POONAWALLA FINCORP

February 06, 2025

BSE Limited
Corporate Relationship Department 25th Floor, Phiroze Jeejeebhoy Towers, Dalal Street, Fort,
Mumbai - 400 001.
BSE Scrip Code: 524000

National Stock Exchange of India Limited
The Listing Department,
Exchange Plaza,
Bandra- Kurla Complex, Bandra (East),
Mumbai - 400 051.
NSE Symbol: POONAWALLA

Dear Sir / Madam,

Subject: Transcript of Earning/quarterly conference call held to discuss Unaudited financial results for quarter ended December 31, 2024– Disclosure under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('SEBI Listing Regulations').

Reference: Regulation 46(2)(oa) of the SEBI Listing Regulations

This is in continuation of our earlier letters dated January 23, 2025 and January 31, 2025 and pursuant to Regulation 30 and 46(2)(oa) of the SEBI Listing Regulations, we hereby providing the link of the transcript of Company's Analysts (earning/quarterly) conference call for Q3 FY 2024-25 held on January 31, 2025.

The transcript of the Conference Call can be accessed at:-

https://poonawallafincorp.com/pfca/assets/pdf/Poonawalla-Fincorp-Earnings-Call-Transcript-Q3FY25.pdf

Kindly take the above intimation on record.

Thanking You,

Yours faithfully,
For **Poonawalla Fincorp Limited**

SHABNUM ZAMAN
Digitally signed by SHABNUM ZAMAN
Date: 2025.02.06 12:05:41 +05'30'

Shabnum Zaman
Company Secretary
ACS-13918

Poonawalla Fincorp Limited

Q3 FY24-25 Earnings Conference Call

January 31, 2025

MANAGEMENT: MR. ARVIND KAPIL – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER
MR. SUNIL SAMDANI – EXECUTIVE DIRECTOR
MR. SANJAY MIRANKA – CHIEF FINANCIAL OFFICER
MR. SHRIRAM IYER – CHIEF CREDIT AND ANALYTICS OFFICER

Moderator: Ladies and gentlemen, good day, and welcome to the Poonawalla Fincorp Limited Q3 FY24-25 Earnings Conference Call. We have with us today on the call, Mr. Arvind Kapil, Managing Director and Chief Executive Officer; Mr. Sunil Samdani, Executive Director; Mr. Shriram Iyer, Chief Credit and Analytics Officer; and other senior management officials.

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 star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Arvind Kapil, Managing Director and Chief Executive Officer of Poonawalla Fincorp Limited. Thank you, and over to you, sir.

Arvind Kapil: Thank you. A very good evening to all of you. I wish all of you and your loved ones a very Happy New Year.

Let me begin by giving you a brief update on our business last quarter.

It's been 7 months into the role, with me and my management team fully in place, let me begin by sharing that as we look ahead the confidence of me and my management team is a notch above upbeat. We are quite excited about the phase of the building blocks and increase of businesses over the next 4 quarters.

We have invested significantly over the last few months on rolling out multiple scalable lending businesses across Secured, Unsecured and digital businesses. These businesses are built and will be built person-by-person, process-by-process, and risk management and technology-led delivery pipelines, across chosen markets, revenue and profit pools as priority. These investments may have a four quarter-one year gestation, that's why you see the cost. However, robust profitability, risk-adjusted return and a truly institutional scale is the visualization, and we have the domain, talent pool and execution capability to make it happen.

Our guidance which we had given for the AUM growth 2 quarters ago was 30%-35% for the financial year and 30%-40% thereafter. We remain firmly on track to achieve this. The AUM is already on a positive trajectory. Our AUM grew by 41% year-on-year and 9% quarter-on-quarter to ₹30,984 crores as on 31st December 2024.

Let me briefly take you through the growth and quality drivers of our business. Total disbursements of ₹7,149 crores were up by 13% quarter-on-quarter. Core retail disbursements have approximately doubled compared to the same quarter last year, approximately ₹4,705 crores this quarter versus ₹2,491 crores same quarter last year-just to give you a ground-level feel of the momentum.

Our businesses have seen healthy, and completely credit calibrated growth. Let me cover a few existing businesses to give you a sense.

LAP, is now at ₹6,795 crores book, having grown 86% year-on-year and 27% quarter-on-quarter. Incremental growth has come at a healthy LTV of 51%. This is also showing the strength that the new management team comes in with- the distribution vintage of having done a couple of these businesses, and that strength is getting attached here.

