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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, 2024.

Further to our letter dated 24th January 2025, regarding the audio link of the investors earnings call for the third quarter ended December 31 2024, 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
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COMPANY SECRETARY & COMPLIANCE OFFICER

Encl.:a/a.

"Shriram Finance Limited

Q3 FY25 Earnings Conference Call"

January 24, 2025

MANAGEMENT: **MR. UMESH REVANKAR – EXECUTIVE VICE CHAIRMAN – SHRIRAM FINANCE LIMITED**

MR. Y S CHAKRAVARTI –MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – SHRIRAM FINANCE LIMITED

MR. PARAG SHARMA – MANAGING DIRECTOR AND CHIEF FINANCIAL OFFICER – SHRIRAM FINANCE LIMITED

MR. S. SUNDER – JOINT MANAGING DIRECTOR – SHRIRAM FINANCE LIMITED

MR. SANJAY MUNDRA – INVESTOR RELATIONS HEAD – SHRIRAM FINANCE LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Shriram Finance Limited Q3 FY '25 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. If you need assistance during the conference call, please signal an operator by pressing star then zero on your touchstone phone.

I now hand the conference over to Mr. Umesh G. Revankar, Executive Vice-Chairman, Shriram Finance Limited. Thank you, and over to you, sir.

Umesh Revankar: Yes. Thank you. Good evening, friends from India and Asia, and a warm welcome to all of you. Greetings also to those who joined from Western part of the world. To present our Q3 FY '25 earnings call today, I have with me our Managing Director and CEO, Mr. Y.S. Chakravarti; Managing Director and CFO, Mr. Parag Sharma; Mr. Sunder, Joint Managing Director; and Mr. Sanjay, our Investor Relations Head.

It has been good 3rd-quarter of the year for Shriram Finance under current circumstances. Let us look at the broad economic indicators that has direct or indirect impact on our business. The Indian GDP expanded little slowly to 5.4% from previous year in the quarter of September '24 from 6.7% and much below the market expectation of around 6.5%. On inflation, India's inflation eased to 5.22% in December from 5.48% in November, whereas the wholesale price index has surged to 2.37% in December compared to 1.89%in November, indicating likely long-term pressure on the wholesale prices.

As far as the RBI policy is concerned, it has remained unchanged for 11th consecutive time. And however, the RBI cut the cash reserve ratio by 50 basis-point to 4% to improve the liquidity in the system. The good rainfall monsoon and the Kharif and Rabi crop is giving some positive indicator for the rural market. And we do see good credit demand coming from the rural and also overall economy improving in the rural market for us.

On GST collection, it has been growing at 7.3% year-on-year to INR1.77 lakh crores in the month of December. This reflect little slowdown and also it has some impact on government spend is what we believe. However, we expect as the budget session is coming, government has already started announcing new projects and implementation of the existing projects. So I believe that it should give some boost.

Now coming to the auto industry, overall market looked flat as far as M&HCV is concerned. There was a small decline in the heavy vehicle to 1.3% up from 90,929 units as against 91,440 units. LCD sales recorded a marginal increase of 2.7% in Q3 '25, which stands at 1.48 lacs unit against 1.44 units. The passenger vehicle recorded a good growth of 4.5% in Q3 with 10.58 lakh units against 10.12 lakh units.

Two-wheelers again recorded a good growth of 3% or with sales of INR48.75 lakhs units against 47.31 lacs unit. Three-wheeler continued to grow decently. However, the numbers remained flat for the quarter with 1.89 lacs unit against 1.88 lacs unit. Tractors recorded a robust growth of 20.15% with 2.44 lakh units against 2.03 lakh unit in Q3 FY '24.

Construction equipment again showed a positive growth with 8% increase or with 35,768 units against 33,121 units. With the continuing good results, the Board has declared interim dividend of 125% that is 2.5 per share. The record date for the entitlement thereof has been fixed as January 31, 2025.

I shall now ask my colleague, Mr. Chakravarti to take through the operational performance.

Y. S. Chakravarti: Thank you. I welcome all of you to our Q3 FY '25 earnings call. And I hope you had the opportunity to have a look at the investor presentation which has been posted on the website and of the stock exchanges. We have registered disbursement growth of 15.82% year-on-year. Our disbursements in Q3 FY '25 this year aggregated to INR43,766.27 crores versus INR37,787.84 crores in Q3 FY '24.

Our AUM as on 31st December 2024 registered a growth of 18.78% over Q3 FY '24 and a 4.70% sequentially. Our AUM stood at INR2,54,469.69 crores as against INR2,14,233.47 crores a year-ago and INR2,43,042.55 crores in Q2 FY '25. Our net interest income in Q3 FY '25 registered a growth of 14.31% year-on-year. We have earned a net interest income of INR5,822.69 crores in Q3 FY '25 this year as compared to INR5,093.93 crores in Q3 FY '24.

