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January 27, 2025

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

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

Scrip Code: 541336

Symbol: INDOSTAR

Sub.: Transcript of analyst(s) / institutional investor(s) call held on January 21, 2025 at 12:00 Noon (IST)

Dear Sir / Madam,

Please find enclosed herewith transcript of analyst(s) / institutional investor(s) call held on Tuesday, January 21, 2025 at 12:00 Noon IST, pertaining to the Unaudited Financial Results of the Company for quarter and nine months ended December 31, 2024.

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**

SHIKHA JAIN
Digitally signed by SHIKHA JAIN
Date: 2025.01.27 17:08:46 +05'30'

Shikha Jain
Company Secretary & Compliance Officer
(Membership No. A59686)

Encl: a/a

"IndoStar Capital Finance Limited
Q3 and 9 Months FY '25 Earnings Conference Call"
January 21, 2025

MANAGEMENT: **MR. RANDHIR SINGH – EXECUTIVE VICE CHAIRMAN – INDOSTAR CAPITAL FINANCE LIMITED**
MR. KARTHIKEYAN SRINIVASAN – CHIEF EXECUTIVE OFFICER – INDOSTAR CAPITAL FINANCE LIMITED
MR. VINODKUMAR PANICKER – CHIEF FINANCIAL OFFICER – INDOSTAR CAPITAL FINANCE LIMITED
MR. SHREEJIT MENON – CHIEF EXECUTIVE OFFICER, NIWAS HOUSING FINANCE PRIVATE LIMITED
MR. PUSHKAR JOSHI – CHIEF FINANCIAL OFFICER – NIWAS HOUSING FINANCE PRIVATE LIMITED

MODERATOR: **MR. VIRAL SANKLECHA – ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to the IndoStar Capital Finance Limited Q3 and 9-Month FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing star then zero on your touchtone phone.

I now hand the conference over to Mr. Viral Sanklecha from Orient Capital. Thank you, and over to you, sir.

Viral Sanklecha: Thank you, Reo. Good afternoon, ladies, and gentlemen. I welcome you for the Q3 and 9 months FY '25 earnings conference call of IndoStar Capital Finance Limited. To discuss this quarter's results performance, we have from the management Mr. Randhir Singh, Executive Vice Chairman; Mr. Karthikeyan Srinivasan, Chief Executive Officer; Mr. Vinodkumar Panicker, Chief Financial Officer; Mr. Shreejit Menon, CEO, Niwas Housing Finance Private Limited; and Mr. Pushkar Joshi, CFO, Niwas Housing Finance Private Limited.

Before we proceed with this call, I would like to mention that some of the statements made in today's call may be forward-looking in nature and may involve risks and uncertainties. For more detail, kindly refer to the investor presentation and other filings that can be found on the company's website.

Without further ado, I would like to hand over the call to the management for their opening comments. And then we will open the floor for Q&A. Thank you, and over to you, sir.

Randhir Singh: Thanks, Viral. Good afternoon, ladies, and gentlemen. I welcome all of you to our Q3 FY '25 earnings call to discuss the financial performance of IndoStar Capital Finance Limited. I'm Randhir Singh, Executive Vice Chairman of IndoStar Capital Finance. I hope you all had the opportunity to review our financial results and investor presentation, which are accessible on our website and also via the stock exchanges.

Joining me today are Mr. Karthikeyan Srinivasan, our Chief Executive Officer; Mr. Vinod Panicker, our Chief Financial Officer; Mr. Shreejit Menon, the Chief Executive Officer of our wholly owned subsidiary, Niwas Housing Finance Private Limited, formerly known as IndoStar Home Finance Private Limited; and Mr. Pushkar Joshi, Chief Financial Officer of Niwas Housing Finance Private Limited.

At the outset, let me share with you how we structured this call. I'll briefly cover some key strategic highlights that the management team delivered over Q3 FY '25. Karthik will then be giving all of you an overview of the macroeconomic drivers and key industry trends, setting the broader context for the financial performance of the CV business. Subsequently, Vinod will give you Q3 FY '25 earnings update. This will be followed by Shreejit, sharing the Q3 FY '25 earnings update for Niwas Housing Finance Private Limited. We will then open the call for questions.

Here's a quick review of some of the key developments and highlights at IndoStar through the quarter. During the quarter, the management team delivered a consolidated PAT growth of 64% vis-à-vis Q3 FY '24, and AUM growth of 32% to INR10,625 crores and disbursements of INR1,572 crores, which is up 17% year-on-year. At the stand-alone ICF level, over the last 1 year, we've been able to reduce the cost of borrowings by 110 basis points. We are also carrying significant liquidity of INR1009 crores and additional undrawn amounts of INR575 crores.