Similarly, **Business loan,** is well credit calibrated and has grown at 42% year-on-year, 13% quarter-on-quarter to ₹5,003 crores. The profiles that we have lent to are vintaged businesses with healthy robust cash flows.

On the retail side, having credit calibrated our book, we are turning the corner on risk-adjusted performance.

For example, you're well aware that we scaled down our STPL book last quarter and we worked on re-calibrating the policy and made the processes robust (plugged in account aggregators, other cash flow estimators) and multiple checks that we've incorporated. To our interesting findings, the bounce curves observed in the new book that we are creating, which is very small right now, are in line with our credit calibrations, and we are now ready to gradually step it up in a very controlled manner.

Similarly, we have fundamentally shifted the nature and profile of used vehicle portfolio over the last 2 quarters. Two quarters ago itself, we biased towards better risk-controlled product mix on this business. We've done this business in the past as a management team. We understand the risk associated with it, and the product is poised to deliver a growth of around 20% on this particular one.

The idea of sharing with you these products was to give you a sense of how we are working on the existing businesses.

Overall, the philosophy is to keep the mix of our secured and unsecured book prudent and equally weighted.

The above gives you a flavor of our growth performance of existing businesses in this quarter. The engine has started firing according to me and at a fairly robust level.

Let me now give you an execution update on the strategic building blocks I laid out in my last call. There's a fair amount of work that's happened on the ground.

First building block is obviously the most important is our people itself. In the last quarter, I reported to you that 95% of our senior leadership has been onboarded. I'm happy to report back to you that our entire senior management team is now onboard. This completes the leadership foundation of organization, the journey I had set out on immediately post joining. Getting the right management depth, along with the incremental team for our businesses is moving at great momentum.

Across organization, we are bringing in scalability and consistency in our people practices. Let me take a minute or 2 on that.

We are aware that the strength of our organization is also its distribution team. We have created an industry-first AI experience in managing our recruitment and onboarding process. 90% of our hiring agents benefit from AI-based screening and parsing solutions that has dramatically brought down average time to offer. How does it help us? Our speed to market increases dramatically. Similarly, to ensure consistent experience to our workforce, we will also launch an Agentic-led support interface to our employees by Q1 FY25-26.

I have been a firm believer in creating a culture of passion. I thought I'd probably give you a little visibility on what we are striving our culture to be. So, creating a culture of passion that encourages innovation, a culture of customer-first, governance-first, risk-priority, AI-first, with a strong orientation to growth performance with all vectors orchestrating in harmony.

We want our culture to have "quality of work" at the heart of the organization. That it is very important to us. We aspire as a team and organization to be recognized as an agile and very smart organization. So agile and very smart will hold very dear to every level of the organization, management team and every employee of Poonawalla Fincorp. We'll have to live by it, breathe by it.

Let's move on to my second building block, it's our products and distribution. We've laid out our vision to become a multi-product lender that serves the aspiration of Bharat holistically, which means expanding from a product portfolio of approximately 4 (existing) to around 10 and phase-wise launch of 400 new branches is planned beginning Q1 FY25-26. We remain on track to launch the 6 new product classes and new locations.

Let me take you through some of the highlights of the work done to give you a sense of what's happening on the 6 businesses.

Prime PL: We had launched this business in August '24. It has now ramped up to the levels of approximately ₹120 crores of monthly run rate, heading for probably ₹150 crores as we end today in January. This business will augment our presence in the middle-income segment across the country and complement our play in the consumer durables and education loans. 75% of our customers are from Category A companies and net take-home salary of over ₹75,000; 65% of this book has a bureau score of 750 plus, just to give you a sense.

We are also ready to launch, and I think this is important, an industry-first 24/7 Digital Prime Personal Loan in Q4 FY24-25. We believe we are paradigm pioneers and industry first. With this launch, what we're really doing, we're trying to redefine personal lending by making it truly instant, fully digital, accessible 24/7 for prime salaried professionals, working for top corporates. Our goal is to provide a frictionless borrowing experience for those who need quick financial solutions without the hassle of traditional loan processes. This could be an industry first as far as India is concerned, and we will gradually build it. This is going to be the Phase-1 that we launch in the next 15 days, and this is going to be gradually step-by-step, we'll build on it quarter-by-quarter. This will also give a great boost to our website acquisition strategy.