Our NIMs was 8.48% as against 8.99% in Q3 FY '24 and 8.74% in Q2 FY '25. Our PAT grew by 96.32% in Q3 FY '25, including one-time gain of INR1,489.39 crores (net of tax) for-sale of our stake in subsidiary, Shriram Housing Finance Limited. It stands at INR3,569.76 crores as against INR1,818.33 crores recorded in the same-period of the previous year.

However, excluding one-time gain of INR1,489.39 crores which is (net of tax) for-sale of our stake in the subsidiary, the profit-after-tax increased by 14.41% and stands at INR2,080.37 crores as against INR1,818.33 crores in the same-period of the previous year. Our earnings per share for the quarter stood at INR18.99, including one-time gain as against INR9.68 in Q3 FY '24 and 11.02 in Q2 FY '25. The earnings per share increased by 14.36% and stands at Rs 11.07 against Rs 9.68 recorded in the same-period of the previous year. On our asset quality, gross Stage 3 in Q3 FY '25 stood at 5.38% and net Stage 3 at 2.68% as against 5.66% gross and 2.72% net in Q3 FY '24 and 5.32% gross and 2.64% in Q2 FY '25. Our credit cost for Q3 FY '25 stood at 1.85% as against 2.15% for Q3 FY '24 and 1.84% for Q2 FY '25.

Our cost-to-income ratio was 28.59% in the Q3 FY '25 as against 27.04% recorded in Q3 FY '24. Our cost-to-income ratio in Q2 FY '25 was 27.95%. I shall now request our Managing Director and CFO, Mr. Parag Sharma to inform you about our resource raising activities.

Parag Sharma: Hello, everyone. On the liability side, total debt outstanding as of December was INR2,00,023 up from INR2,07,000 in the September quarter. The liabilities are broken into several sources equally spread almost with retail deposit being at 24%, the bank borrowing at around 21% the offshore borrowing both loan and bond at around 19%. This has increased substantially because of the large loan transaction what we have done in the current quarter, which was 1.22 billion.

And the securitization is at 17% and the capital market is around 17%. This is more or less a similar to the previous quarter, but for the ECB slightly being up and banks being slightly lower. The cost of liability is at 8.95% which is marginally down from the previous quarter which was 8.97%. The incremental cost of fund continues to be at around 8.9 versus a similar number in the previous quarter.

The leverage ratio is at 4.06 up from 3.99% in the previous quarter. The LCR is at 265 up from 234 in the previous quarter. Because of the last transaction of ECB, the liquidity has shot up from INR17,000 crores to INR27,000 crores which is almost equivalent to our next 6 months liability. This excess liquidity will be moderated over next two quarters and we'll go back to our earlier policy of 3 months of liability to be in liquid assets.

The ALM buckets have been positive and up to 6 months the cumulative surplus is in excess of INR65,000 crores. Overall, fund mobilization continues to be strong and we have been able to maintain or slightly reduce the cost of fund for us. I make the forum open for Q&A, you can ask your questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question comes from the line of Chintan Joshi from Autonomous. Please go ahead.

Chintan Joshi: Yes. Hi, good evening. Can I start with a few questions on NII? NIMs have come down this quarter. I can see that you've had an increase in ECB loans and borrowings and there is an increase in cash balance. Could you give us some sense of yields on these so that we can kind of think about how much of this might reverse in the next quarter as you deploy that cash?

And then also if I could understand on securitization which was up 14% quarter-on-quarter, what are the P&L effects of this? It will depress your NII, but increase the other income. Just trying to understand what the impact of that securitization is?

S. Sunder: As regards the NIMs it has been mainly because of the negative carry that has happened because we are carrying excess liquidity. So once as Mr Parag was mentioning in the previous thing, once it normalizes back to the earlier levels of INR17,000 crores, INR18,000 crores, so it should come back to normalcy.

And when it comes to the income booked on securitization in NBFC since we follow the India's norms, even though we securitize we defer the income over a period of time and only the assignment income is booked upfront and that is a small component.

Chintan Joshi: Okay. So on the NIM, how much of the NIM fall is due to excess liquidity or how much should we expect it to recover next quarter?

S. Sunder: Roughly around 20 basis-points is on account of fall in the -- because of the negative carry that we had to bear. And marginally it should improve depending upon the liquidity position as on the current quarter.

Chintan Joshi: So that would still imply like a 6 basis-point underlying NIM deterioration in the quarter. So what is driving kind of that incremental -- apart from the excess liquidity, are there other drivers of the NIM deterioration or is that grounding error and we should expect that much volatility?

Umesh Revankar: It also depends upon asset mix because normally in the fourth quarter, we do have demand for new vehicle alone and new vehicle loan will be at a lower yield. So that also has a bearing. So it all depends upon how much we end-up with a new vehicle to used vehicle ratio. So we cannot really predict, but as Sunder rightly put it, the liquidity will be used, the excess liquidity will be used so that there will be some improvement in the -- or is what we call net interest margin.

