SHRIRAM
Transport Finance Company Limited
A WINNING RELATIONSHIP

SEC/FILING/BSE-NSE/22-23/68A-B **October 31, 2022**

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: SRTRANSFIN

Dear Sirs,

Sub.: Transcript of investors earnings call for the second quarter ended September 30, 2022.

Further to our letter dated 21st October 2022, regarding the audio link of the investors earnings call for the second quarter ended September 30, 2022, we enclose herewith the transcript of the said call. The Transcript is also been uploaded on the Company website **www.stfc.in**

Thanking you,

Yours faithfully,

For **SHRIRAM TRANSPORT FINANCE COMPANY LIMITED**

BALASUNDARARAO UPPU

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COMPANY SECRETARY

Encl.:a/a.

“Shriram Transport Finance Q2 FY-23 Earnings Conference Call”

October 21, 2022

MANAGEMENT: MR. UMESH REVANKAR – VICE CHAIRMAN & MANAGING DIRECTOR
MR. SUDARSHAN B HOLLA – JOINT MANAGING DIRECTOR
MR. NILESH ODEDARA – JOINT MANAGING DIRECTOR
MR. SRIDHARAN P – JOINT MANAGING DIRECTOR
MR. S. SUNDER – JOINT MANAGING DIRECTOR
MR. PARAG SHARMA – JOINT MANAGING DIRECTOR & CHIEF FINANCIAL OFFICER
MR. SANJAY K. MUNDRA – HEAD OF INVESTOR RELATION

Moderator: Good morning, ladies and gentlemen and welcome to the Shriram Transport and Finance Q2 FY23 Earnings Conference call.

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

I now hand the conference over to Mr. Umesh Revankar – Vice Chairman and Managing Director. Thank you, and over to you, sir.

Umesh Revankar: Good morning, friends, from India and Asia, a warm welcome to all of you who has joined this call. Good evening to those who joined from the western part of the world. Today, we have our Joint Managing Directors – Mr. Sudarshan, Sridharan, Nilesh, Sunder and Parag along with me and Mr. Sanjay who is our IR Head.

In the first quarter of this financial year, the Indian economy grew by 13.5%, the fastest in the last four quarters on account of better performance by Agri and Services sector. The official data show in a remain fastest growing major economy in April to June quarter. However, it fell short of the expected 16.2% increase anticipated. The IMF in the latest world economy outlook report cut its forecast for India. India's gross GDP growth in financial year 2022-23 by 60 basis point to 6.8%. Warning of a long and tough economic winter.

India's headline inflation rate as measured by CPI rosed to 5 months hike of 7.41% in the month of September from 7% in August. This is the ninth month of two times CPI print has come above RBI's upper margin. The stubborn inflation is definitely having some adverse effect on consumption and there are some indications of economy going down. However, I attribute this to this to unexpected rains or unscheduled rainfalls, this got delayed in the month of June/July and there were late rains in certain pockets that disturbed Agri movement and that would have led to food related inflation. However, the wholesale inflation eased to 10.7% in September as against 12.41% in the month of August. The WPI in September was 11.8%. Despite easing wholesale inflation data, the WPI continues to remain double digit for 18th consecutive month beginning from April 2020-2021. The RBI in its monetary policy on September 30th, 2022 has hiked the repo rate by 50 basis point to 5.9% for straight increase in current cycle. To tame sustained above target retail inflation rate. The RBI now has rates by total 190 basis point since its first unscheduled mid-meeting hike in May. The economic growth projection for 2023, cut to 7% from 7.2% estimated in August and GDP is expected to go 6.3% in September quarter, 4.6% in December and March quarters. The inflation projection retained at 6.7% ongoing fiscal year and inflation to remain above the tolerance limit of 6% of RBI.

The GST collection seems to be doing well. India's tax collection from GST was 1.47 trillion in September as against 1.43 trillion collected in August. On account of rising demand higher rates and greater tax compliance. This is second highest collection next to April 2022 collection of 1.67 trillion. The goods and service GST collection remained above 1.4 trillion for 7th straight month during this month and continuous to display very high buoyancy. This harvest well for government spend on infrastructure. The government has announced national logistic policy aiming to achieve quick last-mile delivery to end transport related challenges. The policy focuses on key areas such as process the engineering, digitalization, multimodal transport. It is crucial move as high logistics cost impact competitiveness of domestic goods in the international market. Along with PM Gati Shakti which is national master plan for multimodal connectivity and part of NIP spent of USD 1.35 trillion target with a vision to develop technologically enabled integrated cost efficient resilient the sustainable trusted logistic ecosystem in the country for accelerated and inclusive growth. This is highly positive for the transportation and logistic industry and to our business.

The monsoon has as I was telling you in the beginning, there was a disturbed monsoon in the northern part especially in UP, Bihar and MP. But overall, the acreage was a little lesser than the last year by 5%. Apart from badly, there is a slight difference in sowing of pulses, oilfields, jute. So, overall, the drop is very insignificant; however, the late rains and the reservoir being full harvest well and for bumper crops in Rabi which is always much bigger crop across India and Rabi being bumper and year-on-year for last four years. Harvest well for rural and semi-urban economy.

Coming to the auto industry, the commercial retail sales is increased by 39.48% to 231,880 units in Q2 as against 166,251 units in Q2 and compared to the previous quarter it is 3.37% increase. The heavy and medium commercial vehicles showed maximum growth with 48.93% with 79,650 units sales against 53,481 units. Significant portion of this heavy commercial vehicles are the dumpers and tippers which the demand is coming from the infrastructure industry. LCV numbers also showed good growth of 35% to 152,230 units compared to 112,770 units sold in Q2, last year. Tractor sales have been almost on par with last year's half year number with 319,642 number against 350,250 numbers, a marginal increase. The earth mowing and constructional equipment showed significant growth again for the first half of this year with 42,530 units being sold against 32,398 units.

Coming to the company's performance, the collections were consistently good the average collections of September quarter were 100.13% of the total demand as against 99.03% of the corresponding quarter last year and 101.45% in the Q1 of the previous year. We clocked a disbursement growth of 19.51% to Rs.17,769 crores against 14,868 crores in the same period of previous year as against Rs.16,670 cores in the Q1 of this year. The used vehicle disbursement increased by 15.27% to Rs.16,502 crores as against Rs.14,317 crores in the same period of previous year as against Rs.15,754 crores. The new Vehicle disbursement has improved significantly. It has gone up by 106% to Rs.1020 crores as against Rs.493 crores in the same period previous year and as against Rs.784 crores in the Q1 of this financial year. Overall, AUM grew by 11.18% on line with the guidance of 12% to Rs.135,249 crores compared to Rs.121,646 crores in the previous year and increased by 3.49% against the previous quarter of Rs.130,688 crores.

The net interest income increased by 22.85% to Rs.2693.96 crores against to Rs.2192.82 crores in the same period previous year and marginal increase of Rs.2641.74 crores against the previous quarter. The net interest margin improved to 6.98% against 6.44% in the same period previous year and 6.91% of the previous quarter. The PAT increased by 38.33% to Rs.1066.87 crores in Q2 compared to Rs.771.24 crores in the Q2 of previous year and against Rs.965.27 crores in the previous quarter. The EPS stood at 39.44 against 28.71 in this quarter. The Gross Stage 3 declined by 7 basis point to 6.93% against 7.82% in the previous year and 7% in the previous quarter. The net Stage 3 stood 3.48% compared to 4.18% in the Q2 previous year and 3.52% in the Q1, this year. The credit cost for the current quarter stood at 1.67% against the 2.68% full year. The cost to income ratio marginally increased to 31.12% in this quarter against 20.73% recorded in the same period previous year. The update on the merger, we have received approval from all the regulators like NSE, BSE, RBI. Then NCLT had convened the Shareholders, Secured Creditors and Unsecured Creditors meeting, IRDA, CCI. The final order of the NCLT was heard on October 19th, this month and we expect the order in a weeks' time. The growth outlook remained at original guidance 15% for the combined entity.

Now, I request our CFO, Mr. Parag Sharma, to take over the call and give details on the liability side.

Parag Sharma: Hello everyone. The fund mobilization for Q2 was good. Liquidity continues to be good across bank and that has been the focus area for fund raising. Some fund raising increase has been there from the capital market in the form of bonds also. Overall, for Q2 we have mobilized 17,000 crores over gross mobilization. Total debt outstanding as of September is Rs.125,586 crores. The cost being marginally up compared to Q1 by 10 basis point but if you look at year-on-year basis it is down by 16 basis point. On balance sheet liquidity also continues to be strong. We have liquidity of close to around Rs.2700 crores. Liabilities for next three months is only Rs.13,000 crores so there will be sufficient cushion for managing our liabilities for next six months also.

When it comes to ALM, each bucket as in past continues to be positive. Cumulative automatically is positive. Leverage ratio is at around 4.51% with excess liquidity being utilized leverage ratio showed slightly a drop below 4.5%. HQLA is at 188% versus 191% in the previous quarter. We did announce buyback of our offshore bonds in August and we did buyback close to around 256 million of bonds which were maturing in 2025 and some part in October 2022 which was in maturity for a short period that was bought back and currently we have announced buyback of our July 2023 bond with a capital of 250 million. That process is on will take another few days to realize how much interest is there. Incremental cost of borrowing is definitely up by around 50-70 basis point, so we do expect overall cost of liabilities to go up in next quarter. We have increased our FD rates also in the shorter duration by around 25 basis point in the 3-5 year (5 basis point).

So, now I will give it to Sunder for his comments.

S. Sunder: Hi everyone**.** The employee count has increased in the current quarter by 1056 employees as against 25720 employees in June quarter, we are currently having 26776 employees as on September 30th. The cost to income has marginally increased in the current quarter to 21.12% that is primarily due to a one-time hit of Rs.65 crores because of the settlement of certain sales tax litigations in which the company had offered for the amnesty schemes and in the onetime visiting which RBI had permitted last year. The out fronting as on September 30th was Rs.683 crores. Here, I would just like to mention that in the investor deck that we had circulated yesterday it was wrongly mentioned as Rs.6830 crores instead of millions and the coverage ratio was 51.57% as against 51.62% and Stage 3 improved to 83.29% as against 82.49% in the previous quarter and Stage 2 was 9.78% as against 10.51% in the previous quarter. We maintained a coverage ratio of 3.29% as against 3.21% in the for Stage 2 asset and covering ratio of 8.84% as against 9.18% in the Stage 2 asset. The PD was 7.35% as against the previous quarter of 7.34% in the Stage 1 and 21.62% as against 21.75% in the Stage 2 and the LGD was 44.75% as against 43.76% and the capital adequacy was strong at 22.48% and tier 1 was 20.59% and tier 2 was 1.89% and we continued to have the COVID related overlay of Rs.1741 crores as against close Rs.1830 crores in the previous quarter.

That's it from me. We would like to open the floor for the questions.

Moderator: Thank you very much. We will now begin the question-and-answer section. The first question is from the line of Rikin Ketan Shah from Credit Suisse. Please go ahead.

Rikin Ketan Shah: I have four questions. First one was on the new vehicle disbursement and the AUM growth. So, the new vehicle, AUM has grown after 14-15 quarters. So, just wanted to get a sense on the outlook from here for the new vehicle AUM. Second one relating to the margins have you taken any rate hikes on the loans for any products and what would be the cost quantum of the same and on the liabilities side, could please recap the total bond buyback that you did in Q2 and are looking to do in the Q3. Thirdly, on the OPEX, I think you did mention that there was certain one-off of Rs.65 crores could you please elaborate on that and whether do we see that repeating in the coming quarters and lastly there were news flows pertaining to Shriram Group looking to lead the consortium in buying the IDBI Bank intake. So, just wanted to get a sense on the rationale of the same and about the strategery over there. Thanks that's all from mine.

Umesh Revankar: Thank you, Rikin. See new vehicle if you see quarter-on-quarter our lending is going up because our customers typically what we do is we lend to our existing customers who are already used vehicle. When they want to wish to upgrade then we fund them. We do not have a direct arrangement with any OEM or a dealer point for lending to the new vehicle business directly to new customer. So, as the economy progresses when our customer decides to buy new vehicle then he upgrades himself, so to the extend we are increasing the new vehicle portion. So, last quarter we did around Rs.1000 crores and we expect that to grow. It may not have a significant increase on the overall AUM immediately, because since we have not done new vehicle lending for last three years much so the AUM is actually coming down and with new lending it may get stabilized and then move up. So, overall proportionately it may not make any difference between new and used. So, margin wise, whatever the interest margin of around 7% target, we may be +/- 10 basis point on the same and we should be able to maintain that. On the OPEX there is a tax.

S. Sunder: One time settlement that we had done for the sales tax litigation. It is a onetime thing, which was all these cases are pertaining to prior to the GST regime which we were litigating and now since the amnesity schemes are announced by certain state governments. We had opted for it and went in for a settlement and we do not expect any one-time hit on discount at least for the next any future quarters and coming to the bond buyback as I mentioned we did in August, 256 million which was for two maturities October ‘22 and in 2025 bonds which are maturing this largely to do with carrying excess liquidity and also the ongoing of the hedges what we have for the long-term bonds if they are in money or not usually negative then only we go in for what we have also announced now is another 250 million for the 2023 maturity. So, total will be around 500 million is what we look to buyback and we do not have any plans for further buyback.

Umesh Revankar: On the bank part of it, we deny to say because as a company individually we have not really discussed with anyone or not shown any interest in looking at any buying or merger of bank. So, we do not have any plan on that direction.

Rikin Ketan Shah: And just a clarification on the yield side, have you taken any price increases on any of your vehicle products and the quantum if any there?

Umesh Revankar: On the used vehicle, we have increased our lending rates because as and when the liability cost goes up then typically, we pass it on the fresh contract on existing contract we cannot change because these are all contractual but the new lending, we increase by around 25-50 basis point depending upon the segments. Normally, the smaller ticket the lending rate increase will be much higher.

Moderator: Thank you. The next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: I have three questions on the same direction. Number one, does the buying of new vehicles indicate confidence that the economy is going to be doing well how are the fright utilization and rates, that is question one. On the bond sir, what is the strategy being the buyback the bonds in terms of the fact that the domestic market liquidity is getting tighter. So, is there some, arbitrage that you have that you can utilize that is the second question and the third question is on cost. Umesh sir, mentioned about inflation, so are you seeing wage cost pressures and do you think that is going impact cost income later on. That's it from my side, sir.

Umesh Revankar: As far as the new vehicle as I was telling you, customers are getting confidence in the economy or the cashflows. Ultimately, they need higher cash flow to repay the new vehicle. New vehicle cost will be approximately two times of the used vehicle for same application. Because application to application things vary, so when they buy a new vehicle, one advantage is it will be maintenance free that is the advantage. But since the acquisition cost is high their EMIs will be much bigger. So, if the cashflows are bigger then they will repay. So, people delay buying new vehicle mainly because of increase in cost of new vehicle in the last couple of years. First, because of the BS6 technology upgrade and second because of the steel price increase and of course the third one was chip shortage and supply chain issue. This wound, mostly to cars not to truck but overall, the costs went up by 25% to 30% and because of that many people postpone the upgradation or buying new vehicle plan. Now people are getting confident that since there is very little idly, better fright rate, better movement of vehicle and also better resale values. They are able to disburse of their existing vehicle at a better value. All this is a positive and people will definitely move towards buying more new vehicles and as and when our existing customer buy new vehicle, we fund them. So, that is the strategy and we are very confident that once they realize that cashflow will be better and whenever they buy new vehicle their repayment will also be equally good. Coming to the bond.

Parag Sharma: We entered the offshore market of as when RBI allowed which was around five years back. We are particular that we will continue to tap the offshore market for sure to the extent RBI permits or the limits are available. Whatever support is required if there is investor industry is looking at opportunity to sell. We want to support the market. What we largely offer was for a very short duration maturity which was October and we were carrying excess liquidity, we thought we are buying at par so whichever investor is keen to sell we will give them the option. For the long-term 25, what we have done was largely because the bond was raised in the current calendar year, January itself, the markets after that went negative. So, we wanted to give comfort to the investors and RBI does not permit huge buyback. RBI is also very particular about average maturity to be more than three years. So, limited option up to 80 million is what we offered to buyback it was only to help investors and we are particular that as and when markets are okay rates are contusive. We will continue to tap the offshore market. So, we want to develop this market and give them support whatever is required.

Umesh Revankar: On the cost front inflation will definitely push us to increase our wage bill a little, we have done it in this financial year to some extent but we have not seen big pressure on the overall increase in the cost. So, we estimated the cost increase to 10% in our budget and that will remain good for the rest of the year.

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

Shweta Daptardar: I have three questions. The first one being, I understand that your collection team is completely internal but what is the total collection employee count as a percentage of the overall number?

Umesh Revankar: See our field team is 16,000 people totally out of 25,000 and there will be another 4000 people in the supervisory level, at branch manager's level or collection manager's level. So, the 16,000 people, they are the field officers who will both source business and collect. We do not have separate team for collection and these people will build relationship with customer and continue to collect every month. We do not outsource collection to outside, so we do not have any outsourcing arrangement for collection repossession, even the repossession is done by inhouse team only.

Shweta Daptardar: Okay. Sir, you guided for 15% growth for combined entity. Can you guide for standalone ED as in Shriram Transport Finance.

S. Sunder: Standalone, we have given guidance of 12% and as of for six months we have reached 11%. So, we should be able to maintain that 12%.

Shweta Daptardar: Sir, my last question. If I look at our liability mix, NCDs has marginally gone higher, securitization a bit down. Sir, where I am coming from is, I think one of the previous participant has also commented on **((inaudible 32:47).**

Umesh Revankar: I think, we understood the question.

Parag Sharma: Yes, you are talking about securitization transaction being down and bond borrowing being up. Okay, securitization normally in Q3 and Q4, the demand is huge. So, that is where we feel we should go beyond the last year quantum what we did was 14,000. So, we should definitely do more than what we have done in Q1 and Q2. Bonds is something which we in fact the one market for a lesser rated entity is limited and during COVID time it was completely closed. Now, it has opened up so we want it that particular source should be around 20% of our liability. It was much lower. It has now reached around 20% interval and that is what we will try to maintain it and securitization will definitely go up as around 15%, I feel by year end it should be around 17%.

Moderator: Thank you. The next question is from the line Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain: Sir, in the current environment how should we think of margins going forward. I think there is a sequential decline in margins. So, in Q2 how should we think of margins in coming quarters?

Umesh Ravenkar: See, margins we are confident of maintaining it. Quarter-on-quarter, margins improved by 7 basis point. So, I think, we should be able to maintain that, see we always guide 7% +/- 20. This is the broad guidance. So, that is the target we keep trying to achieve. There will be some movement because of the cost of liability going up and not have been able to immediately pass on to entire book. Because incremental only we can increase our lending rate not to the existing book. So, there will be some gap but otherwise, we should be able to maintain it around 7.

Nidhesh Jain: And sir, I missed out, if you can share the disbursement number in this quarter both in terms of new vehicles and used vehicles.

Umesh Ravenkar: Yes, we have already given the numbers, new disbursement Rs.1020 crores for this quarter against the previous quarter of Rs.784 crores on new disbursement.

Nidhesh Jain: And sir, used?

Umesh Ravenkar: Used is Rs.16,502 crores against 15,754 in the previous quarter.

Moderator: Thank you. The next question is from the line of Vikash Agarwal from Bank of America Merrill Lync. Please go ahead.

Vikash Agarwal: Just couple of questions from my side. One is following up on the discussion on the NIM just now. Just want to understand a bit more in detail the impact as you said on the existing portfolio will probably stay longer and plus the cost of liability is also increasing. I know you are also normalizing the liquidity but this 20-bits headroom is that something which is sufficient in the near term to maintain the margin NIM above 6.8%, so that is my first question. And the second is on the offshore bond buyback which you are doing. Can you also share what sort of other offshore funding you are using and what is the term and borrowing cost for those funding?

Umesh Ravenkar: As far as, the net interest margin is concern we have a headroom to improve because we have higher liquidity and we had told in the previous quarter also that we would like to reduce the liquidity portion. Right now, we are carrying six months of liquidity which we would like to decrease to 5 and 4 and 3 gradually. So, that is where, we have an opportunity to improve the margins apart from increasing the lending rate for the new contracts.

Parag Sharma: On the offshore borrowings, we have a combination of bonds, we have loans from banks and loans from development institutions. Our total offshore debt is close to around Rs.25,000 crores now and the landed cost depends because some of the facilities are even 10 years what we have taken from development institutions and ECA. Bonds typically are 3 to 3.5 years. So, hedge cost will be accordingly different. It has been between 9.5% to 10% what we have done in the past but currently what we are borrowing what we have taken from development institutions at around 9%.

Vikas Agarwal: 9% all landed cost including the hedging?

Parag Sharma: Correct.

Moderator: Thank you. The next question is from the line of Nilanjan Karfa from Nomura Group. Please go ahead.

Nilanjan Karfa: If you go back to this offshore bond. So, I understand there was excess liquidity but what tilted the favor in not doing buyback on the domestic and offshore and I heard, Parag, sort of giving the thing that he mentioned is giving comfort to investors. So, which investors are we talking about was there some kind of stipulation that something is not right.

Parag Sharma: No, nothing of that sort in fact largely if you see what we have bought back is October 2022 maturity only around 170 odd million what we have bought back is October. So, it was only very short duration and because we were carrying excess liquidity from April itself. So, instead of carrying that liquidity we thought we can look at buyback. When it comes to the long-term 2025 what we have bought back is because the secondaries were trading very high. We thought we should intervene in case any investor, is interested. In fact, it is only for bonds what we have bought back and offshore we really do not know because it keeps trading over the ultimate owners, we will not know. But secondaries were trading much wider, so we thought we should intervene and give comfort that in case anyone has got any concern, any stressors. We should be able to address it. It is very limited quantum, what is permitted as per RBI that is what we had done. It is only 80 million, not very significant. When it comes to onshore the secondaries are not trading anyway there, so that was there during the COVID period but post that everything is normalized so I do not feel any need, any investor is in any kind of distress. So, if there is a need as of now liquidity is there and in case there is a need to support domestic bond holders also, we will be happy to do it.

Nilanjan Karfa: Okay. Just a continuation when we hedge a foreign bond for example, do we do it on an annualized basis or do we do it for the entire maturity?

Parag Sharma: We had a policy, always to do it for the full maturity.

Nilanjan Karfa: My second question is to Umesh sir, I know that we do not have sort of an outsource repossession but we can talk about in general how the environment is standing out on the repossessed vehicle and specifically if you want to comment a bit on the Shriram Automall how the business is doing?

Umesh Ravenkar: Right now, the resale values are good customers would like to hold to their vehicle, they do not like to vehicle get repossessed. So, that is the tendency. So, the repossession increases when customer vehicle values drop and customer does not have the tendency to hold on to their vehicle. The vehicle is in an earning asset and if it is not earning enough and vehicle value drops. Then the customer will allow the vehicle get repossessed or may be, we are forced to repossess because customer is not paying in time and currently the repossession is the minimum. I do not think there is any pressure for any of the NBFC industry organization, banking industry on repossession because resale values are good, earning is good. So, repossession has come down. In fact, even in the Automall business last two quarters, we have witnessed that repossession as a source for their business activity has come down. They are mostly doing the market business now. So, market business means, any one who wants to sell their vehicle on their own, they will come on the platform. So, Automall is doing and the focus is more on the market business rather than the repossessed vehicle from the NBFC or bank.

Nilanjan Karfa: Okay. Many NBFCs sort of went into a sell post that RBI Directive on Mahindra. So, you do not think something like that is impacting the platform business, regional repossessions.

Umesh Revankar: No man that is nothing to do with platform business repossession as I believe. Most of the industries they are capable of doing repossession on their own without depending on outsourced agents because that NBFCs which are there for traditionally long time but if there are new NBFCs which have just come up in the last few years without enough network and manpower they may depend outsourcing agent and that will be very significant number. So, I do not think that will make any change.

Nilanjan Karfa: And final in a small clarification and the point was also raised earlier, the improvement in the new vehicles is that something that came towards the quarter end and just because of the change in festival season is that what has led to this improvement on year-on-year basis?

Umesh Revankar: Yes, festival definitely will, there is an opportunity for customers to buy new vehicle. But normally in the month of September, there will be more new vehicle sales during this Ganesha festival, then till Dussehra, the mood will be upbeat and positive for the people to buy new vehicle that is normal trend but what I am seeing is the viability of new vehicle operation has improved significantly in spite of increase in the vehicle value for even individual operator and for smaller vehicle e-commerce activity and the tier 2, tier 3 town business, the agricultural activity, everything is positive. So, people are now buying more new vehicles and the numbers are visible across the country. 38% increase on year-on-year is significant increase in new vehicle.

Nilanjan Karfa: Surely sir, so therefore the 15% guidance you are quite comfortable right?

Umesh Revankar: We are comfortable with 15% guidance for combined entity.

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

Abhijit Tibrewal: Sir, I had two or three questions. First one, was in the merger whilst we acknowledge that we are comfortable with a 15% kind of guidance on the merge entity. If you can help us understand that given that the final hearing in NCLT has happened and given that the order is expected in a weeks' time. What is the operational readiness in terms of working at one combined entity given that you have been running quite a few pilots across many of your branches and secondly from the merger just wanted to understand how will shares be issued. What I am trying to understand is will there be a period where there will be no trade in the stocks of Shriram Transport and Shriram City or will it be a scenario where there will be no disruption in the trading activity and Shriram City and Shriram Capital Shareholders will be issued shares of Shriram Transport and which will eventually kind of get renamed as Shriram Finance.

Umesh Revankar: As far as, the merger is concern, what we have done is geographically, we have put Geographical Head, Joint Managing Directors as the unit head and they are running both the business, Shriram Transport and Shriram City Union and even though respective company keep doing the business, the leadership is in place and then we had pilots. We had pilots only to understand the challenges of cross sells of each other products because the knowledge to be passed on to the staff, training them, reskilling them and all those things we have done in the pilot 1. Pilot 1 was done around 50 branches. Then, we scaled it up to 1200 branches across both the companies. So, pilot 1 and pilot 2 is completed. Now post-merger it will be for all the branches, so the high-ticket lending or high-ticket business like, SME and heavy commercial vehicle that is something which we will be doing more centrally but all other smaller tickets like two-wheeler, gold and the LCV and tractors all those things we should be able to do in all the branches, that is how it has been planned. So, the merger will be seamless and we should be able to scale up the business and achieve target which has been already guided.

As far as, the no trading period there will be no trading period for SCUF but not for STFC that will be may be 10-15 days depending upon the regulatory requirement and STFC shares will continuous to be traded because STFC will be surviving company and that will be renamed as SFL post the completion of ROC formalities.

Abhijit Tibrewal: Sir, my last question that there are two questions, one is this new guidance that you gave of 7% +/- 20 basis points that kind of stands despite the rise in rate environment, right?

Umesh Revankar: Yes. I have given a rational also that we have a higher liquidity which we can manage and around 7%.

Abhijit Tibrewal: And sir, lastly on this repossession ban which was recently there by the RBI, while you had clarified that Shriram Transport has no engagements with third party agencies for collections and repossession, just wanted to understand as an industry has RBI engaged with you in the past or after this recent ban and advised to improve some of the repossession processes. Wanted to understand if the regulator is a little concern with the industry as a whole when it comes to repositioning process or was it an isolated incident for a particular vehicle financial?

Umesh Revankar: No basically, in the past also on the collection part of it and the harassment of the borrower a part of it. RBI, did had an interaction with us but this incident is isolated one. It has nothing to do with the initial discretion we had with RBI. RBI wants us to have a proper standard on engaging outsourcing team and methods of either repossession or collection to be made properly guided and proper manual being there and training to be given even if it is outsourced, all those things are there. It is more of a discussion and we also had as a FIDC, we had come out with broad guidelines on repossession and handbook was released long back. Once again after this particular it is isolated and unfortunately incident, once again, we have given our broad outlook and broad guidelines on the same and that is shared with RBI and also seeking the appointment with RBI to further improve, if necessary, on the same. So, as an industry body, we are working on the same but there will be always some kind of some incidents which can go out of control.

Moderator: Thank you. The next question is from the line of Nischint Chawathe from Kodak Securities. Please go ahead.

Nischint Chawathe: Just a couple of points. What is the target Gross Stage 2 will it come down in single digits. So, where do you think this kind of goals in existing stock or what is the level before COVID where you think it can go to?

Umesh Revankar: Stage 2 will remain range bond in between 10%-12% and we have significantly improved over the last 3 to 4 years. Once we have moved to the 90 days, right from that day it has been a continuous effort to bring it down because when we moved from 180 days to 90 days it was a gradual improvement. Customer had a bigger time for managing his NPA and we have been educating the customer. So, over the period, we have brought it down and we should remain at this level. I do not think it will significantly improve over it. Since most of our lending is asset back, we really need not get disturbed or perturbed with this and we are feeling that this is a good comfortable range.

Nischint Chawathe: What is the current IRR range having interest rate range that you are charging for used CVs and new CVs?

Umesh Revankar: Used CVs it ranges any way between 14-18 it all depends upon the vintage of the vehicle and also ticket size. So, the simple principle, higher the vintage, lower the ticket size, higher the rate.

Nischint Chawathe: Just a broad range for the Used versus the New, we know how much could be the weighted average differential.

Umesh Revankar: Weighted average differential between New and Used will be around 300 basis point.

Nischint Chawathe: And just the last one is on the possible dues on the liability side after the merger. Currently, we are kind of very close to the merger and I guess you would have evaluated the consolidated borrowing possession. So, what could be the dues left out there, probably borrowing, be paying some of the high-cost borrowings on the consolidated level and probably accessing cheaper ones or may be kind of just as more expensive ones get relieved, replacing with a cheaper one or probably looking at a consolidated liquidity possession. So, very roughly, some assessment on your side in terms of what you would have done and what could be the benefit.

Umesh Revankar: This is a continuous work and I think Parag would be able to explain better.

Parag Sharma: In fact, if you look at Shriram City Union and because you would have been looking at it very regularly. So, it is more going towards fixed deposits, retail deposits and bank borrowing there is not much of bonds, offshore is any way not there. So, looking at the total borrowing what they have from banks, I do not think that adds a very significantly to the overall bank borrowing. So, it should continue to at around 20%-21% of our liability. Post-merger and looking at whether we can reduce cost. I do not think, we will force that we will only look at borrowing fresh from the same bank at a lower rate. We will not go in for immediately paying off. It comes to the overall liquidity what will maintain I think policy will remain the same. Three months of liability repayment would be in hard cash for the merge entity also is what we will look at. We did mention that around Rs.11,000 to Rs.12,000 crores is, what is required for Shriram Transport if we add Shriram City Union liabilities also. It should be at around Rs.14,000 -Rs.15,000 crores of overall liquidity to be maintained that is what we will do post-merger.

Nischint Chawathe: And if I were to look at let's say facilities from the same bank is there a differential between what you are able to borrow and what they borrow.

Parag Sharma: Yes, definitely there is a differential, one there is a rating difference itself banks also have been tracing it differently. Capital market automatically goes by the rating in the public domain but banks also there are rate differentials.

Nischint Chawathe: But then that is something you kind of get negotiated immediately?

Parag Sharma: Correct. Immediately, I do not think banks will immediately reduce the rate but whatever fresh we borrow from the bank will definitely be at commercial level.

Moderator: Thank you. The next question is from the line of Ajit Kumar from Goldman Sachs. Please go ahead.

Ajit Kumar: First, on the OPEX side, despite increasing employee count by more than 1000 in this quarter. Why is employee expense down sequentially and how do you look at employee and branch addition going forward as disbursement picks up an impact on the cost to income ratio side that is one.

S. Sunder: Okay in the first quarter, we typically pay the annual incentive for certain grade of people and hence it was on the higher side and current quarter it was not there and hence it was lower compared to the previous quarter.

Umesh Revankar: And as far as, the employee count, we have not recruited more people in the last two years. During the COVID years, our recruitment drive had come down. Actually, our employee count also had come down from around 27,000 employees it had come down to less than 25,000 in the last 2.5 years because we did not do fresh recruitment which we started doing in the last six months. So, therefore the number of count is going up and for our business as we increase the volume we do need to add more number of people.

As far as, the branch is concern, we have not opened any branches in the last quarter. We did not add any branch. Going forward post-merger then we will look at this scope on opportunity to open more branch or using the existing network of combined entity. So, that we need to really work on. We already have blue print on the same but we will execute it over the period.

Ajit Kumar: And second coming back again on the liability side what could be the mix going forward or in other words on which funding mix, you will focus more on and how much increase in cost of fund, we expect in next 12 months or so?

Parag Sharma: Funding mix whatever is there for Shriram Transport that is equally distributed between deposit, offshore, bond, securitization, 20% each is what we will look at for the merge entity also. Borrowing cost as of now for the next quarter, I can definitely say, it will go up any where between 8-10 basis point. Going forward depends upon how much further rate increase is there. So, that kind of increase will be there. Banks have increased rate in line with or the capital market rates have also gone up in line with repo rate increase. We will have to only look at policy rate hikes and then factor in what would be the cost hike for us. It will be in line with whatever is available in the market but 8-10 basis point is what I can tell about the next quarter.

Moderator: Thank you. The next question is from the line of Chandra Shridhar from Fidelity Investments. Please go ahead.

Chandra Shridhar: In the last quarter, we used Rs.200 crores of our buffer provision, we have used about Rs.100 crores of our buffer provisions in this quarter towards write-offs. We still have 17,000 crores of buffer provisions and my understanding is that in the contracts for which we have made these provisions should be maturing before the year end given the tenure of your books. So, how are you thinking on what would eventually happen given sequentially the utilization also has come off.

Umesh Revankar: See these accounts will get matured over the next two years because typically average contract would be four years and over the two years. It will get adjusted. So, we have now last two quarters, we have seen the trend and we have Rs.17,000 crores. So, we expect may be another Rs.500-Rs.600 crores by this year end then may be rest will be next financial year.

Chandra Shridhar: Sorry, my understanding was some of this was created because of the moratorium interest period and my understanding earlier, you have always said that contract should mature by the end of FY 2023. So, you will take a decision on writing back after then it seems that you have a different thought process now.

Parag Sharma: All these contracts were pre-COVID and which were closed prior to March 2020 and for all these customers maximum of the customers we had extended the moratorium approved by the government and these cases typically will have a tenure of 3-4 years and majority of the cases will come to an end by the end of this financial year and something will be spilled over to the next financial year that is what he was trying to indicate.

Chandra Shridhar: So, you do not expect any write-back at all from this.

Parag Sharma: Write-back is very difficult because in our segment of customers that we cater to they come in for some wavers at the end of the contract and these six months during the COVID period they had all been impacted and we had assessed that thing and had created this provision and we believe that it will go out as a waver and not much should come back as a write-back into our books.

Chandra Shridhar: Couple of questions were, there is a stamp duty if I am not wrong about Rs.200-Rs.250 crores. I would presume that in this quarter that we should see that impact in the P&L number and second is that when the merger was announced there was about Rs. 68 crores as employee cost rationalization which had to be done across to instead of equalize various. I would presume provisions for that also would be taken in this third quarter.

S. Sunder : Stamp duty will not be as high as Rs.200 crores. We had initially anticipated that the maximum amount that was prevailing in Tamil Nadu was around Rs.200 crores but I believe there has been some relaxation as far as that is concern and the amount involved would be much lower than that and coming to the cost rationalization, we are still working on it and it will take next

2-3 quarters for that to really impact but we do not expect that to come in the next quarter immediately.

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

Amit Jain: Sir, in this quarter, the credit costs have come-off as compared to Q1. So, just wanted to know your outlook for FY 2023 how are you looking at credit cost. I believe they will be on a declining trend but just wanted to know your thoughts on that.

Umesh Revankar: Yes, we have given guidance of 2% as the credit costs for the full year. We should be close to that.

Amit Jain: Right sir and it terms of excess liquidity what is excess liquidity currently on the balance sheet, sir?

Parag Sharma: Around Rs.5000 crores is what we have excess with one large maturity this month itself, we should be able to utilize that. So, around Rs.5000-Rs.6000 crores is what is there excess.

Moderator: Thank you. The next question is from K C Bhuvana an individual investor. Please go ahead.

K C Bhuvana: I am shareholder as such you can expect my question easily. This question is to Mr. Umesh, last year in the September quarter meeting you had declared an interim dividend of 80%. This time there is no such declaration why is that?

Umesh Revankar: Yes, we will plan something in next two quarters. This quarter because of the merger we thought it is prudent to do it post the merger from the Shriram Finance that was the plan.

K C Bhuvana: That means we can expect any dividend only after the merger is completed, is that?

Umesh Revankar: Merger will be completed this month, that is November month. So, next two quarters you can expect.

Moderator: Thank you very much. Ladies and gentleman, as that was the last question for today. I would now like to hand the conference over to Mr. Umesh Revankar, Vice Chairman and Managing Director for closing comments.

Umesh Revankar: Thank you all for joining this call. Let me first wish you Happy Diwali and let us have this festival as the revival of Indian economy and being a leading economy in the world by growing the fastest and that should overwhelm for us and I expect next couple of quarters to be a much better quarter than this quarter as demand, collection, and customer business everything is looking very sound and good. Thank you, hope to see you all in the next quarter call. Thank you.

Moderator: Thank you. On behalf of Shriram Transport Finance that concludes this conference call. Thank you for joining us and you may now disconnect your lines.