The third update would be on the allotment of warrants to BCP Multiple Holdings Pte Limited. During the quarter, the Board approved the allotment of warrants of the company on a preferential basis by way of a private placement to Brookfield Capital Partners, a promoter of the company. The total consideration received by ICF is INR205 crores, which is 80% of the total subscription amount of INR257 crores.

Company monetized SRs of INR135 crores of CL pool, while also giving up liability to fund additional about INR60 crores on the ARC transaction. With effect from November 22, 2024, the name of IndoStar Home Finance Private Limited, a wholly owned subsidiary of IndoStar Capital Finance has been changed to Niwas Housing Finance Private Limited.

I will now hand over the call to Karthik to take you through macroeconomic developments and emerging trends in the industry.

Karthikeyan Srinivasan: Thank you, Randhir, and good afternoon, everyone. I warmly welcome you all to today's call and sincerely appreciate your continued support on our journey. To begin with, I'd like to touch upon the macroeconomic conditions this quarter. The RBI's MPC recently revised its growth forecast for the current fiscal year downward to 6.6% from 12.2%, while raising its inflation projection to 4.8% from 4.5% citing concerns over food inflation.

The MPC maintained a neutral stance signalling scope for potential rate cuts if the inflationary pressures is further in the coming months. India's retail inflation eased to a 4-month low of 5.22% in December, down from 5.48% in November, primarily due to slowdown in food prices. Although price increases have moderated slightly, inflation is unlikely to return to the Central Bank's medium-term target of 4% before the second half of 2026. RBI in its MPC meeting decided to keep the policy repo rate unchanged at 6.5% for the 11th consecutive time. The RBI governor emphasized that despite the recent economic slowdown, the structural drivers of growth remain resilient.

Real GDP growth is expected to recover)in the third and fourth quarters of '24-'25, driven primarily by domestic factors such as public consumption and investments. Moreover, stress test conducted on the NBFC sector indicate a strong level of resilience with capital levels well above the regulatory requirements even under the adverse scenario. However, we cannot overlook the global medium-term risks, including the geopolitical tensions, market volatility, climate disruptions and rising debt levels.

At the same time, it is important to address the outlook for the NBFC sector. The report suggests that growth in the sector may slow down in FY '25 due to several factors. Loan disbursements are expected to decrease, particularly in the unsecured loan segment as tighter regulatory checks come into play.

Additionally, slower growth in the vehicle sales and lower average selling price are expected to reduce the auto loan disbursement, especially for new vehicle. While the sector remains fundamentally strong, these strengths highlights the need for innovation, adaptability, and careful navigation of both the domestic and global challenges to ensure long-term stability and growth.

Moving forward, the commercial vehicle industry and the key trends in shaping its outlook, the CV has been a vital contributor to the economic activity and has shown growth over the past 2 years, driven by the post-COVID '19 recovery, infrastructure development and the revival of the mining activities.

The pent-up demand is likely to kick in any time soon was the expectation, but the pent-up demand has been quite slow. However, recent months revealed a decline in domestic CV sales, which fell by 5.2% year-on-year and 12.1% month-on-month. This is attributed to subdued market sentiment, delay in these releases of government funding and slower financing approval.

Tractors on the other hand showed some resilience with the 2.5% year-on-year growth driven by robust rural demand and improved agricultural liquidity. According to the recent CRISIL rating report, vehicle finance AUM in India are projected to reach INR9.4 lakh crores by FY '26 growing at a compounded annual growth rate of 15% to 16% over the fiscal and next.

This growth is driven by rising demand for used vehicles and a growing preference for premium model supported by steady sales across the commercial vehicle, car, and UVs. While the recent changes in GST on profits for used vehicles may slightly increase ownership cost for borrowers, the cost of the used vehicles will still remain much lower than that of the new ones, ensuring continuous demand in this segment.

The used vehicle segment is also facing some supply chain challenges. Many transporters are now turning tobuying used vehicles as the cost of the new vehicles has risen significantly. With the AC driver cabin coming mandatory from October '25, the vehicle costs are -- the new vehicle costs are likely to increase even further.

This has caused a significant stress on the supply side of the used vehicles because not enough older vehicles are available in the market. This shortage is due to fewer new vehicles that were sold during the COVID year, which means a number of vehicles, which are available for resale is also much lesser.

Additionally, the industry shift from BSIV to BSVI emission norms further reduced the number of older vehicles in circulation. For smaller transporters and first-time users, financing options of older vehicles are limited, making it harder for them to buy these vehicles.

