SEC/FILING/BSE-NSE/25-26/68A-B **April 29, 2025**

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

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

Dear Sirs,

Sub.: Transcript of investors earnings call for the fourth quarter ended March 31, 2025.

Further to our letter dated 25th April 2025, regarding the audio link of the investors earnings call for the fourth quarter ended March 31 2025, we enclose herewith the transcript of the said call. The Transcript is also been uploaded on the Company website **www.shriramfinance.in**

Thanking you.

Yours faithfully,

For **SHRIRAM FINANCE LIMITED**

BALASUNDARARAO UPPU Digitally signed by BALASUNDARARAO UPPU Date: 2025.04.29 14:01:34 +05'30'

U BALASUNDARARAO
COMPANY SECRETARY & COMPLIANCE OFFICER
Encl.:a/a.

"Shriram Finance Limited Q4 FY'25 Earnings Conference Call"

April 25, 2025

MANAGEMENT: **MR. UMESH G. REVANKAR - EXECUTIVE VICE CHAIRMAN, SHRIRAM FINANCE LIMITED**
MR. Y S CHAKRAVARTI - MANAGING DIRECTOR AND CEO, SHRIRAM FINANCE LIMITED
MR. PARAG SHARMA - MANAGING DIRECTOR AND CFO, SHRIRAM FINANCE LIMITED
MR. S. SUNDER - JOINT MANAGING DIRECTOR, SHRIRAM FINANCE LIMITED
MR. SANJAY KUMAR MUNDRA - INVESTOR RELATIONS HEAD, SHRIRAM FINANCE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Shriram Finance Limited Q4 FY'25 Earnings Conference Call.

As a reminder, all participant lines will remain 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 the operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Umesh G. Revankar – Executive Vice Chairman, Shriram Finance Limited.

Umesh G. Revankar: Thank you, and over to you, sir. Yes, thank you. Good evening, friends from India and Asia, and warm welcome to all of you. Greetings to those who have joined the call from the Western part of the world.

To present our Q4 FY'25 Earning Call today, I have with me Managing Director and CEO – Mr. Chakravarti; Managing Director and CFO – Parag Sharma; S Sunder – Joint Managing Director; Mr. Sanjay Kumar Mundra – our Investor Relations Head.

It has been a good 4th quarter for the Shriram Finance under the current circumstances. Let me first go through the broad economic indicators that impact our business directly or indirectly. India's GDP growth grew by 6.2% in October, December quarter. This mass improvement from the previous quarter, which was at 5.6%. The government has revised its forecast for the full fiscal year 25 to 6.5%.

On inflation, the inflation has been declining marginally. In the month of March, it was 3.34%. It has come down from 3.61 in February. India's annual wholesale inflation slowed to 2.05% in March, down from 2.38, giving a broad indication or indicators for the inflation. And coupled with that, RBI policy has been positive. The RBI slashed the repo rate by 25 basis point to 6% on April 9, 2025 with this monetary policy committee voting anonymously to reduce the policy rate in the bid to support the growth. This is the second time in a row MPC has cut the repo rate. We believe that this will help in reducing the borrowing cost over the period and the transmission should happen in 3 to 6 months.

The rural economy in monsoon, our constituency is mostly in the rural area and despite the global economic challenge and fluctuation in the industrial growth, India's agricultural sector emerged as a key driver of stability in 2024-25. According to the advanced estimate of GDP for 2025, agriculture and allied activities recorded a 3.8% growth in real gross value added, a notable improvement from 1.4 in the previous year, 23-24. This augurs well for us going forward also because the IMD prediction and Skymet prediction for the monsoon have been above average for this in the crop year and hopefully that will help the credit demand from the rural area to go up further and also help us in the credit quality. The GST collection has been growing at 7.3% year-on-year at Rs. 1.77 lakh crore. Hopefully, we should see revival in government spend on the infrastructure activities.

Coming to the overall auto industry and OEM sales side:

Commercial vehicle, the M&HCV have grown last year at 3.9% for Q4, which stands at 1.15 lakh unit against 1.11 unit in Q4 '24. And for the full year, it remained flat at 3.74 against the same unit in the last financial year. LCV recorded a flat sale for the Q4 which stands at 1.58 lakh unit versus same number in the previous year and for the full year it declined by 2% to 5.83 lakh unit against 5.95 lakh unit sold in the year 2023-24. The total CV sales has declined for the full year by 1.2%, which stands at 9.57 lakh unit against 9.6 lakh unit sold in the 2023-24. Passenger vehicle has recorded a growth of 2.4%, which stands at 11.63 lakh unit against 11.36 lakh unit in Q4 '24. And for the full year, it increased by 2% to 43.02 lakhs against 42.19 lakh unit sold in the previous year.

Two wheeler has recorded a growth of 1.4% for the quarter with 45.68 lakh unit in Q4 '25 against 45.04 lakh unit sold in the previous quarter and for the full year it has increased by 9.1% to 196.07 lakh unit against 179.74 lakh unit sold in the previous year. Three-wheeler has recorded a growth of 7.7% with 1.7 lakh unit against 1.66. And for the full year, it increased by 6.7% to 7.41 lakh unit against 6.95.

Tractors recorded a decline in the quarter with 2.33 lakh unit against 2.44 lakh unit in the Q4 and for the full year it declined by marginally by 1%, 8.83 lakh unit against 8.91 lakh unit. Construction equipment recorded a decline of 8.4% with 34,876 units against 38,079 units within Q4 '24 and for the full year it remained flat with 1.24 lakh unit against 1.23 lakh unit sold the previous year.