Let's take on the second product, Gold loan. The 400 new branches committed will serve gold loan and support cross-sell of our other retail and commercial products. We have identified and secured, 263 new branch locations already across 4 states, out of the 400 committed, with 75% of leadership already hired. That's the sense of agility that we seem to be working on right now, and that is what you will soon see in terms of the AUMs.

The 4 remaining new products will operate pan-India. I'm confident, given the depth of our management team we've hired for these specific businesses, that they will hit their time to market goal in Q1 FY25-26.

Consumer durable. We're planning- 104 locations have been identified for Phase 1 of launch, specifically based on the synergies between our existing businesses and the micro-market potential that we understand. Leadership team is already onboarded. They are already in office. Consumer durable will be a play across Tier-2/Tier-3 cities for us that will cater to both salaried and even self-employed.

Used commercial vehicles. We've identified 63 locations in Phase-1 with 85% of leadership in place.

Shopkeeper loans, which we announced, we've identified 100 locations in Phase-1, and leadership along with 50% of the sales force has been hired.

Education loans. We've hired an experienced management team across product and sales, and we have the opportunity to play in a large growing education/specialized education market, and the rest of the team is still to be hired.

All these products will launch in Q1 FY25-26 at-scale across multiple locations of Phase-1 of these products. What is important at this junction also to probably mention is that we will do a "tenacity test" at-scale. We rigorously assess our products to match customer needs in a robust manner and make sure that they are aligned to the customer needs.

At this junction, let me pause for a second and also bring your attention to an important product that we have considered to launch. In addition to these 6, please note we are launching a new product that will support the needs of our SME and commercial segment. This is going to be **Equipment leasing**. This is a growing opportunity for us given the capex needs of the economy, especially across capital-intensive industries such as manufacturing, healthcare and construction. We will go live with the product in the first quarter of the coming financial year. So, this will get added to the 6 products that I've already announced.

Our third building block is to disrupt our way of working via Analytics and AI. The next two blocks, I'm going to cover are AI strategy and the work that's being done at the ground level and the Tech strategy. Given the talent bench and the new techniques that we have at our disposal, we are attempting to be AI-first in many of our business models, and that's going to be a dynamic ongoing hard work. We've already moved substantially from AI in concept stage in Q2 FY24-25 to delivering value in quarter Q3 FY24-25 and beyond.

Last time I had given you an adequate visibility on our risk analytics and talent, we have now fleshed out a detailed AI technology strategy and use-case road map. I would like to credit our Analytics and Data Science teams, who have collaborated with IIT Mumbai Technology, as we shared last time with you. Our vision is to sharpen our customer experience, productivity and risk efficiency via deployment of sharp AI use-cases across the enterprise.

The plan is to go live with use cases, rather targeted use cases across credit and risk management, across collections, we've identified digital marketing, compliance, audit and HR by Q4FY25. Customer-facing journeys and sales processes use-cases will go live in subsequent quarters of FY25-26.

Let me take another few minutes to take you through some of the targeted use cases that we are working on, because it's very specific work that we're doing.

In HR, for example, as I mentioned before, we've already rolled out an industry-first Gen AI solution that has helped bring down time to offer. That's time to market. We're in the process of building an agentic-based employee conversational agent. That also we've shared with you.

Across credit and risk, we continue to sharpen our existing decisioning and scorecards via AI techniques and Gen AI processing with Phase-1 of deployment completing in March '25. Intent is to reduce default rates, time to approval, and over time reduce cost of processing applications, and overall time reduction. We believe that even if we get 5% to 10% of our volumes starting on this one, these are doors that's going to open up great innovation doors and we will keep expanding our experience of getting sharper and sharper on these areas. That's how we see the future that it will be a fusion of AI and human interface.

Across collections, our agents and managers are enabled via AI models for optimizing their planning, and customers are guided analytically by digital nudges based on their past behavior. Across Q1 FY25-26, we will enable Gen AI solutions to improve efficacy across our tele callers and field agents using virtual assistance.

Across our website and apps, we are using AI to hyper-personalize our targeting and experience. Objective here is to improve our cost of acquisition across paid, organic and partner channels, improving customer engagement and cross-sell rates, delivering multiplicative benefits on our P&L.

