As you said, there has been an increase in the cost of funds by 7 bps. So, how one should see this cost of fund moving in next two quarters? And respectively, what will be the impact on the margins and margin guidance impact for the full year FY '24? And this was my first question.

Parag Sharma: Okay. As for the costs are concerned, there could be some increase in the subsequent quarters. I don't expect any significant increase in cost. Margins, as indicated, we are looking at the asset mix and looking at a better net interest margin in subsequent quarters. So, it will be able to pass off whatever additional cost will be there. So, I don't expect any significant increase in the cost of liability.

Bunty Chawla: So, can we say 8.3% could be sustainable for next two quarters?

Parag Sharma: Yes, until and unless there is some market event, some regulatory changes, I don't expect cost to go up. It should be in the same lines, flattish only.

Bunty Chawla: Okay. Sir, my second question is, are you seeing any impact on the asset quality? As sir said about the rains we are seeing some flooding in a few of the states. So, any negative impact on the asset quality front because of that reason?

Umesh Revankar: If you look at the Monsoon season, every year, there will be some geography, which will be flooded, and some geography where the rain is deficient. Both will be there. So, if we average this out across, I don't see any reason to be alarmed at this stage. And the loss of property or the discomfort on transportation has not been seen anywhere. We have not got any report on such big instances. So, I don't really see any challenge. Some of the, you would have seen some either video clipping or maybe news where larger cities like Delhi or maybe Hyderabad are flooded, and that doesn't impact overall business or transportation.

Bunty Chawla: Okay. Sir, thank you. Thank you, very much.

Moderator: Thank you. The next question is from the line of Uday Pai from Investec. Please go ahead.

Uday Pai: Hello. Thank you for the opportunity. I just wanted the disbursement number for the quarter.

Moderator: Uday please use the handset. Your voice is echoing.

Uday Pai: Hello, is it clear now?

S. Sunder: Disbursement for the quarter is INR30,454 crores.

Y S Chakravarti: Your voice is totally garbled.

Moderator: Thank you. The next question is from the line of Harsh from Flute Aura. Please go ahead.

Harsh: Hello, sir. You have given us the guidance for cost-to-income ratio already and a steady state margin, you would be maintaining around 27%, 28%. But when I see the breakup of other costs, the opex cost and the employee expenses, they are somewhat like fluctuating in every quarter. So, can you also provide some guidance on these cost numbers?

S. Sunder: In the current quarter, the employee cost has gone up by INR100 crores, subsequently close to INR790 crores, primarily because of the revision that we did for the employees. And there was a rationalization of salary across both the companies at certain levels, and that has impacted the staff cost. And this will continue because it's a permanent increase and hence, this trend should continue for the future also.

And coming to the other point that you have raised regarding the other operating expenses, it is more or less similar to the previous quarter, except that previous quarter, we had taken a onetime or rather hit of INR302 crores on account of the impairment of intangibles, which was for the entire year. And current quarter, we have taken INR75 crores, which is for a single quarter.

Harsh: Okay, sir. And in terms of steady-state basis going forward, as you mentioned, the cost would continue on that level. So, what would be your expectation in terms of ROE? What percentage are we targeting?

S. Sunder: See ROE should be anywhere between 15% to 16% for the entire year, yes, full year.

Moderator: Sir you are not audible. Can you please use the handset?

Harsh: I was asking for midterm ROE, what those targets are we looking at?

Umesh Revankar: See, we are aiming at 16% ROE at the end of the year. So, midterm we cannot say, but that's the target we have kept ourselves.

Harsh: Okay, sir. Thank you.

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

Chandrasekhar Sridhar: Question for Mr. Chakravarti, sir where are we adding all of these employees? The employee count is up pretty substantially. Just maybe could you spend some time on that. And during the merger, we had announced that with the salary rationalization between SCUF and Shriram Transport was a INR68 crores difference. I mean I'm looking at the numbers now, it seems that just salary rationalization looks to be a very large number.

So, maybe just if you could help me on that. And a couple of questions for Mr. Sunder. One is -- so the tax rate now is started the issues. I mean we work with like a 25% tax rate. And second is just from the annual report, all along the investment in subsidiary, which is largely in Shriram Housing was carried at about 650 sort of odd crores. I see this quarter that, and in your published numbers, it's gone up to INR1,500 crores, so investments in subsidiaries. So, maybe just help me understand what's resulting in the increase in the investment in subsidiaries?

S. Sunder: Yes. The investment in subsidiary, which has been quoted at INR1,500 crores is on account of the fair valuation, which we had done at the time of merger. Hence, the INR1,500 crores have been arrived. And coming to the staff cost, what we had earlier guided of around INR60 crores, INR 65 crores. But this INR100 crores hit also includes the normal increment to all the employees which is done on a yearly basis. Added to that, there has been an increase of around INR2,000-odd employees in the previous quarter as well as in the current quarter. And that also has an impact on the staff cost.

And the other question was ? Where are you adding the -- ?

Chandrasekhar Sridhar: So all the employees are basically --The rationalization all has happened only in this quarter?

S. Sunder: Correct

Y S Chakravarti: Along with the increment exercise, we did the rationalization exercise Chandra. And these employees are getting added mostly in the erstwhile commercial vehicle branches where we are introducing gold loans, two-wheeler loans and SME loans. So, it's almost across the country, not specific to a geography.

Chandrasekhar Sridhar: My understanding was there are only 100 Shriram Transport branches or something, which are on the ground floor. So, there was limited capability to add people for gold loan.

Y S Chakravarti: No, not 100. I mean ground floor and first floor are okay. So, we have added, as of yesterday, we have added 498 commercial vehicle branches to gold loan.

Chandrasekhar Sridhar: So, what's the total number of branches where you're doing gold loans now?

Y S Chakravarti: So, this is 498 of commercial vehicle and close to about 1,000.

S. Sunder: So, it should be 1,500 you can take. 1,500 combined

Chandrasekhar Sridhar: Okay. Sorry on the tax rate?

S. Sunder: Tax rate will continue at 25%.

Chandrasekhar Sridhar: Okay. Fine, thank you.

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

Sameer Bhise: Yes. Hi, thanks for the opportunity. And congrats on the good quarter. The LCR is around 200%. Is this a desirable level? Or how does it move going forward?

Parag Sharma: No. Okay. So regulatory requirement, what you're saying is right, it's much lower. But since we always used to maintain higher liquidity, the LCR is looking at 200-odd percent. But desirable level, I think, one, we will continue to maintain the liquidity of three months repayment that we're not going to dilute. But based on the larger overall size, it can be in the region of 150 to 200, but it will definitely be much, much above than the regulatory requirement of 100%.

Sameer Bhise: Fair enough. That is helpful. Secondly, on this whole product-wise provisioning, would you want to keep a higher stage-3 coverage on the personal loan as a product? I see it is at 47% right now?

S. Sunder: Yes. The provision is done on ECL methodology. And we go based on whatever comes out for based on the last five years' data. And as of now, it is at 47%. Rightly said yes, because the other areas it is -- But we will bring it above 50% maybe in the next couple of quarters.

Sameer Bhise: Okay. Okay. That's all from my side. Thank you, sir and all the best.

Moderator: The next question is from the line of Cao Sichan from Counsel

Sichan: Thanks for the opportunity. Just coming back to cost of fund again, so, you we're saying that going forward, expect some cost of fund increase but not material. So, should we expect the quarterly cost of fund increase to be smaller than what we have seen in this quarter or -- and is it the right way to understand it?

Parag Sharma: Yes. So we don't expect the cost of fund to go up. We should be able to maintain the cost of the book at the current level, that is what we are indicating. The incremental cost of fund is definitely not up. So, that is the reason which gives us confidence that the overall cost should not go up any further. But even if it's closer -- it will be very, very marginal.

Sichan: So, our debt book is entirely almost all re-priced already by now.

Parag Sharma: Yes. Correct.

Sichan: Okay. Got it. Thanks so much. That's all from me.

Moderator: Thank you. The next question is from the line of Manoj Oberoi from YES Securities. Please go ahead.

Rajeev: Yes, sir. Hi, this is Rajeev here. Sir, just one question on value growth in vehicle finance both in CV financing, and your PV financing. So, we have seen significant value growth in the last two years. How much do you see value growth helping us in AUM growth in the current year?

Umesh Revankar: See, the value growth now will be a little lower year-on-year. So, whatever increase was there because moving from BS4 to BS6, there was a technology upgradation and value growth was there. And even this year, what happened is there was BS6 2.0. That's some more increased emission norms that also helped the vehicle prices to go up by around 3%. So, last three years, there is a continuous value growth and it may be slowing down from the next year. So, therefore, the ticket size may not be growing at the same level. But the number of vehicles probably will go up as we get into deeper pockets. So, it should be able to overall maintain what has been given the guidance of 12% growth in the CV portfolio.

Rajeev: Got it, sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Punit from Macquarie. Please go ahead.

Punit: Yes. Just wanted one thing. You said that your cost of funds was up 7 bps and the yields declined 8 bps, right? If I'm right, could you – or was the number different?

S. Sunder: Yes, the cost of fund increased by 7 basis points and yields came down by 8 basis points.

Punit: Okay. 8 bps. So that's it from my side. Thank you.

Moderator: Thank you. Next question is from Gaurav Sharma from HSBC Securities. Please go ahead.

Gaurav Sharma: Yes. Sir just a small data keeping question. Can you please provide the segmental breakup of disbursement in Q1?

S. Sunder: we will give you offline. You can contact Mundra. He'll help you out.

Gaurav Sharma: Okay, sure. Thank you that's it from my side.

Moderator: Thank you. The next question is from the line of Amit Jain from Axis Capital. Please go ahead.

Amit Jain: Yes, hi sir, thanks for taking my question. Sir just wanted to know your thoughts on the MSME and the two-wheeler segment. How was it growing? Any challenges you see in terms of asset quality or the pain is behind and how do you see the growth panning in these two segments, sir?

Y S Chakravarti: So, I don't see any worry about asset quality. In fact, honestly, I think we are seeing one of the best periods for me, actually, one of the best periods of asset quality in both the segments. As far as business growth is concerned, two-wheeler, we expect a growth of about, the OEMs are expecting a growth of anywhere between 10% to 12% this year. So, and if it grows at 10% to 12%, we are sure that our portfolio will grow upwards of 15% plus.

In fact, after a long, long time, we have crossed the disbursement of more than 103,000 two-wheelers in the month of June. So, it looks like good. There is also, I mean, the known fact is that there is also a clear competition in the market. I mean in the two-wheeler space. So, let us see how it goes. But we are confident that on the growth of both MSME and two-wheeler.

Amit Jain: Sure, sir. This is helpful. Thank you.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference back to Mr. Umesh Revankar for closing comments. Thank you, and over to you, sir.

Umesh Revankar: Thank you all for joining the call. As some of you – and it's one of the good quarter, especially in the first quarter, which is a little challenging, is a good quarter for us, and the indication of the growth is the indication for the full year. And as we discussed, we'll definitely work on improving the margins. And we will come out with better numbers coming quarters. Thank you. Good day or good night.

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