The Board of Directors have recommended a final dividend of Rs. 3 per equity share of nominal face value of 2, each fully paid up 150% for the Financial Year 2024-'25. With this, total dividend for the Financial Year 2024-25 will be 9.9 per share of 2 each after adjusting for the split.

Now I shall ask my colleague – Mr. Chakravarti to take you through operational performance. Mr. Chakravarti.

Y.S. Chakravarti: Thank you. Good evening, ladies and gentlemen. I welcome you all to our Q4 FY'25 Earnings Call. And I hope that you have produced the results and the related Investor Presentation which is posted on the Website of the Stock Exchanges.

We have registered disbursement growth of 14.04% year-on-year. Our disbursements for the quarter aggregated to Rs. 44,847.93 crores versus Rs. 39,326.86 crores in Q4 FY24.

Our AUM has registered a growth of 17.05% over Q4 FY'24 and of 3.43% sequentially. Our AUM stood at Rs. 263,190.27 crores as against Rs. 224,861.98 crores a year ago and Rs. 254,469.69 crores in Q3 FY'25. Our net interest income for the quarter registered a growth of 13.4% year-on-year. We earned a net interest income of Rs. 6051.19 crores in Q4 FY'25 this year as compared to Rs. 5336.06 crores in Q4 FY'24. Our net interest margin was 8.25% as against 9.02% in Q4 FY'24 and 8.48% in Q3 FY'25. The decline in the NIM is mainly attributed to the excess liquidity maintained on the balance sheet, which will get rectified in the coming quarters.

Our profit after tax increased by 9.95% and stands at Rs. 2,139.39 crores as against Rs. 1,945.87 crores in the same period of the previous year. Our earnings per share increased by 9.85% and stands at Rs. 11.38 as against Rs. 10.36 recorded in the same period of the previous year. Our asset quality, gross Stage-3 in Q4 FY'25 stood at 4.55% and net Stage-3 at 2.64% as against 5.45% gross and 2.7% net in Q4 FY'24 and 5.38% gross and 2.68% net in Q3 FY'25. The reduction in GNPA is primarily on account of technical write-off of Rs. 2,345.10 crore assets which were fully provided for earlier.

Our credit cost for Q4 FY'25 stood at 2.07% as against 2.06% for Q4 FY'24 and 1.85% for Q3 FY'25. Our cost-to-income ratio was 27.65% in Q4 FY'25 as against 26.61% recorded in Q4 FY'24. Our cost-to-income ratio in Q3 FY'25 was 28.59%.

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

Parag Sharma: Hello everyone. On the liability side, total debt outstanding as of March '25 was Rs. 2,34,459 crores, which was up from Rs. 1,85,845 crores as of March '24. This liabilities are broken into securitization, which is close to 16% at Rs. 38,000. The domestic capital market at 17%, which is close to Rs. 40,800 crores. Retail deposit, which is close to 23% at Rs. 56,000 crores. The term loans from bank and institution stands at 21%. And the external commercial borrowing, which is in bond format at 6.77% and loan at 14%. We also have off balance sheet of DA transaction of Rs. 3,200 crores. The DA transaction number was almost similar in the previous year.

The cost of liability as of March is 8.95, which is almost similar to the previous quarter. As of March '24, it was 9.01 marginal reduction, but what we are seeing is the incremental cost of borrowing is coming down. For the December quarter, it was 8.92 and for the March quarter it is 8.86. So that will translate into some cost reduction. As mentioned earlier, there is sufficient excess liquidity what we are carrying as of March. This was the case as of December also where we had close to around Rs. 27,000 crores of liquidity, which is now close to around Rs. 31,000 crore, largely on account of two large transactions of external commercial borrowing, one we did in December end, which was Rs. 1.28 billion, and Rs. 800 million what we did in the March quarter. These are long-term facilities what we have taken from development institution, one and other one is from export credit agency. So this transaction happens once in a while, not a regular feature. And that has resulted in excess liquidity. The quantum in rupee terms, what we have borrowed in March quarter is Rs. 7,716 crores. That is the reason why the liquidity continues to be slightly higher.

We always guide around 3 months of liability repayment to be in our liquid assets, but it is now close to around 6 months. We do expect this will come down in next 2 quarters to the earlier level of 3 months of liability repayment. The overall leverage stands at 4.16, which was as of March '24 at 3.83. So not a marginal increase, but not very significant. And the ALM buckets, all buckets continue to be positive with up to 6 months, we will be a surplus of close to around Rs. 48,000 crores, which was a case in December quarter also.

And total fund mobilized for this quarter, March quarter, other than the ECBs is slightly lower compared to December quarter because of excess liquidity what we are carrying.

With this, I hand it over to Sunder for..

S. Sunder: Thank you, Parag. As you are aware that on the Stage-3 provisioning, we have been carrying a coverage of more than 50% for the past 5, 6 years. The company deliberated on this at length and we decided to technically write-off cases which were having a provision of 100%. The written-off amount amounting to Rs. 2345 crores was already provided in the books of account and even after this write-off, there is no impact on the P&L per se. But there is a reduction in the gross NPA, gross Stage-3 which was 5.38% in the previous quarter. It has come down to 4.55% in the current quarter. And the net Stage-3, which was around 2.68% in the previous quarter, it is now currently at 2.64%.

This does not have any impact on the P&L but the gross NPA is brought down correspondingly. And as far as the Stage-1 PD is concerned for March quarter, it is 8.79% as against December number of 9.05 and Stage-2 PD was 20.69 as on March as against 20.74 in the December quarter. The LGD was 39.05% as on March as against 38.75% in the previous quarter.

Giving a breakup of the disbursements done product wise, Mr. Chakravarti anyway spoke about the total disbursement during the quarter of Rs. 44,847 crores. The product wise breakup is commercial vehicles contributed to Rs. 16,777 crores, passenger vehicles Rs. 8,256 crores, construction equipment Rs. 2,180 crores, farm equipment Rs. 1,060 crores, MSME Rs. 7,660 crores, two wheeler Rs. 2,919 crores, gold Rs. 3,105 crores and personal loan Rs. 2,890 crores totaling to Rs. 44,848 crores.

I would request the moderator to open the lines for we will be happy to take the questions. Thank you.

Moderator: Thank you. Ladies and gentlemen, if you wish to ask a question, please press "*" and "1" on your touchtone telephone. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use their handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question comes from the line of Chintan Joshi from Autonomous. Please go ahead.

Chintan Joshi: Hi, thank you. Can I start with your provisioning cost this quarter slightly higher than consensus was expecting? Could you tell us how do you see the asset quality trends playing out over the next year? And what kind of seasonal patterns do you expect next year? If you could give us some comprehensive comments on that asset quality, that would be helpful. And then I've got one more.

Umesh G. Revankar: Yes, thank you. See, basically, Chintan, the last 2 quarters, you would have seen or you would have heard that Indian economy is slowing down a little and had certain pockets of stress building up. Even though for us, most of our loans are secured assets, we did not have any of such an impact. There were certain geographies, remote areas, where it had built up. So that's a temporary one. And I believe it is figured out by this time. And we don't really see, because the rural economy is doing well. Back to back, if you have observed that even this IMD prediction for this in this year also, the rains are likely to be above normal. So we expect the rural stress whatever building will get addressed because of a better economic situation in the rural area. Urban areas have slowed down a little because government spent on infrastructure has slowed down and therefore not creating enough opportunity for credit growth in the urban. So overall we feel that the credit cost of what, 2.07 in the last quarter and the overall for the full year it is 1.91 is reasonably good and well managed. I don't really see any further increased stress or increased credit cost for the next financial year because the rural is playing out well and we expect the infrastructure spent by government to come back and even the credit demand and the overall credit situation to improve further.

Chintan Joshi: Okay, so and if the economic slowdown continues to be if economic activity continues to be weak, would you think there could be some impact on your operations or are you making this assumption that the real rural economy being better will buffer you against any urban slowdown?

Umesh G. Revankar: Yes, rural economy will definitely buffer because most of our operations is in the rural. If you look at our branch network, nearly 85% of our branch network is in semi-urban and rural, which has some kind of what to call linking to the rural and the agricultural economy. So we are very confident that we should not have broader challenges.

Chintan Joshi: Okay. And my second question then is on the NII. Could you help us understand, how do you take the financial decision between direct assignment and keeping the loans on balance sheet? If I think from an investor point of view, they obviously value the NII stream better than the trading income from direct assignment, even though you show it in the NII line in the management presentations. From an investor perspective, the NII is more valuable. So I was wondering if you could kind of, this quarter you did a lot more direct assignment. What was the financial rationale for doing that? If you could help us understand that?

Parag Sharma: No, we have not done any large direct assignment transaction. The outstanding I was mentioning as of March '24 was Rs. 3,200 crores and that is a similar number as of this March '25 also. So no large transaction of DA done during the year itself.

Chintan Joshi: Okay, this quarter you have a meaningfully better, higher income, Rs. 1,694 million. So I was just wondering how you take these decisions. What is the thought process behind it?

S. Sunder: No, the rationale behind doing securitization or direct assignment is nothing to do with the NII. It is more of a mobilization plan that we carry forward. As regards to your question of that 1690, whatever number you mentioned. So that, I would suggest we will provide a reconciliation to you maybe through Mr. Mundra after this call.

Chintan Joshi: Okay, thank you.

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

Raghav Garg: Thanks for the opportunity. My first question is on the CV portfolio growth which has come down to about 10% to 11%. In this few quarters, it was around 13%-14%. What is the reason for that?

Umesh G Revankar: If you look at the CV sales, you'll see that the sale has been flat year-on-year this year. So overall, expansion of the CV segment was not there this year because infrastructure spent by the government was much lesser than the anticipated. That's one reason. And second, there are not enough transactions in the used vehicle market because number of vehicles available for transactions are less. As last 4 years, the sales have been much lower. Right from 2019 to 2021, the CV sales have been less. So what we anticipate is, since the sales have improved from 2022 onwards, the number of used vehicle transactions will go up in the subsequent year. That is 26, 27, 28. So our focus being used vehicle financing, we expect that to grow much faster. Whatever the growth what you are seeing now is because of the ticket size being higher as the resell values of each of the asset class have gone up. So we expect the growth to come in the subsequent year, next 3 years. But right now we feel that 10% growth is quite good considering the lack of transactions or lesser number of transactions as number of vehicles in the market is much lower.

Raghav Garg: Sir, for FY'26, would you say that this number will still be around 10%, 10.5% or it could be higher, say 12%, 13% or 14%?

Umesh G Revankar: We are looking at 12% to 15% growth in the next financial year.