To do this, we are working across multiple dimensions.

To give you a sense of the work that is happening, we will launch our revamped website that supports advanced personalization and design. We are sharpening our STP journeys across STPL, Prime PL with AI nudges. Deploying AI platforms across customer targeting (SaaS AI solutions), augmenting our digital and content agencies via Gen AI platforms. Deploying multi-vernacular chatbots for customer interactions.

Finally, across audit and compliance, our idea is to enable AI-driven risk triggers and reviews to ensure that there is early identification and migration of risks.

Yes, I must confess, we are deeply mindful that AI is not without its risks and in parallel, we're putting across a clear governance and monitoring around it along with a sound technology infrastructure, which brings me to the fourth building block.

The Tech strategy: As the organization scales, we will leverage industry-ready SaaS applications in the near term, while pursuing long-term road map for transforming IT to a product lifecycle based "modularization framework". Our approach will enable readiness for future common tech stack unified across product life cycles (like one CRM, collection management, LMS, and customer onboarding).

To ensure we can scale our customer franchise without linearly increasing acquisition costs, we are also building best-in-class capabilities across marketing technologies. This will enable us to effectively deploy propensity models and power our website and app with personalized insights.

Journeys have been built in an omnichannel fashion to ensure we are able to effectively service the multiple product needs of our customers consistently and we are revamping our app along with these lines to provide an ecosystem of products and services to our customers. This will enable our engagement rates to move up by 2-3 times.

Data is being rearchitected on domain-based approach. So along with the implementation of a Customer Data Platform (CDP), we will enable data-driven decisions-making across the organization, including risk, operations and sales.

From a resiliency perspective, we will work towards a hybrid cloud strategy that is balanced performance, cost and regulatory needs. We will be able to effectively enable AI while distributing workloads and enable appropriate recovery time objectives and recovery point objectives.

Across board, there is an equal emphasis on resilience, cybersecurity, and ensuring compliance to the fast-approaching DPDP (Digital personal data protection) norms. PFL will also deploy next-generation security techniques to stay ahead of any evolving threats, extending our zero-touch architecture principle across our digital ecosystem.

Finally, our fifth building block, our risk management approach. Let me, at this junction, take a pause and ask Shriram, our Chief Credit and Analytics Officer, to give you further colour on our risk management approach and the work done so far to give you conviction of how important risk-first policy is for us. Thank you.

Shriram Iyer: Thank you, Arvind. Good evening, ladies and gentlemen. Let me take this opportunity to apprise you all of the substantial amount of work that we have done in the last 7 months and progressed on the vectors in the areas of credit and risk, collections and analytics that align our vision on sustainable profitability.

Risk management culture for PFL 2.0 focuses on 3 specific areas: People, Design and Process, making it the foundation towards success.

On the people side, I'm pleased to announce that we have successfully onboarded key people on the second and third level across credit and risk, analytics, and debt management, supporting both existing and new product launches. People are the strength and driving force behind an organization's growth, sharing its vision and mission. I'm grateful to everyone who has shown their trust and enthusiasm in joining us on this exciting journey of PFL 2.0. Our team brings a wealth of diverse knowledge and expertise across product suites and functions with specific skill sets in line with our product launches.

From a Design stand-point, that's from a credit risk perspective, we are implementing risk frameworks for new product launches that leverage granular customer segmentation and custom algorithms. Our data-driven framework powered by traditional credit bureau data and alternative data sources enable more precise risk segmentation of borrowers. Talking specifically, for the upcoming product launch, which will be entirely digital, we are ready with the custom algorithms at the cohort level to address various credit swim lanes based on customer profiles and exposure demands.

The dynamic recalibration in our STPL book has helped improve through-the-door quality and has helped us to see substantial improvement in early delinquency by 50%. For exposures operating in a physical mode and digital mode, credit risk models with the help of analytics are deployed to automate specific decisions to enhance the credit process. As the MD spoke about, we are using account aggregator addressing the recency of information via banking and the ability of pattern mining complemented with the knowledge of what impacts credit behavior. This gives us an edge in our credit decisioning models. Using a micro segmentation approach to monitor the portfolio has marked a pivotal moment in the product's performance. Incremental exposures across personal loans, business loans, mortgages and pre-owned cars are acquired with refined risk calibration, and we are satisfied with risk calibration of the incremental book that we are building.