At IndoStar, we remain committed driving growth by expanding our product offerings and strengthening our presence in the retail CV operator segment. To this end, we are developing ancillary products like tyre financing, designed to provide comprehensive solutions for our customers.

Our focus on technology continues to be a key driver of our efficiency and customer satisfaction. By integrating technology across loan origination, credit appraisal, disbursed and correction, we aim to improve our operational agility while reducing our service costs.

Let me now provide an update on our company's operational performance. In Q3 FY '25, our total disbursement reached INR1,572 crores, reflecting a 17% growth compared to the same period last year. Disbursements for commercial vehicle specifically amounted to INR1,265 crores, marking an 18% increase from INR1,074 crores in Q3 FY '24. As of Q3 FY '25, our GNPA stood at 4.9% for the stand-alone entity. However, collections were impacted due to heavy rains, which impacted the truck movement, which led to increase in delinquency levels.

Now I will hand over the call to Mr. Vinod Panicker to present the financial performance.

Vinodkumar Panicker: Thank you, Karthikeyan, and good afternoon to everyone. I appreciate all of you joining us for this conference call today. Let me now provide an overview of our financial performance for Q3 and for the first 9 months of FY '25. Assets under management reached a figure of INR10,625 crores, which is a 5% increase over INR10,112 crores of the previous quarter and 32% higher than the INR8,037 crores in the same quarter of the last year.

Disbursements during the quarter totalled about INR1,572 crores compared to INR1,724 crores in the immediately preceding quarter, but it was higher than the INR1,345 crores that we did in the same quarter last year. This growth versus the last year can be attributed to our strong focus on the retail segment and consequent spread of branches across the country.

Our retail lending strategy is successfully playing out with retail lending now constituting about 98% of our total loan portfolio. During the quarter, our consolidated net interest income from operations reached a figure of about INR241 crores, reflecting a 10% increase over the previous quarter and a 79% increase versus the same quarter last year.

The net interest margin remained stable and continued to be in the 5.6% range. Our consolidated operating expenses was at about INR155 crores, and we reported a consolidated profit of about INR28 crores compared with INR32 crores, close to INR32 crores in the immediately preceding quarter and INR16.9 crores in the same quarter last year.

Collection for the current year was at about INR1,265 crores, an increase from the INR1,163 crores that was there in the immediately preceding quarter. At a stand-alone level, ICF reached an AUM of about INR 7,877 crores, an increase of 4% over the immediately preceding quarter and 31% over the same time last year.

Disbursement during the quarter was totalled at about INR1,291 crores compared to INR1,462 crores in the preceding quarter and INR1,121 crores in the same quarter last year. We are pleased to highlight that our average disbursement yields have been maintained at 18.5% with a strong thrust of disbursements in Tier 3, Tier 4 towns and catering to secured lower ticket products, which we call as Focus 4, which covers car, pickups, light truck and small commercial vehicles.

Consequently, our average ticket size has also gone down over the last 5 quarters from a figure of about 8.2 lakhs that we had in Q3 '24 to 6.6 lakhs in Q3 '25. Incidentally, in the month of December, it had actually come down to 6.1 lakh for the month of December.

Our net total income reached a figure of INR181 crores, an increase of 9% over the INR166 crores that we did in the preceding quarter and a huge 87% increase versus the same quarter of last year. Operating expenses were approximately at INR121 crores compared to INR128.7 crores in the preceding quarter and INR91 crores in the same quarter last year.

Our cost to income has come down to 67% in the current quarter as against 94% that we recorded in the same quarter last year. Our capital adequacy continues to be robust at about 28.5% and debt equity is in the range of 2x, which gives enough headroom for future growth.

We are confident that this will help us drive our profitable growth in the coming quarters and years. Our emphasis on the coming quarter is to increase our borrowings from banking channel in a big way. In the current quarter, we repaid INR1,250 crores and at the same time, raised INR995 crores, of this 25% came from bank at an overall cost, which was about 10 bps lower than the immediately preceding quarter, we ended this quarter at about 10.8%.

The first 9 months of the current year, we have been able to raise INR4,000 crores plus at substantially lower rates as the confidence of the banks and other lenders have improved substantially. There were sanctions of about INR575 crores, which we would be taking in the month of January and February.

All in one ~~Overall~~, it is to say that funds have started coming to us and our costs have gone down significantly. We are hopeful of continuing down this path with an aim of getting our incremental cost of funding lower on a quarter-on-quarter basis. Our collections during the quarter was at about INR1,092 crores versus INR993 crores in the previous quarter.

During the quarter, the EMI to EMI collection was at 90%, the same as it was in the previous quarter, and EMIs plus overdue was at about 95% versus the 92% in immediately preceding quarter, which is an indicator that things are improving, though only in the latter half of the last quarter, and we are hopeful that this trend continues in future as well.

Collection performance has been impacted in the last 2-3 quarters. First, on account of heat waves, followed by extended heavy monsoon across the country, sluggish economy and while there was an improvement in the second quarter of the -- second half of the current quarter, the flow into the harder buckets in the previous quarters were tough to be corrected in a short period.

This led to we continuing to report the GNPA number at about 4.92% and the Stage 3 saw a bit of an increase at about 2.72%. Our credit cost for Q3 FY '25 stood at 2.6%. While the sale is higher than the previous quarter, we believe that the second half of the quarter gives us hope that the worst is behind us. And going forward, the credit cost will moderate.

As the macro environment evolves, we will continue to monitor our assets for early signs of risk and take appropriate measures to contain them through a robust collection mechanism. With the asset quality being maintained, cost of financing going down and the opex stabilizing and AUM and consequently interest income growing, we expect improved profitability in the coming quarters.

Now I invite my colleague, Shreejit Menon, to provide further insights into the Housing Finance business.

Shreejit Menon: Thank you, Vinod. Good afternoon, ladies, and gentlemen. Let me start by giving key highlights for the quarter and 9 months ended on December 31, 2024. We continued on the path of growth to post disbursements of INR281 crores for the quarter ended December 31, which is a 25% growth over quarter 3 of FY '24. With this, the disbursement for the 9-month period stood at INR753 crores, a growth of 19% over the same period last year.

I'm happy to report strong business performance across the parameters, marking a strong momentum. During the quarter 3, our assets under management reached INR2,747 crores, representing a robust growth of 34% on a YTD basis. Our loan book stood at INR2,204 crores. Our customer base now stands at more than 34,700 depicting a granular nature of our assets with an average ticket size of INR9 lakhs. We continue to focus on our key geographies with Tamil Nadu, AP, Telangana, and Maharashtra accounting for more than 85% of our portfolio.

As a business strategy, we've decided to go further deep in our core geographies and hence have expanded our presence to 135 branches as on December 31. We continue to expand readily in the chosen geographies by way of digital locations. We witnessed a marginal increase in our 90-plus days past due and GNPA levels. Our 90-plus days past due portfolio stands at 1.10% as on 31st December, which has increased by 10 basis points as compared with 1% in the previous quarter. Our gross Stage 3 assets, that is non-performing assets, stood at 1.64% as of December 31 under the once NPA, always NPA norms.

Continued progress in digital capabilities remained a way of life for us. And as a part of that journey, we've now developed profile-based PD templates, which helps to standardize the PD format for a particular profile. This, we believe, will help us scale the business in our chosen self-employed space, while reducing the misses in capturing information while doing PD and it will help in strengthening the underwriting process further.

In coming quarters, we plan to templatize all our self-employed profiles from a PD perspective. We launched our new brand and company name of Niwas Housing Finance Private Limited in quarter 3 of FY '25. The word Niwas is a Sanskrit word, which means home. And it's commonly used as a part of the house name in the self-construction segment, which is our key focus area.

Now let me go to the liability side. Having upfronted the borrowings in Q2 along with the announcement of the acquisition by EQT Partners, Q3 virtually needed very insignificant amount of liabilities. We raised INR50 crores by way of PTC route of securitization. We've received sanctions from a couple of large private sector banks in December '24, which were undrawn as of quarter end. The liquidity position remains strong with INR233 crores of cash on the balance sheet and undrawn sanctions of INR136 crores.

Now moving on to our financial performance. Our total income for the quarter 3 of FY '25 stood at INR107 crores and INR61 crores net of interest expenses. The same figure for 9 months FY '25 stood at INR287 crores and INR164 crores, respectively. Pre-provision operating profit stood at INR26.4 crores for Q3 and INR67.9 crores for 9 months FY '25.

Our profit after tax stood at INR16.3 crores for the quarter and INR44 crores for the 9-month period FY '25. Return on assets are healthy and it stood at 3% for the 9-month period FY '25. We maintain a strong capital adequacy of 52.6% and a debt-to-equity ratio of 3x.

In conclusion, our commitment to innovation, efficiency and maintaining a high asset quality continues to drive our success. Looking ahead, we remain focused on executing our strategic initiatives to further enhance operational excellence, expand our customer base and explore opportunities for growth.

We are optimistic about the future and remain dedicated to delivering sustained value to our investors and our stakeholders. Thank you once again for your continued support and participation. With this, I hand over the call to the moderator for further course.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from Vibha from FairConnect.

Vibha: Yes. My question is for IndoStar's CFO. There's been a sudden drop in other income if I see Q-on-Q and also financial year, as in December '23 versus '24, it dropped to INR37 lakhs as against INR8.76 crores previous quarter. Can you please explain the reason and also the future outlook? And also, the impairment you said the worst is behind us, this INR47.94 crores, that was this quarter is exceptionally high. Is there any one-off item that you sold, the bad assets that you had to take? Or it is the usual credit provisions?

And my third question is on cost of funding. Still at AA rating secured assets plus, you're borrowing at very high rates, your overall cost of funding, if I were to just annualize the financial, it's 11%, you said 10.8% and you borrowed at lower rates. Can you please explain that at what rate did you borrow? And how do you see this cost of funding in coming financialyear. Just 3 questions.

Vinodkumar Panicker: Vibha, good afternoon. Thanks for being on the call. I see that you had about 3 questions. Let me answer one by one. You mentioned about other income. You said that that has dropped significantly. Other income was -- we had done a branding exercise for one of the entities, and that was supposed to be there only for 1 quarter.

So that was only -- that was the income, which was there last time, that was about INR8.8-odd crores. And there is no income -- corresponding income in the current quarter. So that is the reason and that we always knew that that was going to be a one-off kind of income. Second was on the credit costs...

Vibha: I didn't quite understand. You did a branding, and you got that income, I didn't quite understand.

Vinodkumar Panicker: When we started our insurance, I would say, cross-selling during the quarter -- during a couple of quarters back and we wanted to inform all the customers that there is -- these products which are available for them to actually opt for when they are doing borrowing from us. They can additionally get insurance income.

So, we wanted -- we had a tie-up with the insurance company saying that we'll be branding -- we'll be putting up their brands or their posters and things like that in various branches. So that the reason -- that's not needed every time, that was needed only for a quarter. So that is the reason it was done for a quarter. That's no longer there, that's the first thing.

Vibha: I'm sorry. But in last year also in other income, if you see the line item, the other income was quite significant for March '24 and it was INR21 crores. And out of that INR16.7 crores was shared service cost recovery. Is that something else at that or it's again that insurance reimbursement and that INR16.86 was for the year and now we are looking at INR37 lakhs for the quarter?

Vinodkumar Panicker: Yes. So shared service was something. There were a lot of things which are shared between us and the subsidiary. So, the cost that we were incurring some of it was on account of the subsidiary which we were getting it reimbursed from them. We were charging them and getting it reimbursed from them. So that was shown as shared service cost recovery that was one thing.

Vibha: But that would have gone from expenses also, technically speaking. So, on a net basis, that shouldn't impact you?

Vinodkumar Panicker: So, we are not permitted to net it off from the expenditure. Therefore, it was grossed up, but both the ends, number one.

Vibha: I mean to say in this quarter it would have gone out of income as well as expenses, on net basis you would have been neutral on account of that, is that understanding, correct?

Vinodkumar Panicker: Partially, it would have gone out of income for sure, partially out of the expenditure because there would be something which will continue to be there because they have moved out separately, there everything is separate. So not all expenses would have actually gone out. Then apart from that, there was -- last year, March '24, there was always -- also INR3-odd crores coming by way of income tax refund.

I will now go the second part of your query which was the credit cost. Credit cost was definitely higher up from about INR19 crores to INR48 crores. I think both Karthikeyan and me in our opening remarks, we did mention about delinquencies having shot up over the last two, three quarters. And while we did see a lot of improvements in the second half of the current quarter, we believe that it was a bit late for us to actually get all the collections in place.

Therefore, credit cost was higher in the current quarter. We believe that basis the trend that we have seen in the last 1.5 months or the last -- second half of the current quarter, so which went by, things have improved reasonably well. And, therefore, going forward the credit cost may not be to the extent that it was there in the current quarter. You mentioned about the funding cost.

I think we need to very clearly know that definitely the 10.8% or close to 11% is definitely a high percentage and definitely the cost, if you look at it on a standalone basis, it is definitely a high rate, but then I think we should try to see two things saying that where did we come from. Q3 -- Q2 FY '24, we had an incremental cost of borrowing of about 12.7%.

In fact, I don't know whether you were a part of the previous calls that we had, but then we have said that very clearly in saying that we were confident that the cost will keep coming down. A year that my cost of fund was at about 11.9%. We have now come to 10.8%. We have been able to get funds from banks. We have been able to reduce our costs on other borrowings including NCDs, something which we did at 12.5% plus 1.5 years back.

This time we did at about 10.4%. So, we are seeing cost coming down. We expect the cost to go down further, but then we believe that it is not something which can happen all of a sudden, it will take I would say a slow process and it will take its time.

Vibha: What was the incremental cost of fund during December quarter?

Vinodkumar Panicker: 10.2%.

Vibha: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Arnav Sachdev from Cruise Capital. Please go ahead.

Arnav Sachdev: Hi, sir. I have two questions. So, what are the key reasons for the decline in collection efficiency? I'm sorry if you've answered this before I didn't get that. And additionally, both GNPA and NNPA have shown an increase. So, could you provide a guidance on these trends?

Karthikeyan Srinivasan: See, Arnav, Karthik here. See the challenge has seen from June, then the last two quarters, we have seen bucket-wise increase due to the overall situation in the economy. Vinod sir explained two things. One there was an excessive heat waves, there was election followed by an extended monsoon. This impacted the viability of vehicles, which naturally impacted collections.

So, my kind of profile who I am dealing with, they will not be able to update their EMI. So, most of these customers are able to pay 1-month EMI. That's why you are able to see a recovery in my overdue, but they will not be able to go to zero DPD so that I'll be able to report them out of GNPA. I believe this has caused the significant increase in our delinquency and credit cost.

And as we are seeing some positivity in the second half of the last quarter, we feel like this will start going down. But overall, if you see -- there has been a significant slowdown in terms of vehicle turnarounds. There has been a significant slowdown in terms of a good movement till at least the beginning of the festival season which overall impacted collection and that impacted us also because we are in the profiles who do -- who are the last mile connectivity, who are also the last level in terms of the transportation hierarchy.

Arnav Sachdev: Understood. My next question would be what are the future growth plans for the used cars and tractors? And what other strategies do we have in place for financing these businesses over the next 2 years to 3 years?

Karthikeyan Srinivasan: See, tractor is one product in the used segment which we are liking. As we explained earlier, we are operating now in 7 states. We'll continue to hold those 7 states. We believe because the rural economy is doing much better the used tractor industry should be doing well. We have a target basis which we are driving those numbers. Used car is an ultra-competitive market. And you are aware there are many banks, public sector -- both public as well as private sector who are deep in the state.

Our ability to fund the used cars is coming from the Tier 3, Tier 4 market. We will continue to explore opportunities in these deeper markets so that we are able to get our rates and also able to sales disbursements. So, these two are one of the -- two of the products which are in our focus core segments, which we will continue to focus and keep growing.

Arnav Sachdev: Got it. Thank you, sir.

Moderator: Thank you. Next question is from Danesh Mistry from Investor First Advisors. Please go ahead.

Danesh Mistry: Hi, good afternoon and thank you for taking the time out to answer our question. Sir, just trying to understand here a little bit on the sources of funds and in your liability mix. So, if you see this quarter, for example, you said that 25% of incremental borrowing has come from banks. But in your own presentation, you've talked about a higher share of banks in the previous quarters. So, number one what has changed for us over there? And number two, how do we see that panning out in the future, sir? That's question number one?

Vinodkumar Panicker: Danesh, good afternoon. Vinod here. Definitely, this quarter about [inaudible 39:23]. Sir there are some sound in the background. Can you go near?

Danesh Mistry: Yes sir. Please go ahead, sir.

Vinodkumar Panicker: I think you need to go on mute. There is some disturbance from the background if you don't mind.

Danesh Mistry: No sir I am in my cabin. There is no sound here.

Vinodkumar Panicker: Okay, let me continue. So, 25% did come from banks and the rest came from other sources, but I also kind of mentioned that INR575 crores of sanctions, most of which is from banks, we did not take in the current quarter which we would be availing. So definitely when we try and borrow, we try and ensure that we have a mix of everything and what comes to us cheaper.

So definitely whatever comes and as and when we want, just the time when we borrow, we – with this kind of borrowing itself, we actually ended up with close to INR900-odd crores of bank balance at the end of the quarter. So, we believe that things have improved, and it will continue to improve as we get into the fourth quarter.

Danesh Mistry: Got it. And sir if you can give some color now, you've announced the Housing Financing. So, when do you see a receipt of the proceeds, sir? How is that progressing?

