INDOSTAR

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BSE Limited
Listing Department, 1st Floor,
P J Towers, Dalal Street, Fort,
Mumbai - 400 001

Scrip Code: 541336

National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (E), Mumbai – 400 051

Symbol: INDOSTAR

Sub.: Transcript of analyst(s) / institutional investor(s) call held on 14 February 2022 at 11:30 a.m. (IST)

Dear Sir / Madam,

Please find enclosed herewith transcript of analyst(s) / institutional investor(s) call held on Monday, 14 February 2022 at 11:30 a.m. IST, pertaining to the Unaudited Financial Results of the Company for the quarter and nine months ended 31 December 2021.

The transcript is also available on the website of the Company at www.indostarcapital.com.

Request you to kindly take the above on record and disseminate the same on your website.

Thanking you,

Yours faithfully,

For **IndoStar Capital Finance Limited**

Jitendra Bhati
SVP – Compliance & Secretarial
(Membership No. F8937)

IndoStar Capital Finance Limited

Encl: a/a

"IndoStar Capital Finance Limited Q3 FY-22 Earnings Conference Call"

February 14, 2022

MANAGEMENT:	**MR. DEEP JAGGI – CEO, INDOSTAR CAPITAL FINANCE LIMITED** **MR. JAYANT GUNJAL – TREASURY, INDOSTAR CAPITAL FINANCE LIMITED** **MS. BENAIFER PALSETIA – CHRO & HEAD CSR, INDOSTAR CAPITAL FINANCE LIMITED** **MS. KAUMUDI BIYANI – HEAD FINANCE, INDOSTAR CAPITAL FINANCE LIMITED** **MR. MOHIT MAIRAL – CHIEF RISK OFFICER, INDOSTAR CAPITAL FINANCE LIMITED** **MR. AMIT KOTHARI – CHIEF TECHNOLOGY OFFICER, INDOSTAR CAPITAL FINANCE LIMITED** **MR. SALIL BAWA – HEAD INVESTOR RELATIONS, INDOSTAR CAPITAL FINANCE LIMITED**
MODERATOR:	**MR. ABHIJIT TIBREWAL – MOTILAL OSWAL FINANCIAL SERVICES**

Moderator: Good day ladies and gentlemen and a very warm welcome to the IndoStar Capital Finance Q3 FY22 Earnings Conference Call hosted by Motilal Oswal Financial Services Limited. 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, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhijit Tibrewal from Motilal Oswal Financial Services Limited. Thank you and over to you sir.

Abhijit Tibrewal: Thanks Ali. Good morning, everyone. We have with us today, the senior leadership team from IndoStar Capital Finance to discuss their 3Q FY22 performance and the strategic direction of the company. We are obviously at the end of the current season and today seems like a busy day for all of us. So, without much delay, let me handover the mic to Mr. Salil Bawa, who's heading the Investor Relations to quickly introduce the management to us. Post which we will have the opening remarks from the management followed by an interactive Q&A. Thank you over to you Salil.

Salil Bawa: Thank you, Abhijit. Good morning, everyone. Thank you for joining us on the Q3 FY22 results conference call of IndoStar Capital Finance Limited. Today we have with us Mr. Deep Jaggi – CEO, IndoStar Capital Finance Limited, Mr. Jayant Gunjal from Treasury, Ms. Benaifer Palsetia – CHRO and Head CSR, Ms. Kaumudi Biyani – Head Finance, Mr. Mohit Mairal – Chief Risk Officer and Mr. Amit Kothari – Chief Technology Officer.

Before we begin, I would like to state that some of the statements in today's discussion may be forward-looking in nature and may involve certain risks and uncertainties. A detailed statement int this regard is available on the results document shared with you earlier. During the discussions we'll be referring to the Q3 FY22 investor presentation, uploaded to the exchanges and on the company website. With that, I would like to now invite Mr. Deep Jaggi to begin the proceedings of the call.

Deep Jaggi: Thank you Salil. Good morning to all. Thanks to all the participants for taking our time to join the Q3FY22 earnings call. Hope all of you are safe and fine. Before we discuss the Q3FY22 numbers. I would like to just set the context for our introduction today. Money; as you all know that IndoStar is managing a transition for the past few years moving from a corporate lending business to a granular retail business. When I joined in the month of November, 2020 as a part of well-thought succession plan, the management team and the promoters had finalized a 5-year business strategic and growth plan. Despite COVID-19 and all the micro headwinds over the past 12 months I believe we are well on track for the 5-year plan. I truly believe in a massive growth potential for IndoStar platform which can be seen in the quarter retail disbursements.

I'm happy to inform you that today as on 31st of December our retail book is about 82% of the overall AUM. We are on course to becoming a pure 100% retail finance company. I'll just take few points which I would like to highlight; IndoStar is committed to become a pure retail finances company which is clearly can be seen from the percentages that we have, that 82% of the book is retail and 18% is corporate.

Now coming to the profitable growth and the 5-year plan. You can see the quarter wise numbers. Q1FY22, the numbers were about INR 560 crores of disbursements, Q2FY22, it was INR 1,129 crores of disbursements. Q3FY22, it is INR 1,450 crores. I can just also highlight for the first time in the month of December, we have touched a disbursement of INR 500 crores which seems to be likely a base for us now from here on and from here on we can just grow from these numbers. I also mentioned in the month of January when I was elevated as a CEO, the number of branches that we are expanding. So, we had targeted 400 branches till the month of March, today as on 31st of December we already have 343 branches. We are focusing on two critical products that we have; one is the commercial vehicles and the second is the affordable housing. Now the commercial vehicles from 208 branches we are at 318 and also in the affordable housing from 65 branches now we are at 87 branches. We also had adopted a hub and spoke model where we in the next 4 - 5 years we are planning 1000 branches. These 1000 branches will be controlled by 200 hubs. What we have done in the first year which is going on till March 2022, we have got our presence in all 200 hubs which are required till 2025. We have already made our pan-India presence. Now in the next couple of years or 3 years, we will be adding just spokes which helps us in a way that we already have our underwriting set up there. The business setup, we have relationships with the manufacturers and the customers. It is just extending those parts. It will be an easy task adding from 400 branches to 1000 branches. Now coming to the collection part, I will first take the collection part. We have added approximately, we have got a big number in terms of a new book. What we have done is we have bought a separate collection center. Now collection center is a regular calling to the customers to arrest the new losses or new flows with which we have approximately 90% of our book is in Stage-1 in the fresh disbursement that we have done. Besides that, we have also added about more than 100 people, manpower only four collections wherever there is a flow and the old book we have got now approximately 300 people to collect in the old book plus 30 plus numbers. Our name has been continuously improving.

When I come to use business, especially in the commercial vehicle, in the commercial vehicle disbursement that we have done, 80% of business is coming from use business. So overall the weighted rate here is close to about 16.5% to 17% which is a very-very healthy weighted IRR as a scale is going up, especially the commercial vehicle space our overall weighted IRR of the book will be much better within next couple of quarters. Our NIMs have started improving as our weighted rates are going up.

To improve the productivity, we have also brought in a Chief Technology Officer, Mr. Amit Kothari, who has a purely background of FinTech. He is already working on our app which is a “go-digit app” which we have developed with help of KPMG and we are at a pilot stage. Besides this what we also doing is we are also investing in the automation. We are improving the productivity overall so that the cost come down. We also see a revival in the commercial vehicle cycle as the new vehicle sale is less. It just it is going to impact and there will be a good growth in the used space. When you see a used business case, there are two prime players in this particular space, one is Shriram and second is Chola. We see a good opportunity in the retail space which is from 3 vehicles to 10 vehicles. That is a space we have been focusing on. When we talk about 3 vehicles, we will be having minimal losses because all of them have got tracked. They have a repayment history. We also have a check on the CIBIL, so that the people who are defaulter should not be entering into our book.

Now I will come to the affordable housing; we have recently recapitalized our affordable housing company and we continue to make it as a fully independent. Here again we will benefit from small scale which helps us to grow faster, a very large opportunity for us. To establish the processes and a fantastic team I'm also glad to inform you that we have appointed Mr. Ravi Narayan as a Non-Executive Independent Chairman in the IndoStar Home Finance. Ravi superannuated from ICICI Bank, at the time was leading the retail secured asset business for the bank. He has more than 35 years of expertise across various functions of retail banking, auto finance and extensive experience in housing finance. He will be responsible for mentoring and guiding IndoStar Home Finance and creating value for the stakeholders.

We in terms of cutting costs, we have earlier announced that we will be getting into the smart branches. We continue to do that. We will be developing the branches at a lower cost so that the CAPEX impact is less. We have also shifted our product lines. Because of the COVID-19 impact we don't have further exposure in the bus segment because that is a segment where you have issues earlier faced due to the COVID-19. We are completely a company which is retail and it will be on the used business. We have also started focusing on used cars. In the coming year we will also have a separate vertical to focus used car business which is again a profitable business at high IRR. We are also going into a co-lending. As you are aware that we also have a tie up with ICICI bank for the new vehicles which we don't park in our book and we park it on the ICICI book. Now we are going one level down. We are having a tie up with the small NBFC where the capital is the issue and they have penetration in Tier III, Tier IV cities where we are not present. We have already tied up with one of the companies. This has got about 24 branches in south India and we will add few more. This will help us in further penetration and strengthening our base and into the core business of used vehicles. That is what is the overall strategy that we have.

In terms of COVID-19 we are just going through and wave 3 is completely at the end. We have not seen any impact. The impact seems to be minimal on this part. We don't see any issue. As we don't foresee anything, any wave 4 coming as of now, we see our economy growing in a much-much faster pace and overall, the external environment to stabilize which should help us in adding more people more productivity. That will be our overall plan.

Stage-3, if you see our numbers, Stage-3 is down in the new book Stage-1 is close to about 90% besides the wave 2 & 3. We have been maintaining these numbers in the new book which clearly means that we are building up a robust book which is going to be helping the organization's portfolio and bottom line in future in coming quarters. NIMs, I've already mentioned, it has started improving and we see further going up. Cost of funds has been stabilized and it is going down as the market today is, we are getting at a better rate due to our quality of portfolio.

Kaumudi Biyani: Coming to, Liquidity perspective would like to highlight that we are highly liquid and as per the company's strategy we intend to keep around 2 to 3 months of liquidity in our liquid cash and liquid mutual funds for our future growth and disbursement. With this we probably open the call for any further queries.

Deep Jaggi: We are happy to answer your questions from here on.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Niteen Dharmawat from Aurum Capital.

Niteen Dharmawat: Can you give us the NPA numbers for this quarter versus last quarter and versus last year?

Deep Jaggi: If there are couple of things, one is the Stage-3 numbers. There is a decline in the Stage-3 overall. It has come down to 4.2%. So, it is at 4.2%. Now coming to the GNPA number, there has been a slight change in the RBI norm due to which as of now we are close to about 7.2%. But if you see Stage-wise movement which is as we follow Ind-AS, we are on the decline.

Niteen Dharmawat: My second question is related with housing sector. You mentioned that you want to enter into more aggressively in affordable housing. I see that the operations revenue has come down in this quarter year-on-year basis from INR 6,000 lakhs to INR 3,700 lakhs. That is one point. Second is how can you compete against the public sector banks, the likes of the banks where the cost of capital is much lower? How do you plan to do that in this segment especially?

Deep Jaggi: I'll divide these questions into couple of things. One I will request Ms. Kaumudi to answer who handles the finance. The second question is on where we are going to compete. We are in to completely different line. We are not competing with public sector banks. We are into self-construction which is at 13.5% to 14% which is rural. We are not competing with public sector bank.

Kaumudi Biyani: With respect to the housing finance income, there is a one-off adjustment which has been done our basis our discussions with right from an accounting adjustment relating to assignments income because of which you are seeing a decline in the revenue from operations. But excluding this one off there has been growth in our revenue from operations business considering the increase which has happened in the housing finance disbursements.

Moderator: The next question is from the line of Pankaj Prasun from HNI Investor.

Pankaj Prasun: Every quarter-on-quarter we are seeing this credit cost is coming, provisioning is coming. Last con-call also I think there was a comment that now no more credit cost will come. My question is that is it over or still is it pending? If it is there, why don't we write-off once go and do not give shock every quarter?

Deep Jaggi: Overall if you see our numbers, we have a very high capital adequacy. We are at about 35% against regulatory requirement of 15%. COVID-19 wave 3 in December and January still it is just over. The impact is very minimal. We don't see those problems coming up. This credit cost that you see it's a regular review in the internal policy. We have adopted a conservative provisioning policy, as our customers are just coming out of the regular forbearance. Stage-3, there has been no movement. Let me also share with you. We don't expect losses because of this credit provisioning. We should recover from this; we don't see any loss into that and to strengthen further we have added our call center for collections and we have also added the collection team to support the yield and business team. We don't see any losses in this.

Pankaj Prasun: My question is, suppose this December quarter is over, March can we see those kinds of again provisioning?

Deep Jaggi: We don't expect anything on that.

Pankaj Prasun: My next question will be on the used tractor finance because what kind of market size have you assess that what kind of market size is there and what kind of market share, we will get and who are the competitors in that segment?

Deep Jaggi: When you talk about used tractor business, if you talk about a pan-India player there is no pan India player today. The tractors are sold on the exchange market. The players who are working on this particular market is maybe A U finance; SK finance and they are also working in a particular segment or a particular state. We see this niche coming up that there is nobody to address this market pan India. We have a setup which is a (+400) branches already. We do not expect that anything which anybody is not doing we will be able to deliver that. That is what is our question. We expect the market at some there about INR 800 to INR 1000 crores market size.

Pankaj Prasun: Just 800 to 1000 crores that's all?

Deep Jaggi: Yes, because the ticket size is 1.5 lakh and it operates at 24%-25%. That's a very high yield market at 24%-25% market.

Pankaj Prasun: I think last con-call we had discussed that around 70,000 tractors being sold every year. My understanding was that this used tractor market must be bigger than that.

Deep Jaggi: See it is just an estimate that I am telling you, the market could be bigger because there is no organized player in this particular market.

Pankaj Prasun: Exactly. My precise point was that only.

Deep Jaggi: We will be getting; we have a target in our mind what kind of disbursements we are looking and we are sure that we can deliver that. Once we test the waters of this particular segment then we will really assess where do you want to get into this particular segment and how much volume we expect because it's not an easy market. And it is a very unorganized market. The cost of acquisition can be higher. You have a concentration of tractors in particular seven or eight states but there are markets like Eastern India is growing much faster than anybody. There are no organized players who are financing this particular business. We expect ourselves to address the pan India market for used tractor. That's the plan.

Pankaj Prasun: I completely agree with you that Eastern market and north-eastern market, there is a biggest scope for the used tractor. So, are we on with our earlier guidance that in 5 years we want to cross beyond INR 50,000 cr of our book?

Deep Jaggi: So, Prasun I have mentioned this. We are on track for our 5-year plan. We don't see any deviation as on date. That is the reason that we have added branches. In the next year also, we will be adding more branches.

Pankaj Prasun: Currently how many branches, right now how many branches are there?

Deep Jaggi: As on 31st December we have 343 branches.

Pankaj Prasun: And as on date?

Deep Jaggi: We plan to have 400 branches by March.

Pankaj Prasun: Because December is already out and January is over, so December we had done roughly INR 500 crores of disbursements which is the highest. So, January number is better than December?

Salil Bawa: So, let's not talk about January as of now.

Deep Jaggi: Prasun, I just mentioned we have established ourselves to a particular number. So, I'll not be able to comment on my January numbers.

Pankaj Prasun: No issues because of the regulatory requirement. I would like to take your time in person to speak over more over the business model and all. Just I will request Salil also to get me as soon as possible.

Deep Jaggi: Anytime, you can be in touch with Mr. Salil. We are happy to have a meeting on the same.

Moderator: The next question is from the line of Sumit Bhalotia from MK Ventures.

Sumit Bhalotia: First is on the asset quality. So, you've mentioned GNPA numbers. It would be helpful if you can provide the entire breakup of what was the exact impact of the recent RBI regulation, gross as well as net NPA as of now as of December quarter and also movement in Stage-2 book.

Kaumudi Biyani: From an asset quality perspective we would like to highlight that a we being an NBFC are currently on Ind-AS regime. Our financial statements are being prepared under Ind-AS. We are reporting our numbers as Stage-1, Stage-2, Stage-3. Coming back to the RBI circular of 12th of November. That's more of a regulatory requirement in terms of reporting of an NPA number but it does not impact our financial statements reporting of state 3. We continue to state that our Stage-3 level has better off as compared to the previous quarter. Currently we are at 4.3% of Stage-3 book. From a regulatory reporting perspective, we will actually do our reporting to RBI on the NPA as per the requirement of RBI's circular required.

Sumit Bhalotia: The question is because of we have not done any additional provisioning because of the RBI impact and clearly from 4.2%-4.3% of Stage-3, we have around 7.2% is what you mentioned as per RBI. Accordingly, our net NPA would have gone up from 2.3% to whatever number that's the number I am asking like what is the net NPA as per RBI? Do we need to make any additional provisioning in the March quarter from a regulatory perspective?

Kaumudi Biyani: So basically, from a provisioning perspective we would like to highlight that our ECL provision is significantly higher as compared to the RBI provisioning. When you're looking at the assets where we see that there is an increase in credit risk, we have already classified them into Stage-2 and created a provision as per as Stage-2 requirements. There's no specific impact which we anticipate from the RBI circular on our ECL provisioning norms.

Sumit Bhalotia: And movement of Stage-2 book on the quarterly basis?

Kaumudi Biyani: On a quarterly basis our Stage-2 book was around 21% as of September and as of December there is a marginal increase to around 27%.

Sumit Bhalotia: 27% is Stage-2 book?

Deep Jaggi: This is more towards, it is not the movement of the book, it is more towards the internal policy review we have done and it is a conservative approach on the policy. I have already mentioned that we don't expect any losses in this particular aspect.

Sumit Bhalotia: The RBI impact is added in Stage-2?

Deep Jaggi: We can give you the details. Salil can provide you all the details that are required.

Sumit Bhalotia: Another question is on our cost aspect. So, we've been as guided, you've been expanding our branch presence then you're on track or to achieve 400 this year and the number you'll be expanding next year. You mentioned that going forward from next year the focus will be more than the hub model, the spoke model. Majority of the hub you have already established, on the cost front how would that cost to income chain in the next four to eight quarters if you can give some visibility on that part? That'd be helpful.

Deep Jaggi: Sumit, if you see our overall productivity, we are now averaging at about 1.1 crore average business from each branch. Each person is coming to about INR 35-40 lakh. That's what I said that we have already added up cost, cost of the branches for 200 branches is already done. From here on we see a declining trend in our CAPEX. We also see overall costs coming down in terms of when you're talking about cost to income as the book is also growing. See what has happened till date is that on one side we have been building up a good book in terms of retail book. On the other side there have been slippages in the inorganic book and the corporate book. While the product mix has changed, the overall mix has changed but the impact on the book is not being shown. Next year we don't see any run-off of corporate book much. We don't see anything coming from the inorganic book which is just left. It's about INR 500 crores as on 31st of December. Whatever we are going to build up and we are going to build up from the Q4 numbers. You can see in Q3 and Q 4 numbers; the significant increase will be there in the book next year. When significant increase is there and your CAPEX is less I'm sure overall the cost of income will come down.

Sumit Bhalotia: Logically that is what I was just confirming. Given that whatever expansion that we have done this year, benefit of most of the recent bunches will start accruing from next year. Ideally there should be a reasonable improvement in cost to income. The only thing that I wanted to confirm was whether the expansion that you'll do in branch business whether the cost will offset this improvement or on a net basis whether we will see a cost to income coming down from the quarterly basis going forward?

Deep Jaggi: Yes, it will come down. You will see a significant drop in cost to income.

Moderator: The next question is from the line of Harsh Shah from Dimensional Securities.

Harsh Shah: If I look at your yields in the SME side, it has come off drastically from around 15% odd to 11%. So, can you help us explain that?

Deep Jaggi: Sorry, come again.

Harsh Shah: The SME finance book. If I look at the book, it has come off quite a bit. It is now for Q3, it was at around 11.5%. It used to be around 13%-13.5%?

Deep Jaggi: As of now we are not focusing on the book which is SME book and there was one portion which was of the BL which is personal loan which we were doing; that has been discontinued to stabilize the portfolio. Once we were reworking on our policies and definitely it can be brought up. We are well aware of the things but we are in this part, it is more to have a control. If you see my book in SME it has not grown but we are just stabilizing the book. If you see the first time in the last 4 months our Stage-1 has started improving. We see a significant improvement and we will be also; today we are working on improving our portfolio. We expect the Stage-1 to go in excess of (+70%). We are also changing and reviewing our policies in SME. I can assure you the next year the focus will be there back on the SME book as well. We will improve our yields in that part.

Harsh Shah: Because if I look any credit cost you haven't provided much in that book for this quarter. I would assume that there wasn't any interest write-back or anything of that sort?

Deep Jaggi: Book is stabilized. There are no losses. Whatever has to be provided it is already taken care of. Book is stable.

Harsh Shah: There weren't additional slippages as well, right?

Deep Jaggi: Normal whatever is there. It is very traditional normal. There's nothing much.

Harsh Shah: When we talk about the yields in our CV book, you expect the yields to increase going forward. Now when we're moving from one end to vehicle owners to maybe larger fleet operators from 3 to 10; shouldn't that lead to fall in the yields rather than increase because they are moving towards more secured and more matured borrowers?

Deep Jaggi: Harsh, if you see the commercial vehicle business the biggest impact which has come in the weighted rate is primarily that we had earlier exposure of 35% in HCV new. HCV new comes at a rate of about 12%-12.5%. Whereas the used businesses coming at 16.5%-17%. The moment you are cutting HCV new business, you are reducing your risks as per us in the retail segment. Second is that overall weighted rate of the book will go up because the percentage of used businesses is improving, significantly improved in the percentage book. So, new going down, risk going down, rates are improving because of the percentage product mix change in our overall portfolio.

Harsh Shah: When we talk about the growth in affordable housing and CV segments. So, we hear almost all the NBFCs guiding very high growth about 25%-30%. My question is where are we expecting this growth to come because everyone is trying to gain market share. Shouldn't that add pressure to the yields and from where will this growth of 25%-30% come for next 4-5 years that we are guiding?

Deep Jaggi: What we have done is when you talk about used vehicle finance business, there are two significant players which are there and they're stabilized. One is the Shriram and second is the Chola. There is no third significant player in this particular market. We have also made our presence in the untapped markets which are like East. I'll just give you a number. It was zero in the month of December 2020. Now the contribution is about 12%. We have added these new branches that is helping us. Similarly, we had only 7% to 8% business coming from the Northern markets, now which is coming to about 30% of the total disbursement which you have. In first phase that is what I said we have created hub. So, we are present, we have made our presence in all these markets. Next phase will be, get into spoke, which are Tier III-Tier IV markets. The moment you get into these particular markets that will help us to grow.

Harsh Shah: No, I understand here the micro-strategy but when I look at the macro part, over next 5 years we expect the CV industry per se to grow by maybe 10% odd, the affordable housing industry maybe it will grow by 12% to 14%. But when we say growth of 25%-30% CAGR, are we going to take shares from the unorganized sector or from the banks or how will that grow? The alpha that we are talking of 15%-20% from where will that come?

Deep Jaggi: If you actually see the number vis-à-vis 2019-'20 the heavy commercial vehicle numbers are still down, new heavy commercial vehicles are still down. I don't expect those numbers coming back up to year 2023. Whereas the market, overall industry is improving, everybody is predicting a good GDP growth next year as well. That means the industry is going to move. When the new vehicles are being added are less than year 2019-2020, there is going to be a substantial growth in this particular segment, that's part number one. Part number two is that government has also put up a cap on the life of the vehicle which is 15 years now. Every year you will see 50,000-60,000 vehicles going out of the roads because those has to be replaced. I see a much bigger shift in retail market, in the used vehicles whereas the strategic customers will be buying new vehicles more because that's sometimes that's a requirement of some of the manufacturers like Oil companies will ask, okay the life of the vehicle should not be older than 5 years or 6 years. Those vehicles they start coming in the retail used market. That is what we expect. That is what is actually helping us to grow in this particular market.

Harsh Shah: You mentioned that our Stage-2 assets has seen an increase and even on the RBI side our GNPA has increased on the reporting side. Do you think that we are adequately provided and numbers, would you expect the Stage-2 asset to trend down going forward and where do you expect it to stabilize?

Deep Jaggi: I have mentioned upon, as far as the GNPA as an RBI concerned it is across, it's an accounting, it's more to do with accounting because that's a change which the government has done, the RBI has done. This the GNPA has gone, there is an increase across the NBFCs, it is not with us but when you talk about the provisioning which is a Stage-3, now Stage-3 for us there is a decline. I don't see anything which has impacted. If you talk about a (+90) of Stage-3, we are having a better health than the last quarter. We don't see an issue and in terms of provisioning I have already answered that question.

Harsh Shah: And Stage-2, it is currently at 27%, where do you expect it to stabilize?

Deep Jaggi: We don't expect any so whatever the additional is there, we don't expect any losses in that particular portfolio.

Moderator: The next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund.

Vivek Ramakrishnan: My first question is on the overall CV strategy. In terms of you have mentioned Shriram and Chola, are you kind of the same customer segment as they are? They are in the sense that, the pie is expanding and you're getting more business from let's say unorganized players but is there any qualitative difference in the customer asset between any of these in between you three?

Deep Jaggi: Vivek, so what I expect is here if you see, if you understand the Chola portfolio or a Shriram portfolio. Now Shriram is more into first-time buyers, first time users. They don't focus on the retail customers much. Their bigger portfolio will be at the lower base of the customers which is one vehicle owners or two vehicle owners. Now when you come to Chola, Chola's portfolio will be primarily, if you see the breakup up of Chola, Chola is much bigger into light commercial new. They have equal participation in used. Whereas what we are talking about is a 75%-80% of our business coming to used which is from a three-vehicle to twelve vehicles. That's the kitty, that we expect to address and that is what we are getting.

Vivek Ramakrishnan: Intuitively, would it be right to say that your asset quality trends should better than let's say a Shriram over a period of time?

Deep Jaggi: Yes.

Vivek Ramakrishnan: Because we have bigger customers and more stable...

Deep Jaggi: The new book which we have developed in last 13-14 months, your Stage-1 is close to about 90%.

Vivek Ramakrishnan: You had mentioned about FinTech. Would FinTech be addressing cost or customer acquisition because as far we understand CVs still a touch in field kind of business, right?

Amit Kothari: So, as a part of our FinTech strategy we are doing a lot of optimization in the way how we conduct our business. We are bringing in new applications, we are optimizing the way how we work, we are reworking some of our processes and the biggest bet that we have today is in terms of automation. A lot of work will be through machines, lot of work will be through process improvements and through new digital channels that we'll be rolling out in the near future which will start bringing down the overall cost of how we do our business.

Vivek Ramakrishnan: Is this aimed at the housing finance business and the SME business or is it aimed; I am not getting a clear sense of exactly where it is in depth? So, if we could help with that?

Amit Kothari: So, for us we are looking at the entire company. We are looking at all the portfolios that we are running today. Some of the provisions or some of the mechanisms that we are using are being piloted on different programs with different objectives and depending on the success that we achieve on either implementing several kind of Bots or several automation projects or several of these initiatives where we will start leveraging more of India's tech kind of technologies will start rolling them out across the different businesses and different product lines too.

Vivek Ramakrishnan: This is regarding the Stage-2, this is 27%. Is the collection efficiency in this portfolio good? In the sense you had explained which stable or trend downwards which means you're confident about collections. So, and you also talked about a management review where you change it. So, what was the big change that cost it to more from 21% to 27%?

Deep Jaggi: There are certain internal; you know we keep engaging our portfolio. This is an old book where we have taken an internal policy revision. That is what it is there.

Vivek Ramakrishnan: It's coming from a lot from the old book?

Deep Jaggi: Yes. So that's what I said. Stage-1 for new book is 90%.

Vivek Ramakrishnan: But the collection efficiency, do you expecting that it'll be stable?

Deep Jaggi: Our collection efficiency at EMI-to-EMI is about 95% average in all the categories.

Vivek Ramakrishnan: In your presentation, you said that the corporate book will go off in four to six quarters. Is there any chunky loan that can get repaid in the interim where we'll see a drastic dip from the current numbers?

Deep Jaggi: That will depend on the people who have invested and who have taken loan from us. Today it will be very difficult, somebody who's going to take a dip. It's not right for me. But today what we are seeing today is that it's a regular outflow by paying the EMIs. This is that we are predicting. We're not predicting that somebody is going to close his business and close his loan and shifting it to somebody else. That's what, it's not easy for us to predict today. If it happens, we'll be happy to do that.

Moderator: The next question is from the line of Sharaj Singh from Laburnum Capital.

Sharaj Singh: Regarding the affordable housing space. So, what I understand is when you are saying rural, what level are we doing rural? Is it like the block level taluka or what exactly do we mean by rural here?

Deep Jaggi: We are talking about Tier II,Tier III cities. You know you have huge announcements coming from Prime Minister Aawas Yojana and that is a particular segment that we're talking about.

Sharaj Singh: In the opening remarks you had mentioned you're looking to partner with smaller NBFCs to expand the rural reach. Could we explain this? What are we doing here exactly?

Deep Jaggi: There are certain NBFCs and the small NBFC which have got penetration which is more unorganized or they are the companies which are present in the lower segment. Like they will be into the small commercial vehicle funding and those particular aspects. We are looking at some good partners which will be on the loss pool basis, loss sharing FLDG. So, and which is not going to impact our portfolio but it can give us a good income. That's what we are looking at.

Sharaj Singh: I mean what is the basic arrangement you are looking at? Is it a like a co-lending or assignment-based arrangement?

Deep Jaggi: It's going to be co-learning primarily. It's going to be sharing so it's a 20-80 as we have tie-up with somebody it's a 20-80 and FLDG loss will be at their book, not at our book.

Sharaj Singh: This will be for which sector across the portfolio?

Deep Jaggi: Primarily used commercial vehicles.

Moderator: The next question is from the line of Sumit Bhalotia from MK Ventures.

Sumit Bhalotia: What is the size of this new book. You mentioned that Stage-1 is 90% for the new book which is started all meeting at from last quarter 2020. So how does an entire yield of INR 90 to 100 crores, what would be the split?

Deep Jaggi: Can you repeat the question?

Sumit Bhalotia: You mentioned the new book asset quality is far superior than the older book and yields are around 90% in Stage-1. I'm just trying to understand that what is the quantum of this new book which has been related through the new management take over? What is the quantum of the loan book for which we have been calculating this?

Deep Jaggi: Sumit, I will have to actually get into more detail. I can definitely share with you on the mail, what is the quantum of that particular volume. But let me share with you that today is the commercial vehicle approximately 65% of our book is new, 35% is old.

Sumit Bhalotia: Second is, this restructured book that we have of around 7%. Is this completely part of Stage-2 or some part of it is in Stage-1 also?

Deep Jaggi: No, all the cases which are restructured will be Stage-2, none is Stage-1. Even if it is they are paying on time it is Stage-2.

Sumit Bhalotia: I am just trying to understand why there is on the quarterly basis why there is such steep increase in Stage-2 then we are seeing an improvement in asset quality across the board. Why there was such a sharp increase?

Deep Jaggi: That's what I said Sumit, more of a policy rather than anything else and I've also mentioned that we don't expect any losses in this particular book provisioning.

Sumit Bhalotia: We have not increased our provisioning also, right? Despite of this movement from whatever 21%-22% to 27%, we have not increased our provisioning in for this?

Deep Jaggi: Provisioning is only as per the Stage-2, not anything else.

Sumit Bhalotia: It's as per whatever the regulatory requirement is?

Deep Jaggi: Yes, that's a regulation.

Sumit Bhalotia: For this slippage in corporate book that we see of around INR 19 Cr? Can you give some color on that? Are there any pending shares in the corporate book which can come in the next few quarters?

Kaumudi Biyani: There are two cases which are basis their DPD movement have slipped into Stage-3 but we don't expect any further deterioration in this particular book.

Deep Jaggi: See Sumit, as far as the corporate book is cut, we have the provisioning and we have actually provided a lot. We don't expect any losses in this particular more than what we have provided for.

Sumit Bhalotia: We gave a guidance of around 10%-12% of the book will be corporate by year-end. We would still be seeing some run down in this book?

Deep Jaggi: Yes, it's a regular so when it's completely with EMI which is being paid. That is what we are looking at. If you see the overall in last two-three quarters there has been a substantial decrease. We are not going for any fresh disbursements rather than wherever we have committed as per the old, that is going on but there is no additional customer which is being added for corporate. It is 100% retail which is happening.

Sumit Bhalotia: Within retail, do we share our internal targets on the composition of the retail book in say '23-24 in terms of CV, SME finance and a housing?

Deep Jaggi: Sumit I think it will not be right for me to, you're talking about 2023-24?

Sumit Bhalotia: Yes, I am saying going forward, what is the internal target of maintain that product mix in terms of CV and SME and affordable housing?

Deep Jaggi: I think it will not be right for me to immediately take this question but we can take it offline.

Sumit Bhalotia: Sure. Lastly on this cost of funds. What kind of improvement are we expecting in terms of credit rating and cost of funds going forward? Because ultimately as you've mentioned that it will be helpful for our affordable housing segment also. So, we have seen a reasonable improvement last four to six quarters. Going forward, if you can share your view on that?

Deep Jaggi: We do expect further, you have already seen there is the cost is already coming down and we expect the same trend to continue. We don't expect anything which is going to change overall. We will be working with the rating agencies once our portfolio is there. We'll be working for improvement. Once we have our improvement of our rating, definitely will help us. We are both working on that particular aspect as such.

Moderator: The next question is from the line of Rikesh Parikh from Barclays.

Rikesh Parikh: Can you just throw some light on means the way will be expanding our branches rapidly for a 5-year plan? Over next 1-year, how many branches we are looking to add from our 343 currently?

Deep Jaggi: So, Rikesh March, we should be ending close to about 380 to 400 branches. That is what is expect. There could be, we are targeting 400, there could be a blip maybe 10 branches here and there. We do expect to add another 150-200 branches next year.

Rikesh Parikh: Coming to our cost to income ratio which has been, we have been able to maintain around 59% stable as such. With these increase in branches, do we see that we'll be maintaining around this level or there is a chance that we can dip from 59% over the next 1 to 2 years?

Deep Jaggi: What has happened is that we have lost couple of months initially due to wave 2 because of which we added the cost and we could not start the business because of the second wave but the way our numbers are increasing, the way volumes have increased quarter-on-quarter, definitely the cost to income ratio will come down. That is what we anticipate.

Rikesh Parikh: Can you throw more light on our tie-up. We have done with a small NBFC in South. What kind of arrangement we have with that NBFC in the co-lending space?

Deep Jaggi: It's more to do with so it's a 20-80 kind of tie-up. 20% capital from that side and 80% from our side and the loss anything cases which are beyond 90 days will be taken over by them. We don't expect any loss in that particular tie-up.

Rikesh Parikh: Beyond 90 days will be borne by the originator.

Deep Jaggi: Yes.

Rikesh Parikh: Last on our FinTech app. Basically are we looking to come anything on the digital end or it will be more of an operational efficiency and around those level?

Amit Kothari: So, we have an all-encompassing of FinTech value proposition that will be bringing in today. I'm not just looking at automation initiatives but we are also looking at rolling out new solutions, digitizing our entire lending process from start to finish, touching all the different stakeholders, including in-house, including the agencies that we work with. It will be a completely thought out, well laid, digital end-to-end journey that will be rolling out on our platforms.

Rikesh Parikh: If I understand that we'll be rolling out new product once this FinTech app is rolled out, right?

Amit Kothari: Yes. Some of our existing applications will be upgraded. Some new applications will make its way into our IT Landscape and there'll be an immense value-addition for our customers from an experience standpoint and including our stakeholders with whom we work outside the company as well.

Rikesh Parikh: What will be the timeline for this rollout or when we are looking at this rollout?

Amit Kothari: Some of the rollouts will start as early as next quarter. There's a long roadmap that we have planned for incremental upgrades and a new addition store IT Landscape. You'll start seeing some of them rolling out next quarter onwards.

Moderator: The next question is from the line of Harsh from Reliance General Insurance.

Harsh: What is the expected credit cost we are expecting from FY23?

Deep Jaggi: That will be very difficult to comment today. I think once we make our budgets then only, we will be able to answer this question but definitely we are looking at a negative trend. It will be coming down.

Moderator: The next question is from the line of Abhijit Tibrewal from Motilal Oswal Financial Services.

Abhijit Tibrewal: My first question is for Kaumudi. Can you just help us understand that the credit cost that we have taken in the P&L during the quarter; where have they been parked? Please kind of correct me if I'm wrong but for broader understanding is whatever credit costs that we take in the P&L broadly it either goes into your ECL provisions or it could be in the form of write-offs. When we look at the ECL provisions that you have reported, they have actually declined on a Q-o-Q basis. Where has this credit cost that we've taken in the P&L gone?

Kaumudi Biyani: Abhijit, the credit cost as per the normal accounting norms has been taken into the impairment line. The credit cost consists of two elements as you have rightly mentioned. It's the expected credit loss provision and the write-offs. From both the fronts for this particular quarter we've got a write-off which is nominal, technical write-off of around INR 7 crores which we've taken in this quarter and the incremental credit cost which you see is nothing but it's relating to the ECL provision created on our books.

Abhijit Tibrewal: What is this impairment reserve that you talked about?

Kaumudi Biyani: No, there's no impairment reserve. Impairment reserve is more of a terminology which we use in case our provisions are lower than the regulatory requirements which is RBI. What I meant is it's clubbed into the line of impairment of financial instruments as per the accounting requirement.

Abhijit Tibrewal: This you said is including the INR 7 crores of technical write-off that you took during the quarter.

Kaumudi Biyani: That's right.

Abhijit Tibrewal: My second question is for Mr. Deep Jaggi. So just wanted to understand and maybe kind of I'm asking the same question in a different way. What have you changed structurally on the business side? Can you please help us kind of articulate changes that you have done on the underwriting side which should now give us confidence that the stress that we had seen in the past, in your organic book, from the book which you acquired from IIFL will not repeat kind of as we move along?

Deep Jaggi: So first of all, we have actually reviewed our organic book when I had joined this organization and we had seen a couple of things. One was the how the external factors which have impacted. The completely bus segment had a problem. Then we also were going through the over the commercial vehicle industry was going through the negative cycle. When it goes through the negative cycles, your freight rates are down. In the March, your GDP was down. When your GDP is down, freight rates are down, when your manufacturing is down so first impact will come on the commercial vehicles. So, we have cut down, let me also share with you the numbers are overall exposure in organic book for HCV new was close to about 35% which has come down to 1%-1.5%. That's the change, that's the shift we have done. Second, we are focusing on a product which is depreciated and we have a higher weighted IRR. We are focusing on the products like used car, we are focusing on light commercial vehicles. Now how it makes a difference? When you talk about a light commercial vehicle, be it wave 1, 2 or 3 and maybe even 4, the internal consumption of this country will not go down. We will continue to take, consume whatever we consume. The light commercial vehicles primarily and the small commercial vehicles are directly linked to internal Indian consumption rather than the industry. We are focusing on the products which are more towards the consumption of this country rather than focusing on the industrial products. Tomorrow if any of the car manufacturers or any of the white good's manufacturer or even the buses contracts or schools get impacted, the new book will not have an impact. So, we have just sliced down the segments like the hospitality segment, the moment you have a wave 3 which has come, you have airlines cutting their flights, the hotels going down. Anything which was impacting these particular segments so we have not taken exposure in these particular segments. So, it helps us and it is now the portfolio is linked to the internal consumption of this country rather than having an exposure on all across commercial vehicles. That is the change we have done.

Abhijit Tibrewal: Lastly while this was maybe in terms of your product selection in terms of your underwriting. If you could just briefly also tell us, what are the changes that you've done on the collection side?

Deep Jaggi: I already mentioned we first we have brought down our call center for collections. That is helping us to, if case there is any bouncing in the new portfolio there is a proper follow-up and that's a soft collection. So, we have to arrest the fresh flows. That is what we have done. Second earlier we were not a year back or 1.5 years back, we were not having a separate collection team. Today we have about approximately 300 more people just to arrest the collection. First is the arrest of a portfolio at our collection call center. Second is if there is a flow there has to be a follow-up collection team. That is what we have brought in.

Abhijit Tibrewal: If I might ask, I mean I understand few participants during call have already asked this. But in terms of guidance be it a medium-term or a long-term guidance, what is it that we are guiding for? I mean anything in terms of the book growth that you have in mind or the kind of leverage that you want to build on your balance sheet in terms of the NIMs, opaques, ROAs, ROEs, that you would aspire for? Anything around this, I mean do you want to share anything?

Deep Jaggi: Abhijit, if you actually see our numbers, if you see our numbers are quarter-on-quarter there has been a significant increase and let me also share with you while we are talking, we're going to add about 200 FOAs between Feb and March. So, we are adding people, we are adding branches. When we are adding people and adding branches the numbers where we are, we are definitely looking at a growth from here. We will be sharing with you the numbers what we have delivered and I can assure you the overall disbursements we have reached the level of INR 500 crores in the month of December. We are looking forward for larger numbers from this particular platform where we have achieved.

Moderator: We will take the last question from the line of Sharaj Singh from Laburnum Capital.

Sharaj Singh: Can you tell me the total provisioning on the books and break it into the ECL and the overlay provision?

Kaumudi Biyani: The total ECL provision on our loan book is around INR 600 crores and we do not have anything specific as a management overlay provision because we have allocated it across to our portfolios and everything is driven through the ECL model now. Would you like to know product wise provisions also?

Sharaj Singh: What would be the provision on restructured book and the RBI required provisioning requirement?

Kaumudi Biyani: On our restructured book we are holding around 16% of our provision is on our restructured book and we are basically carrying it as per our RBI provisioning requirements. It's either a Stage-2 or the RBI-defined 10%, whichever is higher.

Sharaj Singh: No, I was asking the provisional requirement on the entire book based on RBI requirements?

Kaumudi Biyani: On the restructured book, the RBI requirement is 10%.

Sharaj Singh: On the entire book? How much provisions do we lead to? So, we are carrying INR 600 crores of ECL provisions? How much is the RBI mandatory provisions that we need to require?

Kaumudi Biyani: The RBI provision requirement against this particular entire book is only around INR 200 crores but we are carrying INR 600 crores as per our ECL model.

Sharaj Singh: If you could give the segmental break-up of these provisions?

Kaumudi Biyani: On the corporate book, out of the INR 600 crores on corporate book we are carrying around INR 150 crores, on SME we are carrying INR 84 crores, on our CV book it's around INR 350 crores and on our housing finance portfolio around INR 18 crores.

Moderator: Thank you. I now have a conference over to Mr. Abhijit Tibrewal for closing comments.

Abhijit Tibrewal: Thank you. I would take this opportunity to thank the team at IndoStar for giving us this opportunity to host the call today and thank you all for being a very patient audience.

Moderator: Thank you. Ladies and gentlemen, on behalf of Motilal Oswal Financial Services Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.