Raghav Garg: And on the MSME piece, what kind of growth do you expect that this one piece which has grown pretty strongly for you last few quarters, even this time? Do you expect that this growth rate would continue and grow at 30% by FY'25?

Y.S. Chakravarti: Sorry, this is Chakravarti here. I think our guidance on MSME would be between 18%-20% of growth for the financial year.

Umesh G Revankar: See this 30% growth was mainly due to lower base and also we have activated more number of branches post merger for MSME. So it has given a growth of around 30% in the last year. For next financial year, it will be moderated to around 20% plus.

Raghav Garg: And for last question, I understand there have been slippages in this quarter, even the gross Stage-2 numbers have increased by about 20 basis points. I know you partly answered that this is where the credit cost is likely to peak, but any expectation that the credit cost at this level could remain at this level, or do you think that it can come down substantially?

Umesh G Revankar: We are working for credit cost to come down because we feel that the rural economy doing well should help us to bring down the credit cost. So we always give a guidance that we will try to maintain around 2% and hopefully we should be able to bring it below 2% of credit cost.

Raghav Garg: And just sorry last question. You are still expecting other guidance on growth would still be about 15% right? 15% or higher?

Umesh G Revankar: Yes.

Moderator: Thank you. The next question comes from the line of Zhixuan Gao from Schonfeld. Please go ahead.

Zhixuan Gao: Thank for the opportunity. Can I have the total write-off number for the 4th quarter and the 3rd quarter as well please? Including your the total write-off for this quarter, the 4th quarter and 3rd quarter?

Y.S. Chakravarti: Hold on for a second. Yes, we will just give you the number.

S.Sunder: Yes, write-off for the current quarter is Rs. 3,162 crores and the write-back of the provision was Rs. 1,603 crores. The total provisions in credit cost number is Rs. 1,559 crores for the current quarter. For the previous quarter, the write-off number was Rs. 501 crores and the provision was Rs. 825 crores totaling to Rs. 1,326 hit to the P&L.

Zhixuan Gao: So the 4th quarter write-off was Rs. 3,164 crores?

S.Sunder: Rs. 3,162 crores.

Zhixuan Gao: And it seems that the net slippages were increasing quarter-on-quarter, right? So do you mind sharing with us what segment is largely causing this net slippage increase?

S.Sunder: Okay, so what I would suggest is we will give these numbers to Mr. Mundra. He will be in touch with you. We will provide the numbers.

Zhixuan Gao: Which segment is driving the Q-on-Q increase in the slippages?

Parag Sharma: Yes, we have the numbers. So Mr. Sanjay will send across to you, reach out to you and then provide the numbers.

Moderator: Thank you. The next question comes from the line of Rajiv Mehta from YES Securities. Please go ahead.

Rajiv Mehta: Hi, good evening. Thank you for taking my questions. Firstly, what triggered this technical write-off division of Rs. 24 billion? Is it in some way related to your PD and LGD reset annually, which you do in March quarter? And also, can you help us with the composition of this write-off so that we can look at the growth at the product level in the right context?

S.Sunder: This is Rs. 2,345 crores was nothing to do with the PD and LGD which we have assessed for the current quarter. It is mainly a decision taken based on the coverage being continued for the last 5 to 6 years just before the COVID we started having a coverage of more than 50%. And we used to continue with that. To achieve that, we used to maintain 100% provision on certain assets and those assets we technically wrote off in the current quarter after deliberation at the board and that was the basis on the background for technically writing off those assets. In the investor update itself, the breakup of Rs. 2,345 crores product wise has been given.

Rajiv Mehta: Okay. Now, see, we have also seen some increase or I would say a material increase in the Stage-2 for passenger vehicles and MSME segments in 4Q. But you also spoke about the stress peaking now. But how do you contain the forward flow of these accounts because see Q1 is typically weak in terms of collections and even recoveries of NPA. Hence, can we see an increase in NPA in Q1 or will we be able to contain the flow of these accounts which are mistakes too?

Y.S. Chakravarti: We are very certain that you will not see much of a forward flow in the Q1 of these accounts into Stage-3. See the kind of a segment of customers that we deal with we have been seeing this for a period of last few years that they keep moving between Stage-1 and Stage-2. We do not see any stress points as of today. The stress point is basically, the worry would be will they slip into Stage-3, but that I will be assure that the feedback that we got from the ground is that, that will not happen. Some of this flow back or stay where they are**.**

Rajiv Mehta: Okay. And this gold loan portfolio has been continuously shrinking. I mean, Q4 had a benefit of much higher gold prices as well. I mean, previous quarter, I think we spoke about higher pledge releases, but in Q4, we have seen further shrinkage in the portfolio despite much higher gold prices entail when submit. So can you explain what is happening in the gold loan portfolio despite the fact that we are adding distribution there as well?

Y.S. Chakravarti: Not only distribution, in fact disbursements also were up Q-on-Q, quarter-on-quarter, but the redemptions have outpaced the disbursement. So that is the reason why you see a drop in the AUM. But we think we are on a growing curve in terms of disbursement and this year you will see an addition to the AUM. To be honest with you, there is nothing specific. It's more of a pressure on redemption.

Rajiv Mehta: Okay. And on the business team count number, it has been flattish or it has been growing very slowly in the last 2-3 quarters. So, I mean, is it the productivity coming through or are there some challenges related to attrition?

Y.S. Chakravarti: No. Attrition has been steady. It is the same. It has not increased or I would say it has also not decreased. It is basically a reason of better productivity.

Rajiv Mehta: Thank you and best of luck sir.