Randhir Singh: This is Randhir. I think we covered it in our last meeting as well. So, as we guided earlier that we expect the approval to come either late this quarter or sometime early Q1 in the next financial year. So that is really our assessment of the approval.

Danesh Mistry: Okay. Got it. And just want to understand these proceeds will be used in our CV business. We are not looking at any other use of proceeds?

Randhir Singh: Absolutely. We'll only be using it for our -- in our business and which is really CV and MSME lab that we're building and really for nothing else.

Danesh Mistry: Got it. Thank you very much and wishing the Housing Finance team and Shreejit, a very best of luck going forward. Thank you so much.

Shreejit Menon: Thank you.

Moderator: Thank you. The next question is from Yajash Mehta from Ionic Asset Management. Please go ahead.

Yajash Mehta: Hi, sir. First of all, thanks for the opportunity. Just wanted to check and at the cost of sounding very repetitive, I think quarter-on-quarter the credit costs have massively gone up from, say, around 19.2% to 47.9%. Now though on a Y-o-Y basis, the trends are very encouraging, but quarter-on-quarter things don't look very good. So just wanted to understand, we are nearly 1 month into this quarter as well.

What are the kind of trends that we are looking at as far as this ongoing quarter is concerned? And secondly, what do we see, say, for the next two to three quarters going ahead?

Karthikeyan Srinivasan: It's a very tough question to answer because as things stand today, we are seeing an improvement in the overall portfolio situation. So, I want you to notice that our overdue plus EMI collection has gone up. So overdue plus EMI which was hovering around 90% has moved up to -- 92% has moved up to 95% which is a positive indicator that we've taken off, the overall situation in terms of credit cost is improving.

But we didn't have this in the last quarter because there was excessive rain, there was not availability of load, which I explained some time back. In terms of this quarter as we speak our current rate the initial bucket, there has been a positive movement. We believe that if this trend continues our credit cost will improve this quarter. And typically, April to June is an average quarter in terms of collection.

So, it will remain at the same level. If we reach March at a group level, it will remain in the same level in the April quarter also. But all these are dependent on what kind of spending the government does, all these are dependent on the load availability, all these are dependent on diesel price not moving up. These are factors which could impact us, but if all these are not getting impacted, we will see an improvement this quarter and next quarter.

Yajash Mehta: And secondly, sir, it's my apologies if I missed this, the proceeds from the sale of Housing Finance would come in by when and as you just mentioned, they would be used primarily for our CV business as well?

Randhir Singh: Correct. So, we have only two businesses, CV and MSME Micro Labs and the proceeds will be used for those businesses.

Yajash Mehta: And sir the proceeds will come in by?

Randhir Singh: The proceeds should come in some -- it obviously depends upon the RBI approval. And as we were just explaining in the previous answer that it should come sometime -- our estimate is that it should come sometime later this quarter or early Q1 next financial year.

Yajash Mehta: Okay. Thank you so much.

Moderator: Thank you. Next question is from Monshree Soni from MK Ventures. Please go ahead.

Monshree Soni: Hi, good afternoon. I wanted to understand our strategy for the ECL provision this quarter. I mean last quarter it was around 50.9%, this quarter it dropped down to 46%, while our GNPA and NPA numbers have shot up. So, can you please explain what's the strategy going forward?

Karthikeyan Srinivasan: Hi, I'll take this question. See, we've written ARC transaction this year -- this quarter, which was predominantly a pre-'22 pool. If you remember, all our management overlay was towards those old stress pools which we had. This quarter we did it because we got the valuation which we liked. So, we did that ARC transaction. Since it has gone out of my book, the appropriate provision has been reduced from the management overlay.

We believe that we will be able to reduce our net NPA numbers by March because as I explained in the previous answer, the second half of the current quarter, last quarter has been better in terms of collection. We believe generally Jan, Feb, March, the momentum will continue, and we'll be able to reduce our net NPA numbers.

Monshree Soni: Got it. And can you please -- so the ARC transaction, was it in the form of SRs and cash and how much SR do we have on the book currently?

Karthikeyan Srinivasan: See, the current transaction we have an INR85 crores SR of which we have already created a provision of around INR37 crores. So, the balance INR48 crores is the net addition to our SR. Overall, as of today, as we discussed we have a gross of INR1,333 crores SR with a provision of INR355 crores, which is a 27% provision on the overall balance sheet.

Monshree Soni: Got it. And our AUM guidance for FY '26 for MSME and for -- I mean, MSME Lab and CV businesses?

Vinodkumar Panicker: We are -- we have said that in our previous communication that we are looking at a disbursement of about INR7,000-odd crores. We are in the process of finalizing our business plan. Maybe when we assemble again for the Q4 call, that time we will give you our guidance on what the AUM would be by the end of the quarter -- end of the next fiscal year.

Monshree Soni: Okay. Sure. Those were my questions. Thank you.

Moderator: Thank you. Next question is Anurag Mantry with Oxbow Capital. Please go ahead.

Anurag Mantry: So, two questions. So, one is this SR sale that you had in this quarter, did that have any impact on the credit cost for the quarter?

Karthikeyan Srinivasan: Whatever we are carrying at provisions, we have also carried on the SR. So that's still the part of the credit cost.

Vinodkumar Panicker: No, I will -- you were asking specifically about the sale of SR, right?

Anurag Mantry: No, as in, in this quarter I think sold...

Vinodkumar Panicker: Are you talking about your sales to ARC?

Anurag Mantry: Sale to the ARC.

Vinodkumar Panicker: I think in the previous question, I think Karthik answered that when we sold the book to the ARC, the valuation that we got INR85 crores out of that came in the form of SR against which we made a provision of about INR37 crores. So, the balance INR48 crores is being carried on the books. And the provisioning is the same that we carried, as it's been -- as the book -- pool being on our books, we would have done the same provisioning.

Anurag Mantry: I am Sorry, sir, just to confirm. So, when the pool of these assets were on your books, they were carrying the same provisions as when they were sold, or did you have to make extra provisions before selling?

Vinodkumar Panicker: That is what is expected of us doing the -- maintaining the same provision.

Anurag Mantry: Got it. So, all your incremental credit costs for the quarter is for the existing book, not for the pool that you sold?

Vinodkumar Panicker: Not because of the sale into ARC.

Anurag Mantry: And second just on the credit cost for the quarter generally what kind of normal credit costs run rate do you expect in the portfolio because typically I think like 1.2% that you saw in the first two quarters, that tends -- that's probably lower than maybe what we've seen with some other used finance companies as well. Generally, what kind of run rate do you expect in this portfolio, basically?

Karthikeyan Srinivasan: Yes. Last -- we have been answering this quite often. The profiles which we are dealing with we expect the credit cost to be around 2%, 2.5% in a regular scenario. All of us need to decide if we are in a regular scenario or an abnormal scenario as of today. So, anything below 2.5% is not something we will be able to easily achieve because we are dealing with customers who are giving me an 18%, 19% rate.

So, we expect the credit cost of overall 2%, 2.5% normalized over a period of 4 years. So, there will be years where there will be shocks, where there can be higher. There will be years where it can be lower. So, it will be a mix of both.

Anurag Mantry: Got it. So just a follow up on that. So why was the first half in the standalone credit cost was much lower, like 1% and 1.2%, given the backlog that you mentioned that in those two quarters, you saw much lower collection efficiencies because of election, heat wave, etcetera?

Karthikeyan Srinivasan: See, when a customer starts slipping, it takes him time to reach 90 plus. It doesn't overnight reach 90-plus because most of the vehicles whom I fund are running the vehicles for their livelihood. So, if a customer starts getting impacted, it may not grow -- I don't have straight flow. It maybe -- he may take 4 months, 5 months to reach 90 plus.

So those whatever got impacted from March, April, they have started moving into 90-plus say, probably from August, September. That has got impacting my credit cost in the third quarter. That's how the industry behaves. I don't slip month-on-month because I get some earnings. When I get some earnings, I automatically tend to pay my EMI so that my vehicle gets protected. That's how overall the customers tend to operate and that's how my customers also operate.

Plus, I don't differentiate between a Stage 3 and gross 90-plus numbers. So, if there was a difference here, my team will go hold the vehicles at the 60 to 90 DPD. So that my gross GS3 is not materially impacted. That's what is available in the market today, but IndoStar is an exception. We have GS3 equal to 90 plus. Whatever is there we report. If a customer slips into 90-plus, he remains in Stage 3 till he becomes zero DPD. So, these two differentiations create a factor in terms of my credit cost.

Anurag Mantry: Got it. And just to reiterate, if you would take a shot at really looking at FY '26 credit cost, normal range would be 2% to 2.5%. Is that a fair way to think about it?

Karthikeyan Srinivasan: 2% to 2.5% will be the fair assessment. If it's a normal year we will be in the range of 2% to 2.5%.

Anurag Mantry: Understood. Thank you so much for answering the question.

Moderator: Thank you very much. Due to time constraints, we'll have to take that as the last question. We'd like to thank all the participants for attending the call today on behalf of the management. And on behalf of IndoStar Capital Finance, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.