I would also like to state what the MD spoke about that the team has built an Industry-First digital lending solution to provide 24/7 personal loans to employees for top corporates, and this is completely going to be zero touch. The credit and analytics teams have brought together the best risk management practices augmented with models supporting multiple decisions in the journey.

Coming to **the debt management** side, we have successfully implemented automated no-contact collections with digital-only approach, exceeding expectations and continuously improving each quarter. Cohort level analytical solutions are the feeders to the strategic and automated decision layers, targeting efficiency at scale. We are looking at that as scale buildup, this is extremely important for us. To give a glimpse on the granularity of frameworks put in place, we have product-specific pre-due design supporting collection intervention planning between digital channels and intensity. Early bucket allocation and planning optimization is driven based on Propensity-to-pay design.

To summarize, Gen 1 design across the stages of collection life cycle from pre-due to recovery has been already deployed. The debt management models, initially driven by traditional techniques, are now augmented with machine learning solutions to manage the increasing complexity of information. Please note that we are strengthening collections strength-by-strength, quarter-by-quarter, both physically and digitally, and this will be an important strategic KRA for the team.

On the **process side**, we are re-engineering credit and collection process to bring in standardization across products and geographies.

Looking ahead, I'm excited about our collaboration with IIT to drive innovation. This is being done by leveraging vast unstructured data and cutting-edge technology to gain unparalleled customer insights across multiple work streams. I would like to highlight 2 areas to provide you with a glimpse of this engagement.

The first one being, we are trying to strengthen our physical credit underwriting framework by enhancing risk management capabilities with technology at its fulcrum. Using AI and Gen AI layers for predictive risk modelling, teams are already working towards creating a Humanoid - an AI credit assistant. This AI credit assistant will be modelled to perform credit processing and credit checks for retail consumer lending loans. This is envisaged to support a reduction in operating cost of credit, bringing in standardization, and creating different swim lanes for assisting credit decisioning based on consumer risk.

Secondly, we will be the first large-scale NBFC to deploy an automated campaign and collection workflow platform, enabling sophisticated micro strategies tailored by time, user persona, loan type, communication channel and content. Over the next 2 quarters, various solutions driven by AI and foundation models will be incorporated in the decision framework, augmenting the debt management practices, focusing on governance and efficiency. Decisions to support differential treatments, persona-based nudges, channel analytics and reinforcement learning will be a few of the next deep dive areas to augment the debt management strategies.

Our team is excited to explore and accelerate on the path of **AI and Agentic journey of 2025**.

We aim to achieve industry-leading structural efficiencies, maximizing output and profitability while creating an unprecedented user experience for both our internal staff and our valued customers. Our initiatives underscore our dedication to excellence and innovation, driving us towards a future of sustained growth and success. Thank you.

Arvind Kapil: Thanks, Shriram. Before I hand over to Sunil Samdani and Sanjay Miranka for the financials and a detailed update, let me offer my concluding thoughts.

In my assessment, we remain firmly on track to deliver our guidance given our progress so far and quality of my team. Our confidence is clearly on a high. We are heading to create a solid, profitable and sustainable business as promised. As a direction, we will remain singularly focused on our building blocks of 10-11 businesses, that I just shared, and distribution building, leading to, in my view, an assessment of fairly strong, very strong rather, AUM growth over the next 4 quarters. Our AUM growth is likely to be a notch higher than our guidance which I gave for this year and the next. My suggestion would be measure us with the AUM growth and the consistency we create. This strong growth engine that we are confident of and that we are creating should lead to a very robust, sustainable profit trajectory FY26-27 onwards and thereafter. Over to you, Sunil.

Sunil Samdani: Thank you, Arvind, and Good Evening, everyone. Let me take you through the quarterly financial highlights.

- The Assets under management stood at ₹30,984 crores, reflecting a growth of 41% year-on-year and 9% quarter-on-quarter. This is led by the right product mix despite our STPL book being down 9% quarter-on-quarter.
- In terms of AUM mix, MSME finance contribution was 36%, followed by Personal and consumer finance at 24%, Loan against property and Pre-owned cars at 22% and 14%, respectively. Our Secured to Unsecured on-book mix improved to 54:46.
- Our net interest income, including fees and other income, was ₹672 crores for Q3 of FY '25, up 22% year-on-year. This is despite the increase in share of secured loans in the overall lending book.
- The Pre-provisioning Operating Profit or the PPOP, as we say, during the quarter was ₹373 crores as against ₹279 crores previous quarter, and ₹350 crores same quarter last year.
- Operating profit has shown healthy growth even after adjusting for exceptional items in the previous quarter. This is even with the higher secured mix, recalibration of STPL, and ongoing investments for building the new businesses.
- Opex-to-AUM ratio was stable at 4.2% for the quarter.
- The gross NPA reduced by 25 basis points quarter-on-quarter to 1.85%. Net NPA stands at 0.81%.
- Our provisioning coverage ratio is at 56.79%.
- Our cost of borrowing was lower by 4 basis points quarter-on-quarter at 8.06%. This is despite the tight liquidity conditions and the elevated interest rate environment.
- Debt-to-equity ratio was 2.65x.
- Total borrowings at the end of the quarter was ₹21,338 crores with approximately 65% of them on a variable rate. Also, we have further diversified our funding mix with a maiden ECB of ₹1,477 crores, that is $175 million, which is, of course, on a fully hedged basis.
- Our capital adequacy continues to be well above the regulatory requirement with CRAR standing at 25.89%, of which the Tier 1 capital is 24.46%. Our liquidity coverage ratio stands at 113%.
- On the liquidity side, we remain comfortable with positive cumulative mismatch across all buckets and a surplus liquidity of ₹4,808 crores as of December 31, 2024.

Thank you, and I would now like to open the floor for question-and-answer session.

Moderator: Thank you very much. The first question is from the line of Umang Shah from Kotak Mutual Fund. Please go ahead.

Umang Shah: Firstly, congratulations, Arvind, on a good quarter on the operating front, and thanks for sharing a fairly detailed update on the progress that the company has made. I'm sorry, I have a couple of questions. First, to begin with, like we had discussed in the earlier call, I mean, all the recalibration that we had taken on the STPL book, and the resultant provisions were already made. If you could just throw some light as to the provisions which have been made this quarter are pertaining to which particular product category and what would be the write-off for the quarter?

Arvind Kapil: Yes, sure. Thanks, Umang. Sanjay Miranka, do you want to give him a quick glance?

Sanjay Miranka: Yes. So out of the total ₹348 crores charge, about ₹200 crores is towards STPL and the rest is spread across other products.

Umang Shah: Okay and what would be the write-off for the quarter?

Sanjay Miranka: The total write-off is ₹676 crores for the quarter, and this is spread across various products.

Umang Shah: Okay. Understood. The other thing which I wanted to understand is that now we kind of understand that the book is sort of evolving and clearly a lot more new products will come into the fold. But how should we look at our provisioning policy or let's say, simplistically put, how should we look at our steady-state credit cost? Now I understand that it might be difficult to put a number to it, but typically, how should be the provision cover? Where should it stabilize? And typically, the credit cost corridor, if you can highlight, that would be really helpful.

Sunil Samdani: So, on percentage terms, we expect that the credit cost will keep coming down quarter-over-quarter. On the broad guidance, I think we'll wait for Q4, and then we'll give you for the next year.

Arvind Kapil: So, Umang, I think the way we are seeing it is incremental business, we are very well calibrated as that's growing at a very fast rate. Our collection teams also, let me give you a sense, I think that will give you the confidence, the collection team continues its relentless focus to recover the amounts outstanding through strategic and focused efforts of the STPL portfolio. So, there is already an improvement of 380 basis points in the bounce rate resolution Quarter-3 over Quarter-2. As this quarter spans out, I think the whole aim was that predominantly if we can, continuing our financial discipline, in line with our established policy and governance framework, we've written off outstanding exposures in STPL portfolio based on the collection feedback. So, the whole idea is that how effectively this quarter as well, we can move forward, because our collection teams are exuding a fair amount of positive confidence. The way I shared with you that they've already improved by 380 basis points, and the whole team is on board. So as a matter of fact, we are on an optimistic scale. Some of these bulk of these write-offs that Sanjay Miranka shared with you is old STPL related books.

Umang Shah: Okay. Fair point and the last question from my end, Arvind, is, let's say, if one was to look beyond these few quarters that we are talking about, I mean, on growth, you already alluded to the fact that growth will probably be as to your guided range or even better. But on profitability, how should we look at the ROA trajectory as the book builds up over FY26 and FY27? Yes, that would be helpful.

Arvind Kapil: Yes, I think, probably this time, I've given a very clear guidance that we see very, very robust 4 AUM quarters leading up to, I've used the word, a very robust profit, FY26-27. That means we expect that the ROAs will be probably in the range of around 3%-3.5% by the time the third-year ends. So that clarity will be much easier to give you. I think it's more important that we first build the building blocks, because we are going after almost 11 products. Those 11 products, our confidence level is very high to build it across distribution. If you look at the manpower hiring, we're already up by 30%. Not only the management team, I didn't cover the actual feet on street is on board. I've given you micro details of the work being done. So, I'm expecting the building blocks to lead to fairly robust profits and those robust profits will continue thereafter. So, ROAs, I think, get built once your businesses go into steady, because there's a fair amount of investments being made in these businesses.

And you're well aware that you make new businesses, ROAs work most effective by the time they reach third year, especially the new businesses. So existing businesses also, productivities are going up, and which is why, if you carefully see operating cost as a percentage to AUM, we are pretty much in the industry range, because you find the AUMs are moving very fast, because this is a management team that's not experimenting with things. We are playing within an area that we know what we're doing. So, the guidance we have given right now that we expect a very robust profit starting that year. So, the idea is how do you create a sustainable business? How do you create sustainable profits? What are sustainable profits? Sustainable profit means profits that will sustain for years to come. So how do you build it? You've got to build it with investments around 10-11 businesses. These then will create a massive AUM. That will be like a tidal wave, and I expect that to turn into very robust profits and thereafter. That's the way I see the trajectory moving.

Umang Shah: Perfect. I mean that sounds perfect. Just a clarification, when you say third year, you are referring to FY27, right? Is that understanding, correct? So that we are on the same page?

Arvind Kapil: I couldn't hear you. Can you repeat it?

Umang Shah: Yes. I'm sorry. I said that when you say third year, you are referring to year ending March '27, just to clarify, so that we are on the same page.

Arvind Kapil: I think FY26-27 is going to be a very robust year. We are optimistic on the ROAs. I don't want to put a guidance number to it, Umang. I think the year after that, ROAs will start kicking in for the better every year, because the business calibration and the plan of these 7 businesses, all ROAs. Let me give you another sense actually. That might give you a better sense.

All these 6 businesses that I have planned and the one I've announced today, all in my plan is an ROA of 3%-4.5%. I think you guys are the best judge to figure out what my final mix ROAs will be, because in my plan, I'm touching all businesses which are 3%-4.5%. That should give you a sense of what ROAs are roaming in my head, and these are going to be 7 businesses that we are confident of pulling off.

Moderator: The next question is from the line of Pranay Mehta from Investec.

Pranay Mehta: Sir, congratulations on a good set of numbers. I wanted to ask about provisioning and write-offs on the old book. I wanted to just clarify that what you said before, would that hold true going forward as well? Are we expecting anything there?

Arvind Kapil: You'll have to repeat the question, Pranay. It was not very clear- if I can request you.

Pranay Mehta: Sure, sure. So, I wanted to check, would you have any provisions on the old book? Any write-offs that we expect further on the old book? Or is that all completely done and clear?

Arvind Kapil: So, I think, Sanjay Miranka, give him a sense.

Sanjay Miranka: So, the write-off on old book was to the tune of ₹520 crores. So, the majority of write-off was on old book.

Pranay Mehta: Sure. What would be the guidance for that going forward? Are we expecting anything coming or are we done?

Arvind Kapil: So, Pranay, what happens is, when you put in these provisioning for write-off in the subsequent time, the preparation happens of those cohorts of customers. So as and when those cohorts get into that situation, that's when they've been estimated to use the write-offs.

Sanjay Miranka: And with these, we have sufficient provisions.

Moderator: The next question is from the line of Nischint Chawathe from Kotak Institutional Equities.

Nischint Chawathe: I think it's again on similar lines. If I look at the credit cost of ₹350-odd crores for the quarter, more from a modelling point of view, how should we sort of expect it to trend? Is there a way we can kind of corroborate it with your loan book mix and sort of say that what more could be required to provision the older book, etc.? If there is something that you can, some pointers in the presentation that you can guide us to, which will help us to model this number going forward for the next, let's say, 4 to 6 quarters?

Sanjay Miranka: Yes. So, we expect a sