"Shriram Transport Finance
Q4 and Full Year FY2022 Earnings Conference Call"

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Moderator: Good morning ladies and gentlemen welcome to the Shriram Transport Finance Q4 and for the full year FY2022 earnings conference call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes should you need assistance during the conference call we signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now have the conference over to Mr. Umesh Revankar, Vice Chairman and Managing Director. Thank you and over to you Sir!

Umesh Revankar: Thank you. Good morning friends. Good evening to those who have joined from western part of the world, a warm welcome to all of you who have joined this call. Hope all of you are healthy and safe. Today we have our JMDs, Joint Managing Directors, Mr. Sudarshan, Sridharan, Nilesh, Sunder, Parag along with me. We also have Mr. Sanjay who is our IR Head.

Let me first start with few economic indicators that impact our business directly on and indirectly. The first big positive is the budget of 2022 that focuses on infrastructure. With intention to provide blueprint to steer Indian economy for high economic growth and sustainable development and to encompass engines of economic transformation seamless multi-modal connectivity and logistic efficiency and also to achieve U.S. 5 trillion GDP. The budget 2022 recognizes infrastructure as key cornerstone. The budget has focused on high impact areas and given accelerating capital expenditure cycle by providing a sharp increase in capacity by 35.4% to Rs.7.5 lakhs Crores for 2022-2023, which is likely to strongly augment infrastructure spend and that it has a direct impact on the CV cycle and construction equipment demand; however, the elevated inflation trends remains a challenge for our growth ambitions.

Wholesale inflation averaged nearly 13% in 2021-2022 more than double rate of retail inflation. This happens to be highest annual number in three decades. The consumer price index inflation CPI jumped to 6.95% in March mainly on account of costlier food items as against 6.07% in February. It is for third month that retail inflation remained above RBI's comfort zone. The government hand has strengthened due to all-time high GST collection. The gross GST revenue collected in month of March is 1,42,095 Crores all-time high reaching earlier record of 140986 collected in the month of January 2022. The revenue for the month of March are 15% higher than the GST revenue in the same month last year. The average monthly cross GST collection for last quarter of FY2021-2022 has been 1.38 lakh Crores against average monthly of 1.10, 1.15 and 1.30 lakh crore in the first, second and third quarter. This reflects the economic recovery and direction of the growth.

The geopolitical issues the war in Europe has given opportunity for India on wheat export at highly remunerative returns much higher than the MSP and India being the only country at this part of time this with the bumper wheat crop India is positioned very comfortably in the exports and the high edible price also is highly remunerative for the local farmers. So majority of the workforce being in the agri and the farm sector this is quite a positive for the large population; however, the continuous high crude price and their domino effect is a challenge and has a direct impact on WPI and CPI number which I had indicated earlier. It also has impact on the balance of payment.

I would like to highlight a certain new amendments and circulars issued by RBI from January 1, 2022. I will highlight four of them; one is prudential norm for income recognition, asset classification and a provisioning pertaining to advances and classification regarding upgradation of loan account classified as NPA to standard asset only on full repayment of arrears of interest and principle. This is applicable as on September 30, but they also had given some leeway after that but we have already complied with everything every part of it.

Implementation of core financial services solution which is applicable as on September 30, 2024 we have already complied. Compliance function and role of CCO, Chief Compliance Officer there is one year time since the merger of Shriram Transport and Shriram City Union is in the progress we have enough bandwidth and we should be able to either internally or externally identify the right person and before 2023 we should be able to appoint.

The scale based regulation for NBFCs capital requirement of for NBFC of our upper layer tier one capital of at least 9% the risk weighted asset we are already complied so most of the initiative of RBI has been complied with.

Now coming to the auto industry in spite of a chip shortage that has impacted passenger production and sale for the entire year the commercial vehicles have been doing very well. Their sales have increased by 18.75% to 2,49,806 units in Q4 2022 against 2,10,356 units in Q4 2021 and increase by 28.3% compared to 1,94,712 units sold in Q3 2022.For the full year it registered 26% percent growth to 7,16,566 compared to 5,68,559 units sold in 2021.

The heavy and medium commercial showed a positive growth of 16.69% with 93,947 units sale in Q4 against 80,534 units sold in same period previous year, a positive growth of 46.92% as compared to 63,964 units sold in Q3 2021-2022. For the full year it registered a growth of 49.72% to 2,40,577 units compared to 1,60,688 units sold in 2021.

The LCV numbers also showed a growth of 20.04% to 1,55,832 units as compared to 1,29,822 units sold in Q4 2021 and a growth of 19.18% as compared to 1,30,748 units sold in Q3 2021-2022 and for the full year growth of 16.7% percent to 4,75,989 units compared to 4,70,871 units.

Used vehicle demand has been pretty high and on an average the resale prices have gone up by 20%. On the LCV the resale prices are as high as 30%, 35% on heavy it is anywhere between 15% and 20%.

Now coming to the fourth quarter and full year performance the collections have been very good. For the Q1, Q2, Q3 and Q4 the collections have improved over the period from 91.04% in the first quarter, 99.03% in the second, 101.17% in the third and 104.28% in the fourth quarter.

We clocked a disbursement growth of 13.42% to 16,982.40 Crores against 14,973.07 the same period previous year and increased by 9.64% as compared to 15,488.96 Crores in Q3, 2021-2022.

The asset under management grew by 8.36% to 1,27,040.86 Crores as compared to 1,17,242.83 Crores in the previous year and increased by 1.96% as compared to 1,24,601.77 Crores in Q3 2021-2022.

The net interest income increased by 22.16% to 2,627.82 Crores as against 2,151.12 Crores in the same period previous year and increased by 10.04% as compared to 2,387.97 Crores in Q3 2021-2022 and for the full year the net interest income increased by 14.07% to 9,316.06 Crores as compared to 8,167.10 Crores in 2020-2021.

The net interest margin was 6.96% against 6.80% in the same period of previous year and 6.65% of Q3 of 2021-2022 and for the full year 6.62% as compared to 6.7% in the previous year.

The profit after tax increased by 43.87% to 1086.13 Crores in Q4 2022 compared to 754.93 Crores in Q4 a previous year and increased by 59.58% as compared to 680.62 Crores in Q3 2022.The EPS stood at 101.74 against 100.97 in the previous year.

The gross stage 3 declined by 133 basis point and net stage 3 declined by 69 basis point over Q3 2022 and hence the gross stage 3 stood at 7.07 compared to 7.06 in the previous year and 8.40 in Q3 2022. The net stage 3 stood at 3.67 compared to 4.22 of previous year and 4.36 in Q3 2022. If you recollect there was the 80 basis point increase in gross stage 3 and

47 basis point increase in net stage 3 due to revised process of NPL classification based on RBI circular of November 12, 2021 and even though RBI has given time we have decided to continue with as per the RBI circular.

The credit cost for the current quarter stood at 2.03% and for the full year it stands at 2.68% against 2.48% in the full year 2021.

Our liquidity position now stands at 17,709 Crores against 17,319 Crores in the previous quarter. The board has suggested us to continue with higher liquidity due to geopolitical issues and also some concerns on rise of COVID cases in certain pockets.

The cost to income ratio was 20% in this quarter and for the full year it stood at 19.89% as against 21.20% recorded in the same period previous year, improving further on our principle of frugal management.

We have added 20 new branches mostly conversion of rural center into branches during this quarter which now stands at 1,854 numbers and in terms of employee strength we continue to add more numbers, more employees through business associate method so that we can onboard new employees by fresh training.

The significant increase in economic activity post easing of lockdown by state government due to COVID-19 and resulted improvement in business operation of the company as a matter of prudence during the quarter company has written off loans outstanding amount to 799.92 Crores by utilizing the ECL provision created as management overlay on account of COVID 19. The ECL provision of 2,052 Crores is retained by the company as on March 31, 2022 towards further management overlay on account of COVID.

The progress on merger the company has received approval from BSE and NSE under regulation 37 of SEBI LODR conveying there in principle approval to the scheme. As per the direction of stock exchange, the company has posted all necessary document and information pertaining to the scheme on website of the company. The company has filed a company application seeking direction from the NCLT Chennai for convening meeting of shareholders, secured creditors and unsecured creditors. We are waiting for listing of our application and for hearing by NCLT.

Necessary company petition will be filed after resolutions are passed in shareholders and creditors meeting for the approval of the scheme. The process of getting necessary regulatory approval is underway. All matters, activities in connection with regulatory approval are progressing as per the schedule. The scheme is effective upon approval of

Honorable National Company Law Tribunal, Chennai after obtaining necessary regulatory and statutory approval.

We have made a significant progress on merger front. We have started integrating our systems and processes. The HR integration on back office and operations have already started. The JMD's who are geographical unit heads are all set to take their responsibilities.

On the growth outlook we have we have targeted 15% growth for the combined entity and on standalone basis on the commercial vehicle lending, it would be 12%. Now I request our CFO Parag Sharma to take the call and subsequently Sundar also will join with some accounting numbers. Thank you.

Parag Sharma: Hello everyone. The liabilities total liabilities as of March 2022, is 1,14,497 Crores. The composition has slightly changed compared to last year. We have been able to increase our deposit portfolio from 16,000 to 21,000 Crores now, which has increased from 14.76% to 19.14% now.

Share of bank loans has also gone up from 16% to close to 20%, and 19.6% now. What is heartening is the cost has come down on the entire liabilities the cost is now around 8.14% down by around 83 basis point compared to last year and quarter-on-quarter also cost has come down by around 31 basis points.

Composition we have been indicating will be 20% of liabilities from each source. We are close to 20% from each source or other than the debt capital market which is at around 23%. The foreign borrowing which is ECB loans and bonds is also close to around 20% and that was the case last year around also.

The fund mobilization for the quarter has been good and the incremental cost of fund is down by around 20 basis points. The total funds mobilized in Q4 is close to around 15,000 Crores including an ECB which we did in January to the extent of 3,500 Crores.

We have mentioned about our liquidity at 17,000 Crores, which is good enough to repay all liabilities for next six months. We have guided that we will bring down the liquidity over a period of time. We will look at Q1 onwards to bring it down slowly. We have a dollar bond maturity in October which is a substantial amount will build up buffers for that and not dilute our liquidity buffer substantially. It will come down by in prudential six months maybe come down to five months and then four months but will maintain slightly higher liquidity.

On the ALM front all buckets have been positive as in past and the cumulative surplus up to one year will be a 20,000 Crores and up to three years will be around 26,000 Crores. High quality liquid assets is 148.7% against the regulatory requirement of 60% that we have been maintaining right from the time the requirement of HQLA came in. It has been always more than 100%.

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

Subramanian Sunder: On the one-time restructuring the company had implemented resolution plans both OTR1 and OTR2 to release the COVID related stress to 39,210 borrowers amounting to 1,152 Crores out of which the current outstanding is 852 Crores and 1.67% of the cases are greater than 90-day.

On the ECL front the PD for the stage 1 is 7.34% as against 7.33% in December quarter and for stage 2 it was 21.72% as against 21.75% in the previous quarter. The LGD was 44.68% as against 45% in December quarter. We are carrying an excess provision over the IRAC requirements by 6,499 Crores and the capital adequacy was strong at 22.97% percent out of which tier 1 was 20.70% and no other further update from my side. Thank you.

Umesh Revankar: We are open to question and answer now.

Moderator: Thank you. Ladies and gentlemen we will now being the question and answer session. The first question is from the line of Rikin Shah from Credit Suisse. Please go ahead.

Rikin Shah: Thank you for the opportunity. I have four questions. The first one is on disbursements. Of course they have been very strong in the last few quarters but we note that the share of new vehicles in the overall loan mix has now almost halved to five percent from ten percent two years ago so just wanted to get your insights into as to when do you see the demand for new vehicles recovering and if at all the replacement demand could show up in FY2023 and the second question is on the margins given that your news paper issuances are still happening around that 7.5% for three year tenure do you still expect the incremental funding cost or overall funding cost to kind of move down? Thirdly the tax rate seems to have been low around 20% percent in this quarter any specific reason for that? Lastly fourth what is the total outstanding amount of ECLGS disbursements that we have made so far? That is all from my side.

Umesh Revankar: To start with on the new vehicle see we had virtually slowed down on lending new vehicle for last three years, when the economic indicators indicated that the market is going to slow down, we had tightened our norms on the new vehicle because in the weaker economic

condition repayment on the new vehicle which is high ticket size becomes challenging and because we had slowed down for last three years the overall AUM of new vehicle has come down but if you look at last quarter's disbursement we have disbursed more than 800 Crores for new vehicle which is much higher compared to the previous year of around 600 Crores in the same quarter. So now onwards I feel the new vehicle lending will go up or be part of our lending the demand for new vehicle also picking up and typically small operators they buy new vehicle only when the economic indicators are very good and the used vehicle price go much beyond their comfort so that is how the smaller operators get into new vehicle otherwise typically large street operators buy new vehicle and keep cycling so our new vehicle lending will definitely increase of year-on-year.

Subramanian Sunder: On the taxation front, we had a reversal of around 82 Crores on account of early year's provisions which was no longer required and that gave a benefit for a lower tax in the current quarter. As far as the ECLGS loans are concerned okay we do not have the figure right now, you can contact Mr. Sanjay he will help you out with the figures.

Umesh Revankar: On the cost of fund what you are saying is right the debt capital market instruments costs can come down but that component of what incremental funds we are raising is not very significant. We raised only 2000 Crores in Q4 versus overall borrowing of 15000, large mobilization through bank loans, securitization and retail deposit so that does not have a significant cost implication even if it comes down we will be looking at whether we can bring down costs from other sources also, may not have very significant impact but yes there will be some cost reduction which can happen.

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

Vivek Ramakrishnan: Good morning. Congratulations on a good performance. My first question is to Umesh and that is from the new CV sales. From what we understood the economic indicators were weak and therefore this new CV truck operators could not meet their EMI commitments and so on and so there was a lot of lull so what do you feel is changing on the ground that gives you hope that the operating efficiency will be high going forward and how is the current operating efficiency and ability to pass on fuel price to hikes so that is the question for Umesh. Other question is for Parag. Congratulations this good shift to FD. How do you price your FDs? Is it off of a benchmark in terms of a SBI rate or something like that or do you do it as a demand supply where you kind of attract customers with higher rates and then work on stickiness? Thank you.

Umesh Revankar: As far as the new vehicle is concerned we have witnessed some demand coming back on the new vehicle mainly because see what happens is the vehicle sales are in a cycle. If you go back to the last 20 years you would have seen that the new vehicle sales come down to a level and as the economy improves or as the availability of these commercial vehicle reduces in the market then automatically the freight rate goes up see this happened in 2012 where the 2010 to 2012 when the new vehicle sales went up significantly in the these two years to three years then again from 2015 to 2017 it went up so it comes in a cycle so now I feel the cycle we have started and the new vehicle sales has to go up because last four years the number of vehicles sold has come down and since Indian economies keep growing you need certain number of vehicle every time when there is growth. So in that my estimation is the new cycle has already started but because of the other economic issues or reasons it is not picked up and as a rightly put out put up the fuel cost or the fuel price that has an impact on the new vehicle buying because unless people are confident of passing on to consumer nobody will buy a new vehicle so right now I believe the ability to pass on is there and whatever the increase you have seen in the last two months almost everything is passed on to the end consumer or the shipper is bearing it. None of them have put pressure on the transport operator as of now. So I feel that in the recovery stage normally it gets passed on to the end consumers and therefore the inflation goes up. If the food price is up today it is mainly because transportation cost is high not actually because the food cost at the farm or at the production is high. So it is absorbed by the end consumer. So I feel the new vehicle cycle has already started and because of some reason like geopolitical issues and crude price, it is getting little delayed, but our next three years the new vehicle sales should only go up from here. The next question Parag!

Parag Sharma: Pricing what you are saying is rate will be a benchmark to not strictly to the bank rates because bank rates have gone up and we have actually reduced our FD rates last year and not subsequently increased it will also factor in the peer group pricing and then we will take a call. As of now what we have done differently is activate the branch network for deposit mobilization. I think more to do with our connect with the customers and then we are able to increase our portfolio. So I think over last one year the cost has come down the portfolio cost has come down from by around 50 basis point and we do expect some cost reduction further in deposits also.

Vivek Ramakrishnan: Amazing. Congratulations and all the best. That is all from my side. Thank you.

Moderator: Thank you. The next question is in the line of Abhiram Iyer from Deutsche CIB Centre Private Limited. Please go ahead.

Abhiram Iyer: Congratulations a good set of results. I just wanted to sort of ask regarding you know the cash flow for this quarter. From what I can see the cash has gone down by around 18 billion that has increased by around 18 billion and that seems to sort of cover up the increase in AUM and the increase in investments so just wanted to know regarding the operating income that the company has received is there any non-cash component here that we are missing?

Parag Sharma: We will take this question offline because it can involve certain reconciliation so you can contact Mr. Sanjay. He will help you out in resolving this.

Abhiram Iyer: Got it sir and the second thing that I wanted to ask was are the sort of securitized assets that is basically the company has been doing pertaining to the AUM has gone down by around 18% year on year is this because there is less appetite among the banks for securitization right now or is this a direct company policy to sort of increase their own balance sheet assets?

Umesh Revankar: Securitization also according to the new accounting standards continues, securitized assets also continue to be on balance sheet on AUM on balance sheet, the assets do count. Appetite wise I do not think there is any dearth of lenders interest in this instrument, we have been conscious of the fact that it should not be a substantial source of funding to us it should be at around 20% and not beyond that though we do get cost benefit here because of priority sector tag to the portfolio. There has been also RBI on lending for priority sector benefit which is available to banks and banks have resorted to on lending on balance sheet rather than doing securitization. I do not think there is a demand which is an issue it is more to do with our policy of not reaching a particular level of reliance on one particular source.

Abhiram Iyer: Thank you.

Moderator: Thank you. The next question is from the line of from Shubhranshu Mishra from Systematix. Please go ahead.

Shubhranshu Mishra: Good morning. Thank you for the opportunity. Sir couple of questions on the disbursement and used vehicle so if we can please put out the number for the number of loans that we have disbursed in this quarter? What I am trying to get at is was the total population of commercial vehicles and how much we do on a monthly run rate basis or a quarterly run rate basis in terms of number of loans that we disburse. That is first. Second is on the used vehicle we have been speaking about the prices going up any specific used cases and used vehicles where the prices have been going up or any variation where the prices have gone

up by a bigger number than 20%. If you can give more color on the used vehicle demand across used cases? Thanks.

Umesh Revankar: See used vehicle prices if you look at some of the vehicles where the recent prices have gone up significantly are in the SCVs, the small commercial vehicle. The small commercial vehicle even the new vehicle prices have gone up by 35% over the last two years. One is because of the change in the BS-6 norms and second is because of the steel price so the vehicles like those or the Ace that kind of a vehicle the prices have gone up steeply and the used vehicle price also gone up steeply to around 30% there and even in the ICV vehicles which is around 9 ton, 8 ton to 9 ton vehicles whether it is Eicher or TATA or the even Leyland and even Bharat Benz there also prices have gone up by 25% to 30% in new and also in the used so these are the vehicle where the resale prices are high. The total population of vehicles in India is around 1 Crores 10 lakh. You can get from the SIAM state wise detail on the registered number of registered vehicle across the country and that will give you the indication on total used vehicle population in India, in commercial vehicle, but if you look at the passenger vehicle, passenger vehicle will be much, much larger. It will be at least three to four times larger than the commercial vehicle and within the passenger vehicle at least one-third of the passenger vehicle will be used for transportation purpose. So that again number we need to capture and in the tractor total tractors that has been registered is around the 75 lakhs 70 lakhs to 75 lakhs across the country. So that gives you the total population of the used vehicle in India apart from that you also have construction equipment, some are registered, some are not registered the construction equipment, which are typically having wheels are registered but construction equipment without wheels are not registered so you may not get data through the registration authority so that is the total size of the used vehicle and number of vehicle financed by us I will ask Sanjay to read that with you. Sanjay will give you the number.

Shubhranshu Mishra: Thank you so much.

Moderator: Thank you. The next question is in the line of Akshay Ashok from Prabhudas Lilladher. Please go ahead.

Akshay Ashok: Sir congratulations on a strong set of numbers. Sir I just had a few questions. Sir what is your strategy regarding this business loans, working capital loans and then what is your strategy regarding branch openings. Will there be a branch expansion now that the economy is doing well and you know when the sales are doing well and what is your strategy regarding colending are you planning to enter into colending agreements with any of your

banks to increase your book at a quite a fast pace and even you know raising funds will become easier due to colending? So that is it.

Umesh Revankar: As far as our branch opening strategy is normally what happens is we have over the last 10 years invested on opening of rural centers which are no cost branches where the rents are very low in the rural area and over 10 years these rural centers have been converted into branches so we are not directly opening any branches now so whatever the rural center areas where we cross at least 400 or 500 numbers of customers then we open a branch because for servicing them we need to have a full-fledged branch once we cross a particular number base that is the strategy. We have so we have another 775 rural centers so you can say that these all these are potential branches but since the merger is already announced and we also would like look at the Shriram City Union branches and depending upon the Shriram City Union branches location and the potential growth of scope for putting the businesses together we may not open too many new branches. Right now whatever we have opened is the role of center conversion. So all India there are around a 9000 potential location as per our calculation for doing business but we need not open in all the places as we are also strengthening our digital play. Some of the business will come through digital mode. The other question is origination. Co-origination see we have been we have done co-origination in the past. It is not that we are not done but when the co-origination policy came from RBI before policy came we had tied up with a few banks but when the policy came they did not allow the deposit taking NBFC for co-origination, which in the last year they have now allowed even the deposit taking NBFC. So this interim period we have not signed up with any bank but we are talking to bank and wherever there is a scope and opportunity where both it helps banks and us we are open to for co-origination particularly for new vehicles and most of our new vehicles.

Akshay Ashok: Thank you so much. Thank you.

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

Abhijit Tibrewal: Sir good morning. Thank you for taking my question and congratulations on a good set of numbers. Sir two or three questions; firstly I mean if I look at the spreads rather the exit spreads that you have reported in 4Q they are probably I would say the highest in the last decade so I mean just wanted to understand are there any one-offs in the interest income item potentially from write backs of interest income given that we have seen a very strong improvement in asset quality so that is my first question and what are the sustainable spreads and margins that you are looking for in the next financial year? The second question

is congratulations on a very strong improvement in asset quality but if I do that back of the envelope calculation assuming that P&L credit costs are a combination of your provisions and write-offs the write-off number looks slightly elevated so if you can share what was the quantum of write-offs during the quarter and were there any loans which were sold to ARCs during the quarter? Lastly given that fuel prices are up about 10% we are just kind of trying to understand what impact would it have on the collections and demand going ahead? So if you could just kind of share your thoughts on these three questions. Thank you.

Parag Sharma: On the interest income there has been some write backs on account of the NPAs coming down from 8.4% to 7.07% so that is around 106 Crores. So if you exclude that from incremental income of 244 Crores the difference is the actual growth in income in the current quarter. As regards the write offs we wrote off 1470 Crores and we got a credit of 709 Crores from the provision. The net write off during the quarter was 761 Crores so that was the impact on the P&L. The last question Sir you will take it for fuel prices and guidance on margins.

Umesh Revankar: Fuel price going up as long as we are able to pass on to the customer, the truckers are very comfortable so I do not think at any point of time because when you transport any perishable automatically it gets passed on to the end consumer or day-to-day essentials only when the industrial goods transportation is there then there is a long contract and most of the contract obligation also has the fuel cost as one of the what you call parameters for fixing the freight rates because most of the contracts today are including the fuel price level for a particular level of contractual obligation. So I think it has no impact on the transporters per se but only thing is the sale of new vehicle will come down whenever there is the viability issue for the transportation and the demand for the existing vehicle automatically go up and people have to pay the price of for the transportation so I do not think existing operators will have any kind of a challenge as far as the operating it profitably.

Abhijit Tibrewal: Thank you Sir. If I can squeeze in, just one last follow-up question, I mean I understand I mean contractual obligations will be more pertinent for some of the larger fleet operators but the customer segment or the clientele that you have which is the owner driver kind of a segment will they also be able to pass on the higher fuel cost to the customers. That is one answer. I mean lastly I think in your opening remarks you have suggested that you are looking at 15% growth for the combined merged entity and 12% for the CV business so I mean just kind of trying to understand does these projections also include i mean some of the newer product segments that you are kind of looking to enter in FY2023?

Umesh Revankar: See we are not planning to enter into any new product segment in this financial year as a combined entity or on a standalone basis. The increase of 12% is a factor in the increase in the unit price that is vehicle price and equipment prices that has gone up by 25%-30% to a replacement whenever a person buys a new vehicle or a used vehicle as a replacement of existing vehicle, he has to buy a product which is around 25% to 30% more costly. So our ticket price automatically goes up to that extent so in the 12% increase nearly 50% is the cost the ticket size that is going up that helps and adding of new customers will be a 5%, 6% only. So overall 12% can be easily reached and as far as the individual small operator is concerned normally what happens the way a transportation segment operates is the large fleet operators have around 20% of the vehicle of the total requirement, they have only 20%, the 80% is the market vehicle that being provided by either agent or broker or individuals they come in. Now this 80% of the people have an option of plying the vehicle on that particular rate offered by the transporter or not. If they feel it is not a remunerative they will not ply the vehicle because not plying the vehicle they save on the operating cost at least. So automatically what happens when the 80% of the vehicles are supplied the transporters have to give a viable or the remunerative price to the truckers even if the 5% of the truckers refuse to transport automatically there is a pressure on the transporter to increase the price. So the individuals are having the option of not plying. That is the biggest strength for them and automatically they get a remunerative price. It is not that they are at a weak wicket all the time.

Abhijit Tibrewal: Thank you so much, Sir. This is very, very useful. Wish you and your team the very best. Thank you.

Moderator: Thank you. The next question is in the lion of Sanket Chheda from BNK Securities. Please go ahead.

Sanket Chheda: My question was on liquidity. We might have mentioned that we will continue with this liquidity levels because early as we have guided that it will come down in Q3, Q4 with the growth coming in and collection efficiency also improving so why have we not reduced the liquidity buffer and maybe why are we saying that we would continue with this level?

Umesh Revankar: I think Parag has already answered it but I would like to repeat it see for the one quarter this quarter the board has adjusted because of the geopolitical tension to have liquidity for at least one quarter now post that there are some large maturity which we would be paying and automatically the liquidity would be coming down from six months to maybe five months and subsequently to four months so that is what we anticipate and we feel that being very

conservative and transition to be smooth from a six months the maturity security to around three months which has been the practice earlier.

Sanket Chheda: On write off policy now this quarter we have utilized 800 Crores and the COVID pool stands at about 2000 Crores so do we expect any accelerated write-offs in the coming quarters also or now you are comfortable with the stage 3 that we build right now, the levels at which it is right now?

Umesh Revankar: There could be write off and write back both in this year because over one year we would like to see how this portfolio which has been impacted by the COVID will behave because the portfolio that had impacted negatively in the COVID was mostly the passenger transportation, passenger transportation was badly hit and we have identified that and we have taken action in this quarter but this full year will be available for us to look into this segment much more keenly and observe and then we will take action accordingly so there is option for both write off and write back both.

Sanket Chheda: Lastly on growth our disbursement in seasonally strong Q3, Q4 has improved but not that meaningfully as we have been witnessing earlier second half, so now heading into the first half of FY2023 which is usually seasonally weak first half, but since we are just coming out of crisis do we expect a similar momentum of say Q3 Q4 continuing in the next few quarters as well?

Umesh Revankar: Normally first half and second half is a 40-60 that is how it plays out because the cycle the Indian economic cycle is like that. In second half during the festive period then you have the summer crop coming then you have the winter crop coming in the second half that creates a lot of activity and a lot of demand and consumption goes up and demand there is a more credit demand. In the first half normally you have some uncertainty due to the monsoon and due to heavy monsoon in certain location, activity comes down even the government spend also comes down in the first half of the year. The government spend normally begins from August and picks up in the second half. These are all the reason the second half is always stronger than the first half, but whether this first half will be much stronger I feel still the crude price is going to be creating some doubt in people's mind so nobody will rush to buy new vehicle at least for now when every alternative days the fuel price is going up so unless people see the stability people who would not buy a new vehicle. So we do not know whether the fuel price will stop at this level or it keep increasing and if it keeps increasing whether the consumption level is the same there is some uncertainty so the new vehicle demand will be suppressed in the first at least until the fuel price keeps going up.

Sanket Chheda: I understand that and in new vehicles anyways we were not being disbursing and my question was largely subjective to us that in this second half we have not been so strong on growth 2.2% in last quarter and 2% in this quarter so I was asking rather that this level of disbursement should continue in first and second quarter also or maybe it could dip from here on since the seasonally weak first half will be there?

Umesh Revankar: If you compare Q4 to Q1 this year definitely it will be lesser.

Sanket Chheda: Thanks.

Moderator: Thank you. The next question is on the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Good morning Sir. Congrats on the quarter. Just a couple of pending questions; firstly out of the 1500 Crores write off this quarter how much was for NPL assets versus the standard asset?

Parag Sharma: Out of the 10470 Crores write off the NPL assets were 1216 Crores.

Piran Engineer: Secondly out of our 21 lakh customers how many ballpark would have been new to Shriram versus say existing to Shriram, a ballpark mix and has that mix also changed in the last two three years?

Umesh Revankar: Typically if you look at the customer the new to Shriram would be around 35% and 65% of them would be repeat customer who will be coming back after completing their existing loan and our customers may even come back after two years after completing the loan that also keeps happening, we have a strong customer relationship so the customer will come back at any point of time so in the used vehicle market Shriram is the most popular name so anyone want to buy or finance a new vehicle they will always think of Shriram first so that is how we have large customer base who keeps coming back, so around 30% of the customer will be new to the business and first time buyer or first time to Shriram.

Piran Engineer: Has that ratio change Sir in the last two three years?

Umesh Revankar: No it would not. It has not the change significantly.

Piran Engineer: Just another broad industry question out of there are 80 lakhs 85 lakh CVs in India as per my guess typically how many get scrapped basically how many get off the roads?

Umesh Revankar: Our thumb rule I can say is more than 20 years old vehicle typically get scrapped and it could be around 3% of the vehicle population that gets scrapped in a year because even I am looking at the SIAM data, the SIAM data when you look at the vehicles that gets scrapped and that details are not there in the RTOs so I can only talk about thumb rule, I cannot come out the proper statistics or data but the SIAM can help if at all they have data.

Piran Engineer: Okay and that 80 lakh 85 lakh is ballpark correct right?

Umesh Revankar: One Crores 10 lakhs is the vehicle population, which are running, which are at least paying tax.

Piran Engineer: That is great. That is all from mine. Thank you.

Moderator: Thank you. Thank you. The next question is the line of Krishnendu Saha from Quantum AMC. Please go ahead.

Krishnendu Saha: Couple of things to understand, the LGD is going up from 39% to 40%, 45% now 44% so I know we provide on a big basis but how do we see that going ahead, if you could throw some light on it and our next question is on the yields just to understand the yields and spreads, a little bit better you said the AUM would grow by 12%, the rural AUM is already going by 12%, it is only 50% plus of the books the last four quarters which is a better yielding book, working capital loan and others have not kicked in to the to the higher levels before so how do we see the yield of the assets going ahead and with that how does the liability profile look at because with the rising interest rate so how do we see the liability profile going, if you could throw some light on these things a little bit? Thank you.

Umesh Revankar: As far as the yield is concerned, we focus on our net interest margin around 7% and sometimes if the borrowing cost comes down, we pass on some benefit to the customer also, because if at all we feel that certain kind of customers need to be given a little concessional rate, it will be on net interest margins not exactly on yield and you are right in the rural segment, you get as higher yield, there is a better opportunity for us to lend at a higher rate. As rural expands we do use that opportunity, but as I was telling you the focus will be more on net interest margin, so some benefit even in the rural area will be passed on to the customers.

Krishnendu Saha: Great, that means in the sense that we spend 7.5% of NIMS could be maintained on steady basis for next one, one and a half year, two years?

Umesh Revankar: You are right.

Parag Sharma: On LGD front we are currently maintaining 44.65% and the pre-COVID levels was less than 35%, so we hope that maybe in the couple of years that we will come back to the normalcy once this COVID is behind us. So, one off they remove then we should come back to 35% levels.

Krishnendu Saha: 35% and sorry Sir, if I might ask you what was incremental cost of borrowing?

Umesh Revankar: The incremental cost of borrowing is around 7.5%.

Krishnendu Saha: And I suppose of the book is fixed, right?

Umesh Revankar: Yes, 50% of the borrowing book.

Krishnendu Saha: Thanks.

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

Nischint Chawathe: Good morning. Two questions, one is on the liquidity front given that new RBI norms getting implemented in phases. How much would we really have to run down that execute little on balance sheet?

Subramanian Sunder: Since your HQLA requirement there are certain categories of liquidity we are maintaining which is not counted for HQLA, be it bank deposit, be it CBLO investment which are not counted for HQLA. But I do not think that bringing down liquidity will have any impact on our HQLA need to maintain higher liquidity. They have sufficient scope and any which ways what we are maintaining also is sufficiently high, 148% versus requirements which will go up to 100%. I do not think there is any direct linkage there. We can bring it down if you look at the absolute number, we are at Rs.17000 Crores odd can come down to around Rs.10,000 Crores or maybe slightly less than that, so that has been our policy even in past to maintain three month of a liability repayment that works out to close to around Rs.8500 Crores to Rs.9000 Crores range should be the liquidity and that will still need the accelerator requirement as per RBI.

Nischint Chawathe: New increments of gross repayment, right?

Umesh Revankar: Yes, this Rs.8500 Crores is gross repayment.

Nischint Chawathe: The other one was growth guidance where you mentioned that you are looking at a 12% annual growth next year which includes half of it as price inflation and probably half of it is new customer addition. I mean are we kind of saying that if product inflation is not high probably in 2024–2025 then your growth should be somewhere in 6%, 7%, 8%?

Umesh Revankar: The product inflation is already in place, because all the vehicle prices have gone up by 20%-25%, I am talking about replacement. A customer who is replacing in next one year, he is going to replace a vehicle which is 25% costlier. So, automatically that we have factored in, it is not year-on-year increase, the vehicle prices are already increased, so automatically you get that 5%, 6% growth automatically when the customer buys a replacement vehicle.

Nischint Chawathe: But the thing is that it may not go up 25% next year, right? I mean it should not go up again 25% in FY2024?

Umesh Revankar: Please understand, a customer would have purchased a vehicle four years back and now he has completed the loan and he is buying another vehicle. Four years back the price was low and he is replacing a vehicle which is 30% more. I am saying that the product price is already up whenever a person buys a vehicle he has to buy a vehicle which is 30% or 20% higher. So, the next one-year whatever vehicle we finance will be expensive by 20%-30%, so automatically you get 5% to 6% increase.

Nischint Chawathe: And this your same should be like an annual phenomenon of 20% higher, right?

Umesh Revankar: It would be for another one year only. It may not be a permanent.

Nischint Chawathe: That is my point is that what happens after that?

Umesh Revankar: After that we need to create more reach. The scope is very high. We are less than 30% in used vehicle market, 70% of the market is open and out of this 70%, 20% is by organized sector like other NBFCs and bank who are in used vehicle, but nearly 50% of the market is by unorganized players and that is the market we keep adding in every time.

Nischint Chawathe: Because you mentioned that the new customer acquisition is around 5% to 6% next year, so primarily what you are saying is that it can accelerate the year following?

Umesh Revankar: Yes, it will accelerate because of the merger we will have more reach; we have a larger number of employees and because the synergy benefit, we would be able to expand and growth rate can be much higher.

Nischint Chawathe: Sure, and finally if you could give some update on the merger in terms of operationally how things are playing out right now, how are your plans in terms of exploiting the working some development versus when we spoke last?

Umesh Revankar: There is a good progress. The pilot branches already started operating then the product introduction will happen in the next stage that should happen in a month or two times. As far as the leadership is concerned, the leadership is already looking into geographical units we have made a five geographical units and the geographical head, the JMD's already are looking into their respective geography and they will take care of the further product introduction and the growth of the business and the synergy everything will be looked at by them. I feel it is in the right progress operationally. In the back office and HR integration it is almost done, so we exactly know what we need to do in the HR and as far as the technology integration is concerned even though we need to keep this platform separately till the legal merger for all other preparation is we are fully ready.

Nischint Chawathe: Sure, thank you.

Moderator: Thank you. The next question is from the line of Oon Jin Chng from HPS Investment Partners. Please go ahead.

Oon Jin Chng: Hello everyone. Thank you for the call. I just have couple of followup questions. Just on replacement you mentioned, I just wanted get your sense what is the average vehicle in your portfolio right do you have a sense as well what is the rate of replacement in the current portfolio? That is my first question.

Umesh Revankar: When I say replacement, the customers keep either adding a greater number of vehicle or they replace existing vehicle, once the loan is completed. It all depends upon the economic activity and sometimes it also depends upon the new vehicle sale because higher the new vehicle sale higher churning will be there in the used vehicle and also these new vehicles will come into the used market. The churning in the higher economic growth scenario, the churning can be as fast as every two years or three years or when economy goes slow the churning can come down and it can be every three years or four years or even five years. Now, in the last three four years if you look at the new vehicle the new vehicle many of the people are holding on to the new vehicle up to five to six years, earlier they would hold a vehicle till only three to four years. So, all this is depending upon the economic recovery and demand for the movement of the goods in the economy, I cannot give a ballpark number but it keeps changing depending upon the economic growth of the country.

Oon Jin Chng: Understood, and do you have the sense, do you collect this data, in your sense, what is this fleet utilization and its movement for your customers are operators, is there a data, that shows what is the utilization right now?

Umesh Revankar: Utilization levels are very high now. In fact there is a shortage of vehicles for some of the segments because as I understand people say it is because of the heat wave I am not very sure, there is a shortage of vehicles and there is a big demand and in many places, vehicles are not available. So, fleet utilization levels are at a peak now even some of the industry bodies have asked me whether I can supply vehicle, I said I am only lender. I am not supplier of vehicle, but there are some aggregators which are coming in who are trying to find a way to smooth supply of vehicle throughout the year, but most of these aggregators are local, not all India level. I feel right now the utilization levels are very high and there is a shortage of vehicle in certain pockets, it could be due to high seasonal demand because of the fruits especially mango and other fruits normally is in the high demand now throughout the country and also the high wheat movement in entire Northern belt and Central belt the wheat movement is in the peak now because of that right now utilization levels are very high.

Oon Jin Chng: Got it, and I suppose that also lends into the argument at the operators are able to pass on the increase in input cost for example, fuel?

Umesh Revankar: Yes. They are easily able to pass it on now.

Oon Jin Chng: Can I check as was just to confirm you mentioned that an increase in vehicle value prices the used vehicles up to 25% to 30% the LTV of the loan has come down below 70% is that right, did I hear that right?

Umesh Revankar: LTV has been below 70% right from the beginning, beginning means, last three years we have tightened the norms and not because of the increase in value of the vehicle. The LTV has been curtailed at less than 70% for last three years and that is continuing even where the vehicle prices have gone up LTV is maintained at same level but not decreased further due to the increase in value of the vehicle.

Oon Jin Chng: Understood, my last question is on refinancing you mentioned that you have the US Dollar bond coming to you and this year which I see is October 2022, US $750 million. What is your refinancing plan on this?

Umesh Revankar: We will look at all opportunities, domestic market liquidity is good. We are carrying liquidity buffers, we indicated earlier. We will be able to easily meet it, no issues regarding

domestic borrowing and reaping this maturity. In case markets are okay, if there is opportunity to borrow offshore, we will look at that point of time but as of now domestic liquidity is good enough and we have sufficient surplus liquidity where we can easily manage the liability, not an issue at all.

Oon Jin Chng: Got it. Thank you very much. That is all from me. Congratulations again on the good quarter.

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

Param Subramanian: Thank you for the opportunity. Most of my questions have been answered just two from my side. Firstly, on the opex, if I look at the opex it has been rather flattish for the last two years and disbursements and collections have come back for the company. What is the reason for this considering we already operate a leaner cost to income than most year? That is my first question on opex and secondly on AUM growth if I look at the headline AUM growth number because that still you know hovering around that 8% mark and you have already highlighted how utilization that is very high demand is, high vehicle are doing well so you know any reason why this headline AUM growth you know at the really good sort of level and why you are guiding for still only 12% growth for the next year? That is it from me. Thanks.

Umesh Revankar: First of all, we are indicating a 12% growth because of the certain uncertainties which is still continuing because of the geopolitical issues and we do not know how long the crude price will remain at present level and whether it will go up further, we are little circumspect on that aspect. So, 12% is something which we feel comfortable growth for us and normally we do not expand business overnight because we recruit trained people and then expand business. We do not laterally recruit and expand business, so that is one reason. As far as the opex is concerned, we have managed it well for last two-three years trying to be as frugal as possible. But we always give guidance of 22%-23% on the opex because as business grows then definitely there will some other expenses including the cost of acquisition of new technology, new platform all those will be there, with all this into consideration we give 22% to 23% guidance.

Param Subramanian: Sir, this is cost to income or opex growth?

Parag Sharma: Yes, cost to income.

Param Subramanian: Okay, got it. Thanks that is it from me.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Umesh Revankar- Vice Chairman and Managing Director, for his closing comments.

Umesh Revankar: Thank you. Thank you for joining. This quarter we have come out with good set of numbers and we are hoping that with economic recovery is visible at least in India and budget being very strong on the infrastructure spend we are confident that momentum will be maintained throughout the next financial year and when we meet next time we will again examine.

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