SEC/FILING/BSE-NSE/23-24/68A-B **October 30, 2023**

BSE Limited
P. J. Towers,
Dalal Street, Fort,
Mumbai – 400 001.
Scrip Code: 511218

National Stock Exchange of India Limited
Listing Department
Exchange Plaza, 5th Floor,
Plot no. C/1, G- Block,
Bandra- Kurla Complex,
Mumbai – 400 051.
NSE Symbol: SHRIRAMFIN

Dear Sirs,

Sub.: Transcript of investors earnings call for the second quarter ended September 30, 2023.

Further to our letter dated 27th October 2023, regarding the audio link of the investors earnings call for the second quarter ended September 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**

BALASUNDA RARAO UPPU
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COMPANY SECRETARY & COMPLIANCE OFFICER

Encl.:a/a.

"Shriram Finance Limited Q2 FY24 Earnings Conference Call"

October 26, 2023

MANAGEMENT:	**MR. UMESH REVANKAR – EXECUTIVE VICE CHAIRMAN** **MR. Y S CHAKRAVARTI – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER** **MR. PARAG SHARMA – JOINT MANAGING DIRECTOR & CHIEF FINANCIAL OFFICER** **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. SRINIVAS – JOINT MANAGING DIRECTOR** **MR. RAVI SUBRAMANIAN – MANAGING DIRECTOR & CEO, SHRIRAM HOUSING FINANCE LIMITED** **MR. G. S. AGARWAL – CFO, SHRIRAM HOUSING FINANCE LIMITED** **MR. SANJAY MUNDRA – HEAD, INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good day and welcome to Shriram Finance Limited Q2 FY24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Umesh Revankar: Thank you. Good evening, friends from India and Asia, a warm welcome to you. Greetings and good morning to those who joined the call from western part of the world. I have with me today our Managing Director and CEO - Mr. Chakravarti; Joint Managing Director and CFO - Parag Sharma; Joint Managing Directors, Mr. Sunder, Sridharan, Sudarshan, Nilesh, Mr. Jilani and Srinivas. Also present with me are Ravi Subramanian - Managing Director and CEO of Shiram Housing Finance Limited and Mr. Agarwal and Sanjay Mundra, our Investor Relationship Head.

It has been an encouraging quarter and first half of the year for Shriram Finance. We are seeing an early dividend in our operations of recent merger on the back of introduction of more products across our network.

Let me first go to the Indian economy. India's economy expanded by robust 7.8% in the quarter ended June 23. The outlook for FY24 is a growth of 6.5%. This is based on statistics indicating the strong pickup in consumer demand, good rural demand as well as steady capital expenditure by the government on infra, which in turn is seeing the private sector following suit.

Manufacturing activity too is seeing a strong growth and IIP for the month of August, registering 14-month high of 10.3%, PMI index for August coming to 58.6. The economy is therefore seen to be holding up well. Economic activity appears to be gaining momentum despite global geopolitical uncertainty. Consumer demand appears to be improving further and should be even stronger during the upcoming festival season.

The retail inflation in June increased to 7.4%, which was a 15 month high. Now, in the month of September, it has already corrected to 5.02%. At the same time, wholesale inflation was negative in July at 1.4%, which is further, it is now is contracted to 0.26% in this month, which is 6 months in a row, which has reduced. RBI in its MPC meeting earlier in this month retained the repo rate at 6.5% but guided for higher inflation for FY24 at 5.4% versus earlier indication of 5.1%. We are witnessing some increase in vegetable price and that could lead to some increase in inflation in this quarter or maybe next quarter. However, we feel the economy will continue to grow based on the strong rural economy.

The monsoon this year was erratic. There were excess rains in July and September. There was also a deficit in June and August. However, long period average is, it is a near normal monsoon. The revival of monsoon in September has raised the prospect of helping major Kharif crop and the total area under cultivation was 1107.16 lakh hectares, which is 2.37 lakh hectares more than the last year. Oil seeds in particular have benefited from September's rainfall.

The Cabinet Committee on Economic Affairs has increased MSP that is minimum support price for Rabi crops for the year 24-25 recently, which includes wheat, pulses and oilseeds. So, the rural economy is likely to do much better in the coming quarters.

The GST collection continued to be robust for Q2 FY24. The GST revenue crossed Rs. 1.65 lakh crore in July, third highest since GST was introduced and 11% higher year-on-year. In August, GST collection was Rs. 1.59 lakh crore and September Rs. 1.63 lakh crore which is fourth highest and 10% year-on-year.

Coming to the auto industry, the commercial vehicle sales have been quite robust. In this quarter, the total sales aggregated 2,47,929 units which was higher than the previous year quarter which was 2,31,991 units representing an increase of 6.9% year-on-year. Within CV, M&HCV grew fastest at 17.6% year-on-year, sales numbering 93,796 against 79,761 units. LCV sales were 1,54,133 units versus 1,52,230 units, a marginal increase.