Chintan Joshi: Okay, excellent. And then I have one other area to ask about on kind of asset quality. So we've seen values of vehicles, commercial vehicles, passenger vehicles, generally vehicles valuations have gone up in the last few years. Does that mean that for you or the industry that LTVs have gone up or there has been higher disbursals against the higher valuations or do you kind of look at it on historical valuations? I just want to understand your practices, industry practices given that we've had this increase in valuations?

Umesh Revankar: No, I'm not able to get it fully. Can you phrase it?

Chintan Joshi: So we have seen an increase in the prices of CVs, passenger vehicles. Generally all vehicle prices have gone up post COVID. Are you dispersing more loans against that higher valuation?

Y. S. Chakravarti: Yes, see what is happening is on overall commercial vehicle if you look at the overall sales, especially on second-hand vehicle transactions have been little flattish. So number of transactions, number of loan wise it has not gone up, but ticket size has gone up. But we have increased the passenger vehicle.

Passenger vehicle is where we have added a lot of new numbers and we are growing both in numbers and in volume as far as the passenger vehicle is concerned. Similarly with the construction equipment is concerned, we are able to grow there. So the other segments, we are adding new customers.

Chintan Joshi: Sir the LTV thresholds have not been increased because of the increasing valuations. We are basically keeping LTV constant?

Y. S. Chakravarti: The LTV has remained same, but price has gone up. The average increase in the price of vehicle is around 30% over the last 3 years. So that has gone up, but LTV has not gone up. LTV remains 70% on used vehicle.

Chintan Joshi: Thank you.

Moderator: Thank you. The next question comes from the line of Raghav Garg from Ambit Capital. Please go ahead.

Raghav Garg: Sir, hi, good evening and thanks for the opportunity. Just to harp on this again, so what levels would you bring back the liquidity? So when I look at the cash and investments share percentage of assets, it's been increasing for last couple of quarters and it seems more in-line with historical trends that you've had. So if you can guide to a number as to how much can it come down? Will it be a significant number?

Parag Sharma: No, so I think two things there. One is we always maintain 3 months of future liabilities into liquid assets and when the size goes up, overall cash and bank balance will go up. This quarter because of this one-off large mobilization, the overall liquidity is high. When it will come down, I think largely we will moderate our borrowing in this quarter and next quarter. So to go back to 3 months of liquidity I think it will take us one or two quarters and this quarter onwards, there will be some improvement here. The liquidity will be down.

Raghav Garg: Understood. My next question is with respect to asset quality. So what has seen in since the commercial vehicle segment is that the quarter-on-quarter increase in stage 3 assets has been significant, it's about 5%, 6% compared to the run-rate that you had in previous quarters it's about 1% to 2%. Why is it that the increase has been so sharp in this quarter? Any specific reasons that you can point to?

Umesh Revankar: No, normally we focus on credit cost. If you look at the credit cost, it has remained at 1.85%. So gross stage 3 or net small improvement -- increase or less it's basically because the -- how the economy functions. So we are happy to maintain credit cost less than 2% at any point of time. And I believe our overall asset quality is reasonably strong and continue to remain strong.

And normally fourth quarter, there will be some month back. Whatever the cash-flow mismatches of the customers, they'll pay-off.

Raghav Garg: Understood. Sir, another question with respect to asset quality only, especially in the MSME piece, there also when I look at the quarter-on-quarter increase in stage 2 or say the stage 3 assets, that's about 10% to 12% and it's been fairly high -- it was fairly high even in last quarter, whereas the incremental addition to the overall portfolio seems to be coming down.

I'm talking about the MSME portfolio. Again, what is happening, why are we seeing such high forward-flows in the MSME book?

Parag Sharma: See once again in this segment or which we are in, we are into small-ticket MSME lending, where there are some cash-flow mismatches temporary for the customers, but it normally gets improved. So as I was telling you normally fourth quarter everyone tries to improve. So I believe whatever small aberration are there, that gets corrected in the fourth quarter, but I don't really see a structural what you call decline in the asset quality. I feel it is temporary, mainly because of seasonal and cash-flow mismatches.

Raghav Garg: Understood. Sir, do I have time for one more question, one last question please?

Umesh Revankar: Yes.

Raghav Garg: Sir, if you can just comment, we've been hearing from a lot of other lenders that have reported Q3 earnings so far that there is some pain in the commercial vehicle segment. Some have cited that probably there is some lesser spending on infra by the government, something that we also alluded to. FMCG companies have stated that the consumption continues to moderate. So in light of these two trends, how do you see the operator profitability or fleet utilization?

I know you've put out some data in your monthly bulletin, but just some qualitative commentary from your side in terms of how the operator profitability is doing right now will really help. Thanks and that's all from my side?

Umesh Revankar: Yes. See, basically what happens is when the large number of new entrant come into the business and when the economy slows down and that's the time there is a less demand for vehicle utilization and the revenue comes down. And this time around if you see, the new entrant in two vehicle ownership is much slower. And therefore there is sufficient demand for existing owners.

So I don't really see what you call the idling of a vehicle in any part of the country. There is a full utilization. And also because of the other measures like good roads and GST, toll fee, all the operating economics of vehicles have improved significantly in the last 2 years. That continues to be advantage and less number of new entrant being there in the business because vehicle price has gone up and also the -- what I call say used vehicle prices are very strong.

So overall, I feel that is a very positive for the existing owners and that will remain positive maybe for another couple of years unless the lot of new players come and the revenue generation comes down or economy slows down significantly impacting them. So I don't really see both a possibility.

Neither a lot of new players will come in nor there is a slowdown in the economy. So I think the vehicle operators do enjoy good operational economics and the repayment have been reasonably good all the time without much of a fluctuation in the last three quarters or four quarters.

Raghav Garg: Okay. And sir one last question. How much -- how much of your business say would be coming from or how many of your customers would have deployed vehicles in Karnataka mines or what would be your exposure to Karnataka mines?

Umesh Revankar: Karnataka mines is now negligible maybe if you had asked me in 2008, it was quite a significant number. But from then, when they have -- all this mining issue came, most of the customers have exited from that activity and we also reduced our lending to mining to very minimum possible. So I can tell you that Karnataka we have barely any exposure in mining activity.

Raghav Garg: Understood. Thanks a lot sir. Thank you.

Moderator: Thank you. The next question comes from Bhumin Shah from Sameeksha Capital. Please go ahead.

Bhumin Shah: Hi, sir. Good evening. Congratulations on good set of numbers. So my question is on gold loan. So sequentially AUM has declined and asset quality has also worsened in this portfolio. So can you give some colour on this portfolio?

Y. S. Chakravarti: Basically, there was a sequential two quarters of degrowth in the AUM, but we should see an uptake in the next -- this quarter, I mean the fourth quarter and also going-forward the next financial year. As far as asset quality is concerned, gold is really.

S. Sunder: The stage 3 has been more or less flat, I would say in terms of amount which is the Q2 number it was INR118 crores and now in fact it has come down to INR112 crores. Since the denominator has come down, it is looking slightly percentage has been going up, but for that nothing and anyway, the portfolio is so small, we need not be unduly concerned.

Y. S. Chakravarti: Again, as far as gold is concerned see NPA is not a concern because it's basically the credit cost is virtually zero there. As far as AUM is concerned, we should see some -- we should start seeing growth from this quarter onwards.

Bhumin Shah: So can we expect double-digit growth from this quarter or we are -- we will go slow on this product?

Y. S. Chakravarti: No, we are pushing. We are pushing. We would ideally like to grow, double-digit only we want to grow. We are pushing.

Bhumin Shah: Okay. And sir another question was on opex. So sequentially also it has increased. So what can be the range where we will operate in the -- going-forward or will it remain elevated also?

Parag Sharma: See we had added around 1,641 employees in the current quarter and the staff cost has increased by around INR64 crores and there were other overheads which has gone up by INR62 crores, totalling to INR126 crores of opex increase. And no doubt compared to the previous quarter, there has been some increase in the cost-to-income ratio, which we are confident that in the quarters to come, it should come around 28%.

Bhumin Shah: Okay. Thank you so much. That's it from my side.

Moderator: Thank you. The next question comes from Keyur G Desai from Girish Yarn. Please go ahead.

Management: Not audible Keyur.

Moderator: Mr. Desai your line is unmated. Please proceed with your question. As there is no response from the line of current participant, we'll move on to the next question. The next question comes from the line of Aditi Nawal from RSPN Ventures. Please go ahead.

Aditi Nawal: Yes, hi, sir. Thanks for taking my question. So I have two questions. One is if -- one is more of a data keeping question. Is it -- have you called out the yield in the cost of borrowings for the quarter and second I'll ask once you answer the first question?

Parag Sharma : Yes. So we did mention about incremental cost of borrowing being at around 8.9% only and the overall cost of liabilities at 8.95%.

Aditi Nawal: And yield should be...

S.Sunder: Yields in the same range as the previous quarter.

Aditi Nawal: Okay. And secondly sir I just wanted to understand, so from June quarter to until now 9 months, the borrowings have actually sharply increased. Again, I understand that if the ECB borrowings that you've done. So any reason why are we going so sharply on increasing our borrowings?

Again, just correlating it with the fact that our opex has also increased. So is it something like we are trying to get into some new product or new territories and also the fact that HFC is now being sold, so is it something to read into or it?

Parag Sharma: No. Is it the other sources of fund, the domestic sources of fund being in be it deposits, term-loan, securitization, that can be done on a monthly basis. But when it comes to offshore borrowing, this will be once in six months and larger quantum. That is the only reason this quarter suddenly looks that there has been an increase in overall funds borrowed and the liabilities and liquidity. But that will be once in six months event, which is not a monthly event.

The regular sources for us will continue to be the domestic borrowing, which be it term-loan securitization or FD, which will not be very significantly higher quarter-on-quarter. ECBs, whenever we do, it will be slightly bulky, but that will be once or twice a year.

Aditi Naval: Got it. But any new product that we are trying to enter into or anything that we are sort of going to go aggressively in terms of the product segment?

Umesh Revankar: Nothing. No new product. However, we have announced a EV lending vertical, that is green financing. So focus is trying to build a separate vertical and focus on building the business there so that there is a focus and also there is separate what supervision and credit policy for that. So that is something which you are trying, but it will be gradual growth. We don't intend to grow very quickly there.

Aditi Naval: So any -- what is the outstanding book of the green financing or is negligible?

Umesh Revankar: Well, it just started December 20th, we announced. So it is this quarter will be the first-quarter for that particular vertical. However, we have been doing some EV financing as normal-course of business, but this vertical will create separate what we call credit policy and supervision.

Moderator: Thank you. The next question comes from the line of Kunal Shah from Citigroup.

Kunal Shah: Yeah. Thanks and congratulations. So firstly, there maybe quite a contradictory remark coming in from the industry participants with respect to the fleet utilization and the operators cash-flow. So no doubt you alluded to the fact that maybe it's sustaining, but even when we look at your ability over past couple of months, it's clearly indicating that fleet utilization has remained subdued.

In fact, even in some of the major routes, truck rentals rise have not been that high and not much of an increase year-to-date. So how is this entire operators cash-flow getting managed and maybe at least in terms of the delinquency levels, we are seeing it holding up pretty well.

Umesh Revankar: So Kunal, that particular statement was given by one of the association head and that has been just no -- reprinted there. So it has nothing to do with the general utilization of vehicles. So when we look at individual operator and the operation economics across the country, it has been quite good. Utilization levels are very good and there is not much of complaints. There may be some temporary in certain geography that should not become that the all-India numbers as far as the utilization is concerned.

And as I was telling you, since there are less entrants, the existing players have a good play. In the sense their economics are better, operational economics are better and they have good demand. You would not see probably you just travel on highway, you will never see idling of a vehicle anywhere. In the past, whenever economy slowdown was there, you could see hundreds of vehicle being parked, waiting for something and that kind of a scenario.

But today you will never see any of the highway, busy highway you travel, you will never see. So I'm happy to take you to some of these busy highways so that you can watch by yourself.

Kunal Shah: Yeah, absolutely. But any segment wherein you would be worried about in terms of either where the operations are or maybe particularly with respect to our customer segment, any segments, be it in terms of first-time users, small fleet operators or even in terms of with respect to utilization on construction side, anything that would worry you?

Umesh Revankar: See right now when I looked at some of what we call-in the August or September when there were heavy rains, the infrastructure activity and mining activity came to some kind of a slowdown. And that’s a every year phenomenon. It's not that it happens only in this year. Every year when there are heavy rails or extended heavy rails, there is a slowdown. And that time, if you ask anyone, they'll say, I have no business because that particular sector or segment is -- always behaves that way.

So -- but if you ask now, November or December, you will see that utilization levels are very-high and mining today is getting a renewed what you call demand. Many of the larger conglomerates like JSW or Tata, everyone are in the full swing. If you see the mining and both iron, aluminium and coal. So I don't really see anywhere that kind of a situation where less utilization or less payment and everywhere things are becoming much better.

And also after Supreme Court giving a verdict on the state government's stake in the leasing of mines, even state government has also become active now. In the past, they were dormant because the -- since it is the court, they were not really taking a lot of interest. Today, both central and state are working on activating the mines. So I think going ahead things will become much better.

Kunal Shah: And you would be confident on the overall credit cost guidance.

Umesh Revankar: Yes, yes, credit cost has been all-time best, Kunal. We are less than 2% consistently for two quarters.

Kunal Shah: Sure. And lastly, in terms of MSME, so on a growing book, again, I think last-time also the Chakravarti sir highlighted that obviously it's being rolled-out across most of the branches and that is leading to the growth. And most of the deployment is also towards the service and the trading industry. So that's not posing a lot of worry.

But when we still look at it on a growing book of more than 50 odd % GS2 plus GS3 is almost 12%. So if we look at the lag book, then it seems to be slightly higher. So any concerns out there on the MSME side or maybe the unsecured business side.

Y S Chakravarti: See, basically here in MSME, we've been seeing it for the last 15, 20 years that the same pattern there. What happens is your Stage 2, and Stage 1, there should be -- it will be higher slippages, but when it comes to Stage 3, it gets correct -- gets corrected. So I mean, it's -- I think it's part for the cost. There is nothing extraordinary that is moved this quarter or this year. So not really a big worry there, Kunal.

Because if you look at the gross Stage 3, it's almost -- normally it's typically under control, not much of a movement there. So, and this is how do you put this? I think it's the segment that we operate in, the segment that we lend to, the slippages from Stage 1, Stage 2 is normal. At the Stage 3 level is where I think our team becomes active and the customer also becomes active in trying to payback.

So that's not a -- we have come to accept this as normal or over the years.

Kunal Shah: And lastly, just data points on PD LGD and disbursement breakup?

Y S Chakravarti: Yes, I'll ask Sunder to give you that.

S. Sunder: Yeah the Stage 1 PD was 9.05 as against 9.06 in the previous quarter. Stage-2 PD was 20.74 as against 20.98 and the LGD was 38.75 as against 38.59% and the disbursements you can be in touch with Sanjay, he will help you out.

Moderator: The next question comes from the line of Saurabh Kumar from JPMorgan.

Saurabh Kumar: Sir, just one question. On your opex, should we assume this level of cost to asset to remain or is there scope for operating leverage in the next year?

Umesh Revankar: We expect it to moderate going-forward.

Saurabh Kumar: Like just in terms of like Y-o-Y, should it be higher than AUM growth or lower?

Umesh Revankar: No, we would see, we will be able to maintain at around 28% because always have given a forward guidance between 27% to 28%. So maybe this year it will be around 28%. Going-forward, it will moderate further.

Saurabh Kumar: So this cost-income, basically, if there is a rate cut you could basically benefit a bit from NII on your margins. So I just want to know just in terms of absolute cost growth, how should we think about it? Is it since it's linked to how your assets grow or should it be slightly lower? Like that's the question?

S. Sunder: It will be slightly lower than the other growth.

Moderator: The next question comes from Rajiv Mehta from YES Securities.

Rajiv Mehta: Sir, this degrowth in gold loan book, while you had explained something before, but is it also related to any change of practices on-the-ground in the business? I mean, because in the very same quarter, the regulator had also highlighted a few things for the industry which warranted correction. So is this de-growth related to any operational adjustment being done in the model or in the practices?

Y S Chakravarti: Nothing to do with the operational thing. Basically, our traditionally major lot of our portfolio is also referral business and our customers. So and festival season typically we have -- it happens in our -- particularly our portfolio, festival season, people redeem and then come back and pledge it later. So we think we'll see this pickup. That's why I said we'll see it picking-up in the fourth quarter. Operationally there is nothing, no changes.

Rajiv Mehta: And sir, on the personal loans, we were -- the book was de-growing in the preceding three quarter and in this quarter again there is some growth while also in this quarter you have seen some material increase in Stage 2 also. So is there any change of growth approach here and what is making us comfortable to grow it again?

Y S Chakravarti: See, as I said initially itself that our -- the delinquencies have nothing to do with this slowing down. We are okay with the -- I mean, it's improving over a period of time. So one quarter plus 10-15 basis points plus or minus is not something that really worries us. The reason why we want -- I mean, since the lot of noise in the market, we went slow, again, as I also explained earlier also last call also that 95% of this book is from our customers.

So we -- our existing customers, we have -- and we continue to grow it. It's just that there is so much of noise, we slowed down the business for a couple of quarters. But then there is also a lot of demand and we found that we also realized that when we are not giving the money, the customer is going somewhere else and taking the money and we are losing the customer. So we again initiated this exercise of reaching out to the customer, we will continue to grow this book.

Rajiv Mehta: And just one clarification. When I look at the employee cost growth, it is growing much higher than the employee count. So you have a large business team. So is it because of good AUM growth, higher amount of variables and incentives are being distributed or is there any underlying change in the incentive structure, which has been raised and which is why the actual employee cost is going way ahead of employee number?

Y S Chakravarti: The disbursement also higher compared to last quarter to this quarter, right. So obviously the variable pay also goes up. Plus we added about 1,600 people plus basically incentives also a lot of incentives were the reason why it has gone up.

Moderator: The next question comes from Abhishek Jain from Alfa Accurate. Please go ahead.

Abhishek Jain: Congrats for a strong set of numbers. Sir, as you mentioned that fleet utilization is high, these vehicle prices are also firm, which is favourable for the new CV demand. But MSCV demand remains sluggish in past 9 months. So how do you see recovery in the fourth quarter and FY '26?

Umesh Revankar: The M&HCV number, it has been more flattish. You're right. It's mainly because as I was explaining to you, the infra spend by the government has slowed down. One is because of the election, then there's heavy rainfall. And again, there were the state level election in the month of October, November, this together had a slowdown overall the government spend.

But if you look at December and November, December, it has picked up. There are new projects have been activated. And I believe the last quarter now is going to be a bigger quarter, and there will be demand coming back. So M&HCV basically, all these infra projects consume a lot of new vehicles because of steel and cement movement and also the earthwork that goes on. So I think this quarter, you can see good demand for heavy vehicle. And that should continue if the government spend continue over the period.

Abhishek Jain: So any benefit do you see due to the scrappage policy that will be implemented by the government in the coming quarters?

Umesh Revankar: No scrappage policy. Government has already announced policy, which is the voluntary scrappage, it's not compulsory scrappage. So there will not be any change in the policy. I don't think that has anything to do with the sales of vehicles.

Abhishek Jain; Okay, sir. And my last question on the passenger vehicle side that in this quarter, we have seen a very strong numbers in retail side. And that's why inventory has come down. So how do you see growth in the passenger vehicle in the coming quarter or in FY '26?

Umesh Revankar: The passenger vehicle will continue to grow. There is an unmet demand, I should say, mainly because the government spend, especially state government, state undertaking spend on the public transportation is coming down. Last 6 to 7 years, you would not have noticed any new buses on the road.

So that is really creating the demand by the private players. So private players, both for their personal mobility and also for public transportation is going up, especially the demand is coming from the semi urban market and also slowly moving into rural markets. So I feel the passenger vehicle growth will continue to be there for next maybe 3 years to 4 years because of the same.

Abhishek Jain: And what are you strategies to gain the market share in the passenger vehicle finance segment?

Umesh Revankar: Sir, we are gaining the market share. We are a very small player when it comes to passenger vehicle financing. And the market is very, very large. So I think we'll continue to grow. We are growing year-on-year by more than 20%, and that will continue to remain for a long time.

Moderator: Next question comes from Preethi RS from UTI AMC. Please go ahead.

Preethi RS*:* So can you explain the difference in trends that you're observing in used vehicles, commercial vehicles and new CV? And what could be the possible reasons, one, on asset quality, and two, on demand?

Umesh Revankar: See, the used vehicle numbers have not really gone up mainly because there are not enough supply of used vehicle in the transaction in the market. The number of vehicles sold were less from 2020 onwards. And there is 1 year prior to COVID, then COVID came. So there are enough -- not enough vehicles in the market. And therefore, the market is very tight and resale prices are very high.

So a number of transactions are limited. Therefore, actually, our growth is mainly because of higher ticket size, and that has helped us to grow. But going forward, as last 2 years, vehicle sales have been good. I believe next 4, 5 years, there will be a much higher transaction on used vehicle. That will help us to keep growing.

So I believe next 3 years to 5 years will be really good for us in used vehicle financing because number of transactions will go up significantly. And with addition, new vehicle sales also will go up if the GDP growth continues to remain robust.

Preethi RS*:* Got it. And on the asset quality trend, sir?

Umesh Revankar: Asset quality, it has been all-time good, mainly because resale values being very strong. We don't really have much loss on sale of any repossessed asset, and therefore, it has been good. So I think that will continue to remain strong. We are below 2%. That has been the long-term average for us for more than 10 years. And I think that is a good signal for us.

Preethi RS*:* Sir, my question was in the short to medium term, are you seeing stress in used vehicles lower than that of new vehicles?

Umesh Revankar: No. See, that, I don't say less or more. It all depends on the application. Used vehicles are mostly used for secondary application, last mile reach. And new vehicles are used for long-distance transportation. Both are linked to each other. There will not be a big difference between 2.

Moderator: The next question comes from Suraj Das from Sundaram Mutual Fund. Please go ahead.

Suraj Das: I have joined a bit late, so I don't know if the question has been asked already or not so pardon me for that thing. Sir, the question is on the 2-wheeler side. So the growth has been pretty robust. And then even this quarter on a Q-o-Q basis, the growth has been very strong at 18%. So I mean, what is the outlook here?

Because if I see, let us say, the bank are truing the 2-wheeler segment, citing asset quality problems and all that thing. But your growth has been very robust, while there has been some slight uptick in the Q2 numbers in terms of asset quality also. But how do you see that this growth rate has been shaping up in FY '26 over the next 2 quarters to 3 quarters? So that would be my first question. And then I have a follow-up.

Y.S. Chakravarti: So on the 2-wheelers, the target is that the market is growing at 5%. Typically, what we target is double the market growth plus 2% minimum. So if it's growing at 5%, we look at 12% growth. Because typically, what happens is that it is still the finance versus cash is still a 50-50.

Maybe in a couple of states, it is 70-30, which is basically 70% finance and 30% cash but rest of the country, it is 50-50. So the scope is there because the cash customers can become your customers. So we actually aspire for double-digit growth, one.

So as far as asset quality is concerned, see, it's a typical festival season, the small blips are -- we are used to a small blip and then they become normal in the following quarters. That is not really a concern. As for other players coming in and going out, if you look at the evolution of 2-wheeler finance in this country, there are a lot of players who have come, started business, went out, again trying to come back after a few years.

It's quite normal in the 2-wheeler business. There are players who are coming and going out. And when people see -- other point is low -- I mean the small ticket businesses are basically, it is a collection business and not a lending business.

So unless you have your strategies, very strong collection mechanism and teams in place, it is difficult over a period of long period of time to sustain. I think what we have been able to do is get it, I think, got it right. So that's the reason why I think we are there for the last 25 years in this business and continue to be in the business and lead the business.

Suraj Das: Sure, sir. Got it. And sir, I mean, is this already -- I know our repeat customer whom we are lending to and hence, probably we are more comfortable or these are customers new to company type of customers which we are acquiring in this segment?

Y.S. Chakravarti: Typical 2-wheeler replacement is 5 years minimum. Particularly, we fund most of our bikes are commuter bikes and what we fund to it is basically a lot of small businessmen, self-employed people. So repeat customers would not much, probably about 5% would be repeat customers.

Suraj Das: Okay. So rest of the 95% customers are new to Shriram customers?

Y.S. Chakravarti: New to Shriram.

Suraj Das: Okay. And sir, I mean, what kind of CIBIL score they would typically have?

Y.S. Chakravarti: Typically, I'll go at the CIBIL score, I'm not a big fan of CIBIL score, but we start at 550 minimum. And if we start at 550, to just give you an indication, 60% of my customers have minus -- I mean, which is no longer there, but earlier it used to be minus 1, which means they do not have adequate credit history. That is basically new to credit.

Suraj Das: Okay. Sure. Got it. And the last question would be on the, let's say, overall provisioning side. So while -- I mean, there has been slight uptick, but still we are maintaining something like 2% type of credit cost. But if I see the overall coverage, ECL coverage on Stage 1, Stage 2, Stage 3, that is as a percentage is still increasing?

So do you think this number will continue to inch up and asset quality performance will be overall stable or at some point of time, maybe you would rationalize this number to, let's say, earlier levels because some of your Stage 1 and Stage 2 and Stage 3 coverage ratios are probably would be highest in the last many quarters?

S. Sunder: Yes. On the Stage 3 provisioning, it will be more or less in the similar line. And coming to the Stage 1 and Stage 2, yearly, we run that last 5 years data. So the current year data gets added up. Based on that, whatever is the PD LGD, then we will start in the next quarter onward. So we need to wait and see.

Suraj Das: Sure. And this, sir, PD LGD reset, I mean, when does it happen. Every quarter or...

S. Sunder: Once in a year. In March quarter, we do that.

Moderator: The next question comes from Sharat Dua from Amundi. Please go ahead.

Sharat Dua: Can I just ask back to the NIM, net interest margin and just clarify that you -- given the seasonality, you would expect that NIM just to be weaker in Q4 than we've seen in the third quarter even if we use up some of the liquidity?

Umesh Revankar: No. See, as we said the higher liquidity, which is built up will get utilized. So NIM will improve.

Sharat Dua: Even with the seasonality of new vehicle sales being greater in the fourth quarter?

Umesh Revankar: Yes, there is more new vehicles and therefore, there will be some mix. But how that mix will turn out, we are not very clear in the beginning of the quarter because new vehicle demand comes only in the March. So that will have some impact, but it will not have -we have more impact in the first quarter of next year, not in the fourth quarter because most of these new vehicles get booked in the end of quarter. So we should not have a major impact in the fourth quarter.

Sharat Dua: Okay. And just on the big picture. I mean, obviously, you've gone through some detail about what you're seeing in different product lines and asset quality-wise. A lot of other players in the financial space are obviously slowing down given the cycle that they are seeing and the experiences they're getting right now. So the message is you will not be doing that. Is that clear? You expect to continue to grow at sort of mid-teens level for the next financial year, at least?

Umesh Revankar: Yes. Currently, I'm quite positive on the same because there is still an expectation that Indian GDP on an average, it will grow more than 6.5%. If that is the case, definitely, we'll be growing at mid-teen levels.

Sharat Dua: Okay. And last one, maybe just on the staff numbers. So you mentioned you've hired like 5,000 or so this year so far. So will we still be seeing significant increases in employee numbers?

Umesh Revankar: No. We are trying to have some freeze on this. We'll be reworking the productivity levels and trying to focus on productivity. And also our digital app is helping us to some extent in giving some of the customer services across digital platform. As and when more adoption of digital platform by the customer, we should be able to really slow down on hiring.

Moderator: Thank you. Ladies and gentlemen, we would take that as a last question for today. I now hand the conference over to the management for closing comments.

Umesh Revankar: Thank you all. It is a good set of numbers and result, I believe, under the current circumstances. And we look forward for the busiest quarter in the next quarter, typically in India, this last quarter being then to March is a large quarter, and typically, all the numbers improve. So we would like to meet you again with a good set of numbers next quarter. Thank you very much.

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