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

Piran Engineer: Yes, thanks for taking my question and congrats on the quarter. Firstly, just a clarification on one of the previous questions. You had mentioned 12% to 15% growth for some segment. Was that used commercial vehicles?

Umesh G. Revankar: Yes, it is overall for CV, commercial vehicles. Passenger vehicle, we are growing at 20% and we are confident of growing at 20%. Commercial vehicle will be between 12 to 15. MSME will be around 20, 20 plus, I can say. And other segments also will be growing at around 20%. The CV will be growing gradually.

Piran Engineer: But sir, my question here then is, if the new CV sales are weak, will that impact used CV sales because typically people exchange their truck. So they will buy a new truck and they will sell that old truck. But if they are not going to buy a new truck, they will not sell their old truck. So how does that work? Let's assume a new CV sales don't grow. This is just an assumption. How will that play out?

Umesh G. Revankar: Basically, what happens is you are right in the sense the new vehicle sales is also dependent on used vehicle transaction. But the number of new vehicle sold between 19 to 21 was very low. So there is not enough supply of used vehicle in the market. The used vehicle market did not grow in the last year and maybe previous last year, which is expected to grow because supply will come into the market. So there is one is replacement of a vehicle and second one is additional growth because of the economic activity. What I am saying to say is, replacement demand will continue to remain. When there is a flat sales, replacement demand will come. The extra vehicle that is required for higher economic growth, that will not happen.

Piran Engineer: Fair enough. Sir, just on personal loans, are we getting confidence back now to start growing? Because we were de-growing for few quarters. Now, last 1 or 2 quarters, we pushed the pedal on growth. Just wanted to get a sense of what we are seeing to get this confidence?

Y.S. Chakravarti: No, to be honest with you, I think last 2 calls, last 2 investor calls also, I made it very clear that the slowing down is not because we are worried about the quality. It is also because the regulator was expressing concern on the personal loan growth in the industry and we thought it is better to be on the safe side so we slowed it down. And the reason why we are back on the pedal now is we have not seen any reason to be concerned in the last two quarters, number one. Number two, the industry as a whole I think looks like that the delinquency is also peaked. And primarily, we did not find any reason to be worried and so we are pushing it back.

Umesh G. Revankar: And adding to that, we are not really looking for personal loan growth from the market or outsourcing. It is existing customer, mostly two wheeler customer who have repaid us back. There we are offering the personal loan. So most of the customer whom we will be giving personal loan will be our existing customers. So we are not really exposing ourselves to the market. And as Chakravarti rightly said, we had slowed down because there was a concern and we had tightened the credit requirement which we have now feel more comfortable in lending.

Piran Engineer: Understood. And sir, just last thing, maybe an accounting thing, but our employee cost is down quite meaningfully by about Rs. 70 crores quarter-on-quarter. Was there a one-off last quarter or is there some sort of provision reversal this quarter?

S.Sunder: The last quarter was on the higher side because during the festival scheme for two wheelers and other retail products, we were running some incentive schemes for the employees which got accrued and paid in the previous quarter itself and that component is not there in the current quarter and hence compared to the previous quarter it is on the lower side.

Piran Engineer: Okay, fair enough. Because usually we don't see that between 3Q and 4Q. Like if I look at the past few years, this was like a one-off scheme, is it?

S.Sunder: Yes, one-off scheme.

Piran Engineer: Got it, got it. Okay, this is useful. Thank you so much and wish you all the best.

S.Sunder: Thank you.

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

Shweta: Thank you sir. So a couple of questions. So on the passenger vehicles front, the Stage-2 continues to spike pretty materially. Now that you've mentioned that there is this movement keeps happening between Stage-2, Stage-3. But in this quarter in particular, we also saw write off amounts for passenger vehicles slightly on the higher side. Of course the Stage-3 improvement could be attributed to that, but what could be the reason for a continued material spike in passenger vehicles Stage-2?

Umesh G. Revankar: See basically most of the passenger vehicle which we are financing has been in the rural segment and certain rural segment had some impact because of the slowdown in the economy and that too in the central part of India. Now that things are back to the normal, I don't really see any further deterioration. When I say central part of India, it is basically around Chhattisgarh, MP and some part of Bihar. So, now things are much better. I don't really see any scope for increase.

Shweta: Sure. That's helpful. Secondly, how has been the repossession activity panning out for this quarter in particular?

Umesh G. Revankar: The repossession has not really increased because what has happened is the customer's repayment has been good in the sense they have been bouncing back and paying. So we don't really see a higher repossession anywhere in the industry for that matter. So most of the vehicular segment, the reposition has been at very low.

Shweta: Sure. And just one last clarification on growth. So are we now guiding 15% kind of the growth because we were pretty confident on 18%. We have also been building a strong liability profile despite putting margins on the pressure. So why, I mean, did I get it right? Why grow that 15% only?

Umesh G. Revankar: We have been giving a 15% growth as a medium term growth. And the last 2 years also we had given 15%, but if the economy is growing well and if it can absorb and there is better demand, then it will grow faster. So as of now I feel 15% growth at current projection of the government where the government itself is talking about 6.5% GDP growth and the other economists are talking about 6% GDP growth. 15% is a fair growth we are expecting but if the growth is faster and the credit growth is better, then we will grow faster.

Shweta: Sure. And sir, just bookkeeping question. Sorry, sir. What are the IRRs for two-wheeler loans?

Y.S. Chakravarti: Between 16% to 22%.

Shweta: Okay. That's very helpful, sir. Best of luck. Thank you.

Moderator: Thank you. The next question comes from the line of Shreepal Doshi from Equirus Securities. Please go ahead.

Shreepal Doshi: Hi sir, thank you for giving me the opportunity. My question is on margin size. So you highlighted in the earlier comment that because of high liquidity on balance sheet that they impacted our margins. So what is the normalized liquidity as a percentage in balance sheet that we want to maintain going ahead and what basis point of impact was there in margin for this call?

Y.S. Chakravarti: Yes, the liquidity what we used to always tell was that 3 months of future liabilities to be maintained as liquid assets and the number wise it used to be close to around Rs. 19,000 crores. That number is now around Rs. 31,000 crores. That is up from 19 to 31. This is close to around 6 months of our future liabilities that has to normalize to 3 months over a period of next 2 quarters. An impact on NIM is because of higher liquidity.

Parag Sharma: The current quarter will be around 20, 25 basis points.

Shreepal Doshi: So basically going ahead in the next couple of quarters, this 20-25 basis point will flow in and the benefit of the repo rate cut will also sort of flow in. So what is the kind of NIM that we are looking at for exit of 1H FY'26?

Y.S. Chakravarti: See, we are guiding for an 8.45, 8.5, 8.6 kind of a NIM. Again, obviously if I get a rate benefit, some of it I would like to pass it on to my customer also. We would like to peg our NIM at about 8.6.

Shreepal Doshi: Thank you sir.

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

Nidhesh: My question is on MSME. Can you give some color on MSME, what percentage of the book is secured and what is the nature of security, what is the average ticket size and what is the average yield that we are earning on that portfolio?

Y.S. Chakravarti: Book is secured, majority of the book is secured, more than I think it will be between 70% to 80% of the book is secured. As far as security is concerned, most of the time, I mean most of the security would be either a house property or a commercial property, either a shop or something like that. So it is basically, most of it is immobile assets. And sorry your follow up was you wanted to know the IRR?

Nidhesh: Yes sir, IRR and the average ticket size of this book.

Y.S. Chakravarti: Average ticket size is about 7 lakhs, sorry it will be between 5 to 6 lakhs and IRRs range anywhere between again 16% to 24%.

Nidhesh: Okay. So in this book also we have seen quite sharp increase in Stage-2 over last quarter. Till Q2, Stage-2 was consistently improving. Suddenly in last 2 quarters, we have seen a sharp increase in Stage-2. And that too on a base when the book is growing at 40%. So on a let's say 1 year or 2 year lagged basis, the increase in Stage-2 is quite sharp. So any comment on that and how do we see this?

Y.S. Chakravarti: If you look at it on a year-on-year basis, I think the gross Stage-2 has gone up by about 98 basis points. Sorry, it is at 7.43 to 7.5, 7 basis points. So on a quarter-on-quarter, there will be a fluctuation because as I was saying the kind of segment of customers that we work with, it's natural that they move between Stage-1 and Stage-2. They keep moving.

Nidhesh: Have you seen any differences in terms geography in terms of Stage-2, Stage-3 movement?

Y.S. Chakravarti: See, it is basically nothing specific. I mean, it is not specific to a particular geography but to certain extent I would say it is borders of UP, Bihar, MP. The border villages got affected. The border areas got affected.

Parag Sharma: And if you compare between the previous quarter, the Stage-2 in fact, even though percentage terms it has gone up, the movement has come from the Stage-3 to Stage-2, not from Stage-1 to Stage-2. The previous quarter Stage-3 was 4.75, which is now 4.08. So obviously that differential has moved up to either Stage-2 or Stage-1.

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

Kunal Shah: Yes, a couple of questions. So firstly, on the overall post the write offs, now coverage is almost 43% odd. So how we would like to maintain maybe we would like to maintain it around these levels or would there be any plan to take it any further? How we would look at it on the next stage? And related question is on the tax benefit. Has there been the tax benefit? Has it entirely accrued in this quarter or we will see tax benefit in the coming quarter?

Umesh G. Revankar: See, basically we had a provisioning cover of around 51% that has come down to 43 because of the numerator impact. If you look at our provisioning prior to COVID, it used to be around 36% to 40%. And during the COVID, we increased the provisioning. Then we were guided to maintain at 50 because the COVID impact or post-COVID impact was unknown. Now, since the business is as usual and economy is doing good, we feel that we can manage with the current provision coverage and I don't really see any reason to increase the provisioning from here. And the overall tax benefit is one time.

Kunal Shah: It has already come through in this quarter?

Umesh G. Revankar: Yes, it has come through in this quarter.

Kunal Shah: Okay. Secondly, when we look at it in terms of the interest expenses over last couple of quarters, no doubt we indicated that pressure on margins has been due to excess liquidity, but interest expense somehow has been rising quite significantly. Is there any one-off some cost related to raising of the Forex which is getting booked over there or maybe hedging cost which is getting involved on this Forex borrowing which is leading to higher interest expenses?

Parag Sharma: Nothing of one-off. As I mentioned, overall cost of labor, it remains the same. It is only the overall quantum of debt which has gone up because and that has translated to higher liquidity also over quantum of debt which has gone up which is leading to higher interest costs.

Kunal Shah: No, the only thing was like it is up like 10%-11% quarter-on-quarter. Last quarter also, it was up like 8%-9%. If you look at the movement on the debt on the borrowing side that has been relatively low. So here we get to know that at least in terms of the overall cost of funds, it is remaining stable at 8.95, 8.97, not much up movement, but still like interest expenses are growing at a pace faster than the borrowing growth. So just wanted to check on that, yes. Because that is also another element which is leading to some pressure on margins?

Parag Sharma: No, it is only because of higher debt and higher liquidity, because of which there is higher debt only because of which there is a higher interest expense.

Kunal Shah: There is no interest or maybe no cost of raising the money or any hedging cost or something which is getting booked?

Parag Sharma: No.

Kunal Shah: Yes. Okay. And this would be 100% hedged, the entire borrowing which has been raised?

Parag Sharma: Correct. Everything hedged for both principal interest for full duration.

Kunal Shah: Okay. Thank you. Thanks and all the best.

Moderator: Thank you. The next question comes from the line of Shailesh Kanani from Centrum Broking. Please go ahead.

Shailesh Kanani: Good evening and thanks for the opportunity. Other questions have been answered. Just one question. With respect to fee and commission income, there is a quarter-on-quarter spike. Anything one-off over there?

S.Sunder: So we have done certain assignment deals in the past. Okay, we will ask Mr. Mundra to connect with you offline and then give this number.

Shailesh Kanani: Okay, and can you just repeat the disbursement product wise number, repeat of the same?

S.Sunder: Yes. Segment wise you are wanting?

Shailesh Kanani: Product wise.

S.Sunder: CV is Rs. 16,777 crore; passenger vehicles Rs. 8,256 crore; construction equipment Rs. 2,180 crore; farm equipment Rs. 1,061 crore; MSME Rs. 7,660 crore; two wheelers Rs. 2,919 crore; gold loan Rs. 3,105 crore; person loan Rs. 2,890 crore totaling to Rs. 44,848.

Shailesh Kanani: Thanks a lot sir.

Moderator: Thank you. The next question comes from the line of Renish from ICICI. Please go ahead.

Renish: Hi sir. Just one question again. Sorry for the subtle impact to the credit cost part. But as you highlighted that the write-off in this quarter was 100% provided and hence there was no penal impact. But when we look at the credit cost for this quarter, you know, sort of moving up to 2.4, much higher than our guidance range. Obviously, this must be due to higher Stage-2 or higher power close. So what has actually led to this kind of a higher provision in Q4 specifically? And what sort of lead indicators you see that confidence that in Q1, Q2, credit cost will not be elevated and we will be able to retrospect to our guidance?

S.Sunder: In the current quarter, even though the impact of the Rs. 2,345 crore one-time technical write-off which was anyway provided, there is no impact in the P&L. But having said that, compared to the previous quarter, there has been an increase in the debit to the P&L to the extent of Rs. 233 crores. This primarily has occurred because of there has been some increase in the Stage-3 even though when you compare between the previous quarter 5.38% to 4.55, there is no increase.

But if you remove this one-time write-off, had we followed the earlier quarter same policy it would have been 5.41, so there has been an increase of 3 basis point in Stage-3 and obviously on that increased portfolio, we need to maintain that provision. And in Stage-1 and Stage-2 also, there has been an increase in asset size contributing to higher provisioning requirement. This total cost is comparatively when you compare with Q3, it is higher but not materially higher.

Renish: Yes sir, got it. So my question is what has led to an increase in Stage-3? Obviously there has to be higher power close which has resulted in this kind of credit cost. But is there any particular product which is going through a stress and if that is the case, then what are the lead indicators which gives you that confidence that okay Q1, Q2 will be able to recover that?

Umesh G. Revankar: No, it is not particular, I think we answered it already, it is not a particular segment. Particular geographies had issues because of slower economy and also because of the local economy there not really doing well. We had told you that central part of India, that border of MP, Bihar, Chhattisgarh, there has been little slower growth in the economy and that had impacted the cash flow of the local business people and the transporters and that's the main reason, but now the rural economy has picked up to some extent because Rabi crop has been bumper and we believe that Rabi crop cash flow will help the customers to bounce back and this year again the monsoon production has been above normal. And back to back to above normal monsoon should help the rural economy and even the central India's geography to bounce back and we are confident that things will improve. There is nothing very unusual which has happened or nothing really pertaining to certain segments.

Renish: Okay, got it. And sir just a clarification. So your answer to Kunal about PCR. So is it fair to assume that going ahead, we will sort of maintain PCR rate 40%-42% and there is sort of no intention at least in near term to increase to 50%?

Umesh G. Revankar: No, there's nothing because see, we are all doing asset backed lending and asset values have remained firm. There is no reason for us to increase it beyond this level. And in fact, I was telling you that prior to COVID, most of these assets, we were providing between 30% to 40%, 36% to 40%.

Renish: Got it. And hence will be a sticking towards to our guidance of 2%?

Umesh G. Revankar: Yes.

Renish: Okay. Thank you so much, sir. And best of luck.

Moderator: Thank you. The next question comes from the line of Adarsh from Enam Asset Management Company. Please go ahead.

Adarsh: Hello. Hi, sir. So quick question is on the recoverability since these are all fixed assets, these are all proper assets that you would have written off. Just understanding the recoverability of the technically written-off accounts and how old are these accounts? Like have you been carrying these for many years or these are like fresh, like very old which you can't recover or?

S. Sunder: No, it is a combination of old as well as maybe around a couple of years old assets also. So it's not very old assets. And if you see our bad assets recovery quarter-on-quarter, it has been in the range of Rs. 100, Rs. 150 crores in few quarters. And the current quarter, in fact, it is 209. So out of this, there will be definitely some recoverability will definitely happen.

Adarsh: Is it fair to think that since you have written-off a lot more, the chances you will recover more is not there, is it because ideally…..

S. Sunder: Yes, that is what. See, the entire amount may not be recovered, but there will be some component of recovery. The industry will be getting back to the customers and then also there will be a legal recovery. All those options are always open, but it is a long-run process.

Adarsh: Understood. Okay, this is good, thanks.

Moderator: Thank you. The next question comes from the line of Harshit from Premji Invest. Please go ahead.

Harshit: Yes. Sir, actually, just to one of the previous questions itself, that if we look at our calculated cost of funds, that number comes up 25, 30 basis points higher than last quarter. I get that there might be some difference in the average?

S. Sunder: Yes, that is primarily because of the average. The 1.2 billion worth is borrowing which happened in the last week of December. Even though it was, if you calculate that closing balances, it reduces the cost of funds for the particular quarter. But for the entire quarter, we had to provide for that interest. And hence, if you compare..

Harshit: I am just wondering that if you have borrowed it at the last week, shouldn't it lead to a lower calculated cost of funds?

S. Sunder: Last week of December. And hence December, the rates might have been, whatever calculation you might have applied, it might have been lower. And if you take that into consideration and apply the same thing in the current quarter, you may find that around 20-25 basis point, it's higher than the December. But in actual, there is no, as Parag was mentioning, the average cost of borrowing on the book as on 31st December and as on 31st March continues to be the same. Not much of a decrease or increase.

Harshit: Sir, you said that incremental cost of funds is 8.96%?

Parag Sharma: No, I said incremental cost of fund is 8.86.

Harshit: 8.86%. And can you let me know that whatever is the on-book cost of funds?

Parag Sharma: 8.95.

S. Sunder: It's 8.95 in the current quarter and this number was same in the previous quarter also.

Harshit: Got it. Sir, if you can just help us that given the rate cut possibilities, how should we build that reduction in the sense that what percent of your book will get repriced relatively or if you can help us with the guidance as to how should we look at the cost to fund trajectory?

Parag Sharma: Because roughly 30% of the book will mature, that is, will reprice this year. And this will have different components of bank borrowing, the retail borrowing, and also the capital market borrowing. The capital market will adjust much faster, which is close to around 20% of the liability. The bank will take some time. And the retail, we have announced reduction, but that is around 20 basis point which will have a benefit over next 2-2.5 years. So I will say gradually we will see the cost coming down one on the count of the borrowing cost itself and other is on the account of liquidity coming down. So I will say around overall for the year, we will target close to around 15 to 20 basis point benefit in the cost.

Harshit: Okay, got it. And if I look at the CV versus non-CV mix, should we assume that a good part of this will be taken away because of the mix change towards non-CV segments? I think it will be similar yields, IRRs will be similar in both segments for us?

S.Sunder: Yes, there may not be a significant mix going forward. It may be more less in the similar pattern, there may be shift between maybe one product to the other, but not significant. And the rate benefit, some component will be passed on. So the NIM guided by Mr. Chakravarti, it will be in the range for the entire year between 8.5% to 8.6%.

Harshit: Okay, got it. Sure, sir. Thanks a lot.

Moderator: Thank you. The next question we take from the line of Abhishek from HSBC. Please go ahead.

Abhishek: Good evening. So most of my questions have been answered. Just one. I think last quarter or couple of quarters, you have been saying that cost to income would trend around 29%-30% slightly elevated maybe because of the investments you are making. Do you see that coming off in the next year or so 3, 4 quarters, or it's likely to trend at 30, 31, 29, that range?

S.Sunder: Yes, it should be hovering around between 27% to 28%.

Abhishek: From the current level, do you expect some improvement or basically?

S.Sunder: Yes, correct. Some improvement will be there.

Abhishek: And this is over what time? One year, is it?

S.Sunder: Yes, it is one year period.

Abhishek: All right, so thank you. Rest of my questions have been answered. All the best. Thank you.

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

Raghav Garg: Thanks for the opportunity again. Just one last question from my side. So I heard you say that repossessions have not happened, right? But when I look at Shriram Automall's revenue for last 2 quarters, they have been up 12% and 27% YoY, 12% in this quarter, 27% in the 3rd quarter, compared to a decline in the quarters preceding to that. This trend also coincides with the increasing stress in the CD loan, the curve system. Can you please explain why the Automall revenues have been growing if repossessions are not happening?

Umesh G. Revankar: See, Automall, the Shriram's portfolio or Shriram's repossessed asset in the Automall is not really significant. They have tie up with all the banks and all the NBFCs. So overall, if you look at the repossession rate, it is still at a lower rate. And in Shriram portfolio, it is much lower. So, Automall growth is also due to the direct customer putting the vehicle on the platform, not the 100% of the vehicle that is on the platform of the Automall is not repossessed. It is also direct customer putting their vehicle for exchange of vehicle. So, they are increasing their presence and as they add more number of Automall and increase their presence, their business volume will keep growing up.

Raghav Garg: That is all from my side.

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

Umesh G. Revankar: Thank you for joining the call. As we said in the meeting, last quarter was not very high number quarter, but a good quarter for us. We had decent growth and good quality collection. But the indication of a better economy, especially in the rural economy, due to better monsoon prediction, we are expecting next couple of quarters to be good for us as far as the demand and the credit quality is concerned. And overall for the next financial year, we expect to grow as the guidance given of 15% with better credit quality. Thank you very much.

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