Passenger vehicles increased by 4.7% with 10,74,189 units against 10,26,309 units. Within the passenger vehicle, the utility vehicles grew fastest at 23.5%, indicating utility and the SUV vehicle demand being higher. The base model vehicles grew, or I should say degrew to some extent. Two-wheeler sales were flat at 45,98,442 units against 46,73,931 units. Two-wheeler sales is gradually picking up. What is encouraging is the sale of electric two-wheeler which was 63,715 units in September compared to low of 45,806 in June post the reduction of subsidy. Three-wheeler sales grew very strongly with 1,95,200 units being sold with a 62.2% increase over the previous year. Tractors have continued to grow at 9.4% over the previous year with 2,19,106 units sold against 2,00,316 units in the Q2 of previous year.

Construction equipment, again, registering very good growth of 29.26% with 27,444 units against 21,231 units in the same period last year.

One significant event in this quarter is the launch of our Super App, which we have been talking about for the last year. The Super App named Shriram One is now available in both Google Play Store and iOS App Store. We have started onboarding, initially we started with our employees using it, then we have started onboarding our existing customers and slowly it will be introduced to large number of our customers, which gives them a solution including the loan repayment, investment, insurance, credit score checks and many other utility functions which will make them even to do a social networking, shopping and utility payments.

Now, I request Mr. Chakravarti to take forward the opening remarks.

Y S Chakravarti: Good evening, ladies and gentlemen. Thank you, Umesh. I welcome all of you to our Q2 FY24 Earnings Call. We declared our results for the quarter earlier today and I trust you have had the opportunity to peruse them and the related investor presentation which has been posted on the website of the stock exchanges. As our Executive Vice Chairman said despite Q2 traditionally being a quiet quarter, this quarter has been encouraging for us. We registered a disbursement growth of 30.91% year-on-year and of 13.63% quarter-on-quarter. Our disbursements in quarter 2 of this year aggregated to Rs. 34,605.61 crores versus Rs. 26,434.31 crores in Q2 FY23 and versus Rs. 30,454.80 crores in Q1 FY24. Our assets under management as on 30th September 2023 have registered a growth of 19.65% over Q2 FY23 and of 4.88% sequentially. Our AUM stood at Rs. 2,02,640.96 crores as against Rs. 1,69,359.08 crores a year ago and Rs. 1,93,214.67 crores a quarter ago. Our net interest income in quarter 2 FY24 registered growth of 17.38% year-on-year and 8.55% quarter-on-quarter. We earned a net interest income of Rs. 4,818.18 crores in Q2 this year as compared to Rs. 4,104.86 crores in Q2 FY23 and Rs. 4,438.68 crores in Q1 FY24. Our net interest margin was 8.93% as against 8.26% in Q2 FY23 and 8.33% in Q1 FY24. Our profit after tax grew by 12.59% in quarter 2 FY24 over quarter 2 last year and by 4.5% over quarter 1 FY24. We registered PAT of Rs. 1,750.84 crores for Q2 FY24 as compared to Rs. 1,555.11 crores in Q2 FY23 and Rs. 1,675.44 crores in Q1 FY24.

Our earnings per share for the quarter stood at Rs. 46.67 paisa as against Rs. 41.53 in Q2 FY23 and Rs. 44.73 in Q1 FY24. On our asset quality, the gross stage 3 in Q2 FY24 stood at 5.79% and net stage 3 at 2.8%. These numbers show an improvement over the corresponding numbers of 6.31% gross and 3.32% net in Q2 FY23 and over 6.03% gross and 2.96% net sequentially. Our credit cost for Q2 FY24 stood at 2.02% as against 1.73% for Q2 FY23 and 1.62% for Q1 FY24. Our cost to income ratio was 25.68% in Q2 this year as against 24.2% recorded in Q2 FY23. Our cost to income ratio in Q1 FY24 was 27.34%.

Regarding our subsidiary, Shriram Housing Finance Limited, Shriram Housing Finance Limited registered a disbursement growth of 60.93% to Rs. 1,688.30 crores as against Rs. 1,049.10 crores in Q2 FY23. Shriram Housing's assets under management as on 30th September exhibited a growth of 65.23% year-on-year and 13.38% sequentially. Thus the AUM stood at Rs. 10,816.03 crores at the end of Q2 FY24 as against Rs. 6,545.92 crores in Q2 FY23 and Rs. 9,539.20 crores in Q1 FY24. Shriram Housing's net interest income registered a growth of 51.98% in Q2 FY24 over Q2 FY23 and 14.27% over Q1FY24. Net interest income for quarter 2 FY24 was Rs. 97.43 crores as compared to Rs. 64.11 crores a year ago and Rs. 85.27 crores a quarter ago. Shriram Housing Finance registered a profit after tax growth of 41.7% in Q2 FY24 over Q2 FY23, and of 5.67% over Q1 FY24. PAT for the second quarter of this year was Rs. 48.21 crores as compared to Rs. 34.03 crores for Q2 FY23 and Rs. 45.64 crores for Q1 FY24. The EPS stood at Rs. 1.48 against Rs. 1.05 in Q2 FY23 and against Rs. 1.40 in Q1 FY24. Shriram Housing's gross stage 3 for the Q2 FY24 stood at 1.08% and their net stage 3 came in at 0.83%. In comparison, these numbers were 1.52% on a gross basis and 1.15% on net basis in Q2 FY23 and at 1% gross and 0.75% net in Q1 FY24.

I shall now request our Wholetime Director and CFO, Mr. Parag Sharma to inform you about our resource raising activities, after which our Joint Managing Director, Mr. Sunder will brief you about our accounting aspects.

Parag Sharma: Hello, everyone. On the liabilities, total debt stands at Rs. 1,65,547 crores which is an increase of Rs. 3,500 crores from the previous quarter. The breakup of the debt is 25% coming from retail FDs, which is close to around Rs. 40,800 crores. The domestic capital market is 21%, which is Rs. 35,000 crores. The ECB both in loan and bond format is around 13% of all liability which is Rs. 21,500 crores. Securitization, which is largely for priority sector assets, is 15% of our liabilities and quantum wise Rs. 25,000 crores. Term loan from banks and institutions is 26% of our liabilities at Rs. 43,170 crores. The cost of debt has marginally come down from 8.89 to 8.87 as of the period ended September 23. The incremental cost of the fund is around 8.7%. The liquidity as of September was Rs. 15,600 crores, which is more than the liabilities for the next 3 months, which is close to around Rs. 13,000 crores, will be close to around 3.5 months of liability repayment.

The LCR ratio stands at 219.57% against a regulatory requirement of 85% to be achieved by December '23. The overall borrowing for the quarter has been around Rs. 21,000 crores vis-a-vis Rs. 18,000 crores in the previous quarter. The debt to equity stands at 3.59% versus 3.6 for the previous quarter. ALM surplus, all buckets have been positive as in past and surplus up to one year is in excess of Rs. 28,000 crores versus close to around Rs. 27,000 crores in the previous quarter. We have been raising ECBs and in the calendar year till now we have done close to around 980 million ECB borrowing largely in the loan format. Recently, we have concluded 400 million of ECB loans. With this, I hand it over to Sunder for his comments.

S Sunder: The employee count as on 30th September was 71,373 against 66,343 in June quarter. We have increased our employee count by 5,030. The cost to income ratio for the quarter September was 25.68 as against 27.34 in the previous quarter, and coming to the ECL numbers, in Stage-1, PD was 7.89% as against 8.05% in the previous quarter and Stage-2 PD was 18.21% as against 18.88% in the previous quarter and the LGD was 41.39% in the September quarter as against 42.32% in the June quarter. The board also approved the declaration of dividend of Rs. 20 per share that is 200% dividend was declared in the meeting earlier today. With this, we hand it over to the forum open for any questions.

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

Mahrukh Adajania: Sir, if you could talk us a bit through your margins, do you see this level sustaining? I know you called out the marginal cost of funds, do you see this level sustaining? And the share of CVs has come down so any explanation?

Umesh Revankar: See the net interest margins have improved. One is the liquidity which we are maintaining at 4-5 months, now it has got down to 3 months, that is negative carry is reduced. That is one of the reasons and also the certain products which gives higher yield, we have been able to increase it that also has given, so the product mix and reduction of the negative carry that is the reason for the expansion of the NIM. It should continue depending upon the product mix what we lend that is one. And on CV we have grown 12%. In fact, if you recall, we have been telling that CV will continue to grow between 12% and 15% and the other products will grow faster. That is the strategy we have adopted, and we are going as per the strategy. So, CV will continue to grow and continue to remain mainstay, but the other product will continue to grow faster, but here if you observe the passenger vehicle have grown faster, so it is between the passenger and CV, the passenger has taken a little faster growth because of the bigger demand coming from Tier 2 and 3 towns for passenger vehicles. So, overall, I feel the growth of all segments will continue to remain strong.

Mahrukh Adajania: And the share of new CVs?

Umesh Revankar: New CVs, we are taking a position on new CV. It has continued to remain reasonably strong. In fact, we started growing on new CV in the last quarter, then continued in the first quarter and now also it continued to grow, but it will not be a significant number in the overall scheme.

Mahrukh Adajania: But the share would have reduced this quarter?

Umesh Revankar: It would have marginally reduced because other products have grown faster, that is all. Otherwise, it is continuing to grow at same level.

Moderator: Thank you. Next question is from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: A couple of questions, first one, if you can sort of again on yield side, so yield seems to have improved a bit, so of course there is some shift in product mix, so what sort of a product mix change is the sort of a new old composition or the other segment like your PL or gold loan, that had driven up the yield, so if you can just help us understand what has led to this sort of improvement in asset yields? That is one and second, in the credit cost close to Rs. 1,100 odd crores numbers, if you can help us understand what sort of write-off we need to adjust? Thanks.

Y S Chakravarti: This is Chakravarti here. So, if you look at the growth for the 6 months compared to last year, the outliers, in the sense the highest growth has come from passenger vehicles, MSME, gold and of course personal loan also which are basically slightly higher yielding products compared to the commercial vehicle. Out of the total disbursement of commercial vehicles, probably about 12% would be new vehicles and rest of it is old vehicles. So, the yields I would say the overall yield growth has come because of increase in MSME, gold and the personal loan products. And as far as the credit cost is concerned…..

S Sunder: The write-off during the quarter was Rs. 839 crores and the provision was Rs. 289 crores totaling to Rs. 1,128 crores.

Avinash Singh: Yes, you said Rs. 289 crore is the provision, 800….?

S Sunder: Rs. 839 crores of write-off and Rs. 289 crores of provision.

Avinash Singh: And that yield improvement, we are talking more from quarterly sequential, so even from Q1 to Q2 has also improved well, if I see CV has gone down, PV has gone up a bit and personal and others have largely been stable?

Y S Chakravarti: The numbers I gave you were over the last two quarters.

Moderator: Thank you. Next question is from the line of Shreepal Doshi from Equirus Securities. Please go ahead.

Shreepal Doshi: Sir, my question was pertaining to yields again, could you please highlight the rate hikes that we would have taken in the last 3 to 6 months for CV and PV segment?

Y S Chakravarti: No, we have not taken any rate hike there. We have held our rates; it is just the change of mix of products that has helped us in the yield side.

Shreepal Doshi: So, sir, what is our pricing in the new CV and used CV and PV segment currently?

Y S Chakravarti: The new CV ranges, anywhere from 11% to 13% and old CVs would be again 13% to 16%.

Shreepal Doshi: And MSME?

Y S Chakravarti: MSME would be again same thing 14% to 20%. Range depending on the security, the customer profile, it is a range.

Shreepal Doshi: Sir, just on margin guidance front, so we were earlier anticipating that for the year end we would see 8.5% margin, but with this liquidity related change in approach like we brought down the liquidity on balance sheet as well as change in product mix, so where do we see the margin moving for the year end?

Umesh Revankar: We would like to continue with our guidance on 8.5, but yes, depending upon the market situation, it can vary a little. So, it should be anywhere between 8.5 and 9.

Shreepal Doshi: And sir, just last question, during this quarter we have added 5000 employees, so is that onboarding of new employees only or is there anything else?

Y S Chakravarti: It is onboarding of new employees only.

Shreepal Doshi: As in from the fresh employee?

Y S Chakravarti: Yes, mostly, majority of them 95%-97% of them are feet on street.

Shreepal Doshi: For sales role, got it.

Moderator: Thank you. Next question is from the line of Gaurav Kochar from Mirae Asset. Please go ahead.

Gaurav Kochar: Sir, three questions from my side, firstly, on again margins, here I think the level of liquidity today is around Rs. 10,000 crore which is 6.5% strictly of your borrowings, so going forward, do we expect a similar kind of liquidity now that we will maintain probably 6%-6.5% of borrowings, which is essentially the 3-month liquidity cover?

Y S Chakravarti: Yes, that is the policy of the Company, and we will strictly maintain it.

Gaurav Kochar: And just on this LCR ratio, I think you reported 219, last quarter it was 202, so despite the liquidity coming down, the LCR has remained or in fact improved, is it largely because of lower outflows in the next 30 days, the weight is calculated?

Parag Sharma: Yes, correct.

Gaurav Kochar: So, for a normalized outflow, maybe next 30 days outflow may not be significant, but for a normalized outflow, what could be the like-to-like liquidity coverage ratio?

Parag Sharma: It will be around 150% of what we will maintain.

Gaurav Kochar: It will still be much above the required levels, sure.

Parag Sharma: Correct.

Gaurav Kochar: And coming to the cost of fund, sorry, I couldn't catch the stock cost of fund, I got the incremental cost of fund, which was 8.7, what is our stock cost of fund today?

Parag Sharma: 8.87.

Gaurav Kochar: So, going forward, the margin trajectory as we speak 8.9 is what you did in this quarter and if the incremental cost of fund is lower than your stock cost of fund, what should slow the margin from here? Are you seeing some bit of moderation on yields?

Parag Sharma: So, I think as of now, there has been some increase. The incremental funds what we have now seen coming in next few months should be around 8.75% to 9%, so I don't expect the cost to come down. It should continue to be at around this level, only between 8.8% and 9% is what I foresee.

Gaurav Kochar: No, the reason I am asking is what is the reason for holding on to the guidance of 8.5 given that we have already levered 8.9? Is it more conservative because from the data, I don't see that margin falling from here?

Umesh Revankar: No, it is basically see in the last quarter, definitely more demand will be there for new vehicle, then definitely there will be some shift in the mix, so therefore we are giving a conservative guidance.

Gaurav Kochar: Sir, second question on credit cost, if I look at the Stage-1 ECL cover that has gone up 20 basis point from 2.9 to 3.1 and that has led to increasing credit cost of around Rs. 260 crores, I just calculated, any reason to increase the PCR or standard assets? I think most of the NBFC's work at 70-80 basis points on standard assets, why are we keeping 3.1% kind of cover on our standard assets?

S Sunder: Based on the historical data and also, we keep doing a stress test on the portfolio and basis that and the stress test when we do it is also linked to the inflation and CPI of the country and basis that, there is a movement in the requirement of the LGD and PD.

Gaurav Kochar: Because 3% is significantly higher than what we used to keep earlier and it is higher than all other NBFCs, so you would like to keep this at 3% kind of a level?

S Sunder: Yes, around this level, that is what we expect.

Gaurav Kochar: Because if I look at the improvement in Stage-2 and stage 3 assets, that is also an outcome of strong macros again here, that is kind of counterintuitive because if you are ….

S Sunder: Yes, you are right, but the improvement in the quality of the assets will get reflected in the subsequent periods only. Since we are taking the last 5 years data, this data will get added and then when we are again rerunning for the next year, then this impact may be better.

Gaurav Kochar: And the final question, sir, on the AUM growth, today in this quarter, we have delivered 20% growth, YTD growth is around 9% and Umesh sir has always maintained that 2H is better than 1H in terms of disbursement broadly 60-40, in that context your growth guidance of 17-18%, can we not do 20 or more in this year, given that we have already done 20?

Umesh Revankar: We always would like to grow faster, but the economic condition and the GDP growth both will determine the credit demand. So, we don't want to push beyond what the economy needs. So, we are always giving a conservative number, but if there is a scope to grow, we will grow more than 20 also. So, we are not hesitating, but the economy has to take that kind of growth. So, we are, I should say, very conservatively giving you the estimation.

Moderator: Thank you. Next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Sir, first things, if you could just help me with two data keeping questions, so first, if you could just give the disbursement mix and if Sunder sir can he just repeat the LGD number that he gave out in his opening remarks?

S Sunder: Yes, the PD for Stage-1 is 7.89% in the current quarter as against the 8.05% in the previous quarter, and the PD for Stage-2 is 18.21% in the current quarter as against 18.88% in the previous quarter, and LGD for the current quarter was 41.39% as against 42.32 in the previous quarter.

Abhijit Tibrewal: And the disbursement mix?

S Sunder: So, we have disbursed totally Rs. 34,605 crores in the current quarter, the CV was Rs. 12,782 crores, passenger vehicle Rs. 7,379 crores, construction equipment was Rs. 1,978 crores, farm equipment was Rs. 550 crores, MSME was Rs. 3,593 crores, two-wheeler contributed to Rs. 2,359 crores, gold Rs. 3,051 crores and personal loans Rs. 2,910 crores.

Abhijit Tibrewal: Sir, a lot of discussion has already happened on margins, you have already suggested that these kind of margins look sustainable, so just two questions here, one is, would you be able to kind of split this margin expansion of 60 basis points that we have seen sequentially into what came because there is now lower liquidity on the balance sheet and lower negative carry and what has been driven by increase in the proportion of high yielding products in the mix?

S Sunder: This we will take it offline. You can contact Mr. Mundra. He will help you out maybe tomorrow.

Abhijit Tibrewal: And any one-off from the merger accounting in the NII that we reported?

S Sunder: No, nothing. All of the one-offs are over. There is nothing in the current quarter.

Abhijit Tibrewal: And sir lastly, on credit costs, write-offs appear slightly higher in this quarter, anything to read into from, asset quality perspective, any disruption that you saw from this erratic monsoons that we had?

S Sunder: Nothing, June quarter, the number of settlements were lower, and the current quarter the settlements are higher. It was close to the 15.00,000 contract we closed and with an average write off of around 5500, this has been the trend in the previous quarters also. We have been, per ticket write-off will be around 5000 to 6000 is the broad range that we have been observing in the last many years.

Abhijit Tibrewal: And sir, just one last question, Umesh sir said that we kind of remain conservative in guiding for margins as well as AUM growth, so currently what is our guidance on AUM growth?

Umesh Revankar: See, our year beginning guidance of 15% will broadly hold good, but since we have already grown at around 18%-20% year-on-year, the second half also we should be able to grow at similar level, see it also depends upon last year's growth. So, year-on-year when you compare the previous year comparable, we need to see. So, I feel 18%-20% is something good indication for rest of the year.

Moderator: Thank you. Next question is from the line of Viral Shah from India Infoline. Please go ahead.

Viral Shah: Actually, I had a question in terms of the personal loan, so of course within the entire product suite that you have, the SCUF products, as you mentioned, they are driving the growth at an overall level, but within that the share of personal loans is also increasing, so in that context, can you give us some more color on A, the kind of customers you are targeting, some flavor around or what is the average ticket size like? And secondly, also what is the progress in terms of your partnership with Paytm and have you forged partnerships with any other Fintech platforms and like what is the share of those loans?

Y S Chakravarti: As far as personal loan is concerned, today it is 100% targeted at my existing customer who has finished at least one cycle of loan with me. So, if you look at the disbursement of the last quarter, which is 2009 crore out of which almost 35% of the customers were people who have already taken a two-wheeler loan and the personal loan and now again come for a second personal loan, which is basically they have closed two loans, they have come for a third loan, repeat customers. The rest of it is to two-wheeler customers who have finished a cycle, they have finished their loan, and they came for that. So, average ticket size and this is in the sense a two-wheeler customer who is coming for a personal loan for the first time would be around 45,000 to 50,000. Customer who has serviced 2-3 cycles would be around 65,000 to 70,000. That is the average ticket size. On the yield side, it ranges again depending on the customer's profile also, ranges from 20% to 26%. As far as Paytm is concerned, the tech integration is in the process, we should be able to complete the tech integration in the next 2 weeks and then start business, one. Second is, on the tie-up with fintechs, we do have a couple of tie-ups with fintechs where we tied up with one fintech for extending credit to new to credit customers and a couple of fintechs for supply chain funding.

Viral Shah: Sir, can you give, basically what is the target you have in terms of scaling up these partnerships with this fintechs, whether be it Paytm or the other fintech that you mentioned?

Y S Chakravarti: As of now, we have not put a target on this. We wanted to see how the business performs for at least 2 to 3 quarters and then we will take a call on the numbers.

Umesh Revankar: See, Viral here, as our customer base increases, the scope for us to give personal loan also increases. So, that is how the opportunity will keep coming up.

Viral Shah: And sir, one last question from my end over here, so while I can see the gross stage 3 numbers for personal loans, which has been around 5%-5.5%, what is the kind of write-off policy over here and what is the write-off levels that you are seeing currently?

Y S Chakravarti: Policy is 100% write-off on…….

S Sunder: It is based on the ECL model only, so it depends upon the product. So, there is no set thing. It goes below the historical data.

Viral Shah: So, what is the policy for personal loans? For write-offs and what is the level of write-offs that we see?

S Sunder: Yes, beyond 12 months, supposing if it is more than 365 days then we fully write off those assets.

Moderator: Thank you. Next question is from the line of Shweta Daptardar from Elara Capital. Please go ahead.

Shweta Daptardar: Sir, just taking cue from the previous question, did I get it right, unique customers to Shriram ticket size and personal loans of Rs. 45,000 to Rs. 50,000?

Umesh Revankar: Correct.

Shweta Daptardar: So, then just on this, if you could dwell more because there have been concerns in ticket size below 50,000, I do understand you just mentioned that most of the customers are two-wheelers, but especially these first-time customers, how is your experience on ground in terms of quality?

Y S Chakravarti: Let me correct you again. They are not first-time customers; they have already serviced us Rs. 60,000-Rs. 70,000 worth of two-wheeler loan. So, they are not first-time customers. Our experience with dealing with them is fine. I think the concern mostly in the market on the smaller ticket is on the BNPL loans and point number 2 is just to let you know, about 85% of my personal loan customers are either self-employed or small businessmen, so most of this money goes towards small working capital use. These are basically could be your milk vendor, could be your plumber, electrician, your vegetable, fruit seller, these kinds of small businessmen.

Shweta Daptardar: And then what is the ticket size for the second cycle customer you mentioned?

Y S Chakravarti: That will be around 60,000 to 75,000.

Shweta Daptardar: Sir, then my next question is again on our new vehicle financing growth, so I remember somewhere last time you did mention that the new vehicle financing growth is also because used vehicle financing customers are getting upgraded, but there has been more than 3 quarters now that we have been seeing new vehicle financing growth sort of surpassing the used vehicle financing growth and if we look at the market, so most of the NBFC and other players have been vying for used vehicle financing market share, so somewhere we are facing the competitive heat or this is by demand?

Umesh Revankar: See, first of all, our used vehicle market share, we are not losing. We are actually gaining market share in used vehicles. So, new vehicles, yes, people upgrade, there are some used vehicle owners upgrade, and we do finance and in the last quarter, in the previous year, normally in the last quarter more people opt for new vehicle. That is every year, if you see in the last quarter, more people opted for a new vehicle. So, that is the only thing we highlighted in the previous quarter that because of that new vehicle mix increased. It is not that we are losing used vehicle market share and therefore we are doing new. It is not correct. We are continuing to grow in our used vehicle and some customers are upgrading to new vehicle.

Shweta Daptardar: That exactly was my question and sir, one last question if I may squeeze in, any additional provisions you have made again due to stress test this particular quarter the way you did in Q1?

S Sunder: No, additional provision.

Moderator: Thank you. Next question is from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: Firstly, again with respect to write-off, if you can highlight in terms of the segments wherein the write-offs would have been higher, is it more coming in from PL segment or this seems to be more of the vehicle segment itself, so how should we look and if I heard it right, is this run rate is something which is more kind of a normal run rate of Rs. 800-Rs. 900 crores going forward too?

S Sunder: We have been guiding a credit cost of between 1.5% and 2%. We still expect to be in those levels for the full year and coming to the segment wise write-off, that I would suggest that you contact Mr. Sanjay, he will be able to help you tomorrow.

Kunal Shah: No, just the sense of whether incremental, whatever was there, was it more of a PL?

Umesh Revankar: Now, Kunal, I would like to tell you, see, there is a newspaper item saying that the low ticket personal loan having higher risk is something which is playing on all of your mind. I would like to clarify here. We are not in the open market for selling our personal loan. We are offering an additional loan for our existing customer who has already repaid our loan. That means a track record is established and we know the customer, so we are offering them a personal loan to these customers if at all they need any personal business needs. This is not for consumption, this is for business because 80% of our two-wheeler customers are business people, they need a business loan for working capital or any other business expansion purpose and therefore this is given. So, I would like to stress here that we are not in open market personal loan, just like any other player or any other platforms, we are not there and also, we are not in BNPL market.

Kunal Shah: And secondly, when we look at the provisioning difference now between maybe the overall ECL on Stage-1 and Stage-2, in fact, if you look at it like Stage-2 ECL has actually come up from 7.85 to 7.18, so no doubt you highlighted in terms of the LGD and PD assumptions, but what is actually driving that? Is it more of a quality maybe the history which you actually rely on for this calculation that has undergone some change, but at the same point in time Stage-1, we are seeing the increase of 15 bps out there?

S Sunder: It is more of a mix of the product as well as the ECL model that we run, so it is interdependent upon all these things and also the historical data. All these factors contribute to that.

Umesh Revankar: See Kunal, what happens is, if you go back to last 5 years, there has been stressful period in the last 5 years, so some of those also will play when we go into ECL model. So, if I drop the 5 years and go just for 2 years, then this one will be totally different. So, as Sunder said in the beginning, as we go forward in next year, definitely our calculation will undergo a change, ECL model calculation will undergo change and the provisioning requirement will come down.

Kunal Shah: One last question on Housing Finance - Stage-2 ECL provisioning in housing finance that has almost doubled from, say, 3.5% odd to 7.3% in one single quarter, if you look at slide 38 of the presentation, so I don't know maybe what has led to this, is it more of a change in PD assumption and how should one look at the buildup of this stress out there in this portfolio, you get the last line 3.5 to almost 7.3 in one single quarter?

Ravi Subramanian: Kunal, we haven't made any change in the ECL assumption, so I will check this and get back to you.

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

Piran Engineer: Firstly, just wanted to understand that we have added 5000 employees this quarter, but our employee opex is absolutely stable, so any one-offs either last quarter or this quarter?

S Sunder: See, the previous quarter had the change in the gratuity assumption and hence the cost was higher in the previous quarter. This is more or less normalized one.

Piran Engineer: Sir, can you remind us how much that amount was?

S Sunder: I don't have it right now. Maybe you can contact Sanjay. He will help you out tomorrow.

Piran Engineer: Secondly, just getting back to personal loans, wanted to understand whether we started cross selling it to Shriram Transport customers or still within the customer ecosystem?

Y S Chakravarti: Shriram Transport customers, typically if they need a loan for, say, buying a tire or a battery or fuel, we already have those products, so pure play consumption personal loan, we have not yet started.

Piran Engineer: But we intend to or that……?

Y S Chakravarti: We intend to, but it will depend on the customer's earning and repayment ability. It will not be a pre-approved loan that we are going to push.

Piran Engineer: And just sir, lastly on the same thing, because a lot of our PL customers are ex-two-wheeler customers, but when I notice our PL, GNPAs are higher than two-wheelers, so what would explain that like a repeat customer having a higher delinquency than new customer?

Y S Chakravarti: Basically, it is just that on the two-wheeler loan, the people feel that it is a secured loan. They have an asset that they have to lose, they may lose, whether here it takes a lot of persuasion. Once they start getting delinquent, it takes a lot of persuasion to collect the money.

Umesh Revankar: Basically, two wheeler loan is average 18 months to 24 months. This personal loan will be around 12 months, so….,

Y S Chakravarti So, basically it is just that it is the nature that is what is the reason why it is called personal loan. So, it is not a secured loan, so people also tend to take it a little easy, you need to work that much harder.

Moderator: Thank you. Next question is from the line of Rajiv Mehta from Yes Securities. Please go ahead.

Rajiv Mehta: Sir, first question is on very strong consistent growth in used passenger vehicle portfolio, and now can you reason the growth, or can you give more color with respect to what kind of vehicles in this portfolio, which models are growing faster? And secondly, what is the nature of demand? Is it more replacement in nature or is it fleet addition? And thirdly, if you can also call out the role of what is the value of growth versus volume growth in this portfolio?

Umesh Revankar: See as of now, the ticket size is definitely a larger one, so that is definitely helping in the vehicle portfolio growth, especially in the passenger vehicle, retail prices have gone up by 30% to 40%. So, that is really helping in the growth, but otherwise also, the reach has also increased for us. The number of branches to offer the passenger vehicle and the commercial vehicle has increased, but passenger vehicle is easy sell for most of the erstwhile SCUF branches. Therefore, passenger vehicle growth is faster.

Rajiv Mehta: And sir, even MSME growth has been growing, the growth has been pretty strong, I know that we have been gradually, our strategy has been to take it to the erstwhile Shriram Transport branches for cross sell, so can you call out what has been the additional growth because of cross sell that we are starting to see that is number one? And whether is there any role of ticket size increase in this growth being reported?

Y S Chakravarti: So, ticket sizes have absolutely not grown, and we also monitor very closely the ticket sizes because we are very conscious of what we do, one. Second is, the growth is also because, as you said, you are right that we have taken it to places where the commercial vehicle branches are also there. So, I would say an additional 10%-12% growth has come in the loans because of the introduction of these loans in the commercial vehicle branches.

Rajiv Mehta: And sir, last question is on asset quality, again we have seen consistent improvement in our portfolio construct, Stage-1 and Stage-2 percentage have improved, which also means that collection efficiencies are going up, so going into second half, which is generally pretty strong, can we assume that the fresh delinquency creation and the forward flows can be even better and hence the credit cost would be well within the reach?

S Sunder: Yes, we anticipate that it will be stable and definitely it should improve by a few more basis points.

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

Chandrasekhar Sridhar: If I were to look at your yields on advances over the last 12 months, this time last year you were carrying 5 months of liquidity, now down to 3 months of liquidity and obviously the businesses mix has shifted with some of these personal loans picking up pretty substantially, MSME, but it seems that adjusted for that there has been no, on the individual product basis basically you had not taken up yields in an environment where we have had a very substantial rate hike cycle in this entire period, on an individual product basis, are we finding it tougher now to take yields to where they were earlier or what we used to do earlier?

Y S Chakravarti: See, it is not a question of finding it tough or not. We feel the products are priced right. So, we don't find a reason why we should increase those rates, push the rates up and we also have to keep the market in mind, the other players of the market in the mind at what rate they are operating and what rates we operate. In fact, if you look at our offering of two-wheeler and MSME, we are actually at a slight premium compared to other player. Two-wheeler vehicle is a very competitive product. We are at least 100 to 150 basis points more than what our competitors charge. I think we are rightly priced. Unless we have a pressure on the NIMs, we will not look at increasing the rates.

Chandrasekhar Sridhar: So, essentially it means that there is competitive pressure, competition is basically making you keep yields where they are like-for-like even in ……..?

Y S Chakravarti: No, I am sorry. I didn't say that. What I am trying to get at is I think the yields that we are getting are very comfortable yields and the NIMs are also comfortable. So, I think we are in a finance business where these yields are pretty good and the NIMs are pretty good. So, we are not looking at pushing this further.

Chandrasekhar Sridhar: And while the unsecured business has grown 10% quarter-on-quarter and you did speak earlier about thinking or contemplating what you would do with cross sell on PL for even may be Shriram customer, just wanted to be sure that you are keeping this within the ambit of capping unsecured at 5% of overall AUM, is that something or has that the guardrails which you put in internally have they shifted to maybe a higher unsecured?

Y S Chakravarti: No, we have not changed. That policy has not changed.

Chandrasekhar Sridhar: So, this 4.3 goes to 5 eventually and then you cap it from there?

Y S Chakravarti: 4.3 by the time it reaches 5, the overall pie will become bigger. So, we hope that there will always be a gap.

Chandrasekhar Sridhar: And can I just check on the opex, obviously you have added a lot of people in the last 8 to 12 months, just some sense on how many more are you going to add or the cross population across branches and for the gold loans, the number of people which you are adding, is that largely now done and on cost to income, we get some leverage at some point in time or this is what we should be thinking is the cost to income on a steady state basis?

S Sunder: The cost to income will be around 26% to 27% that we have been guiding and we continue to be sticking to the same number, and on the employee addition you can just…..

Y S Chakravarti: We may add another 1500 to 2000 people in the next 6 months because we are also opening up the collection centers, we have about 800 service centers, we are planning to convert some of these service centers into full-fledged branches, but also we have not yet fully exploited the network for both MSME as well as gold loan products. So, it could be an ongoing process, but I think it will be at least another 3-4 quarters before we look at capping manpower, pushing for….

Chandrasekhar Sridhar: So, that the operating level basically is still somewhere in the middle of FY25, second-half of FY25 to 26, the cost income starts coming off?

Y S Chakravarti: Yes, but I think as Sunder said, we are actually looking at 26% cost to income, so it should stay there.

Moderator: Thank you. Next question is from the line of Ankur Jain, Individual Investor. Please go ahead.

Ankur Jain: I have a question on the ROE, so for the last 2 quarters, the company has been reporting ROEs of 15% plus, so my question is, is there any target of ROE that we have in mind, some range of ROE over 3 to 5 year period that we want to target?

Umesh Revankar: 16 to 18 is our target.

Ankur Jain: And what would be the road map for that if you could help?

Umesh Revankar: So, next year, we should touch 16, then it will improve to 18.

Ankur Jain: And does it include increasing the debt-to-equity ratio?

Umesh Revankar: Yes, as you grow, there will be an increase in debt-to-equity ratio.

Moderator: Thank you. Next follow up question is from the line of Punit from Macquarie Group. Please go ahead.

Punit: Just on the yield bit, what was the increase in yield and cost of funds this quarter if you could highlight that?

Parag Sharma: Cost of fund has not gone up, on the yield…..

S Sunder: Around 30 to 40 basis point increase in the yield and some decrease in the cost of funds and we also got an advantage of the negative carry being lower because of utilization of liquidity.

Punit: So, on that bit also, your incremental cost of fund was lower than your reported cost of fund, so you said that the product mix might drive a decline in margins, would it be that because the way we are calculating it looks like margin trajectory should be upwards even after the 3.9% you have reported, so any comments on that?

Y S Chakravarti: No, I think what Umesh mentioned was that in the third and fourth quarters, typically the new vehicle sales go up, so the new vehicle funding will go up. Basically, since the new vehicles are lower yield products, he says we stand by the guidance of 8.5% NIMs.

Punit: And could you highlight what was the used vehicle and new vehicle growth this quarter?

Y S Chakravarti: That I think Sanjay will give you, I have CV as a whole has grown by about 14-15%.

S Sunder: Tomorrow you can contact Mr. Sanjay. He will help you out.

Moderator: Thank you. Ladies and gentlemen, we will take that as a last question. I now hand the conference over to Mr. Umesh Revankar for closing comments.

Umesh Revankar: Thank you. Thank you for participating in the call. We do expect the next second half of this year will be robust. Already the indication is that the festival demand combined with the cricket fever is creating reasonably good credit demand and with economy being strong and all other parameters remaining good, we should be able to grow faster in the second half of the year and come with a good set of results next quarter. See you again next quarter. Thank you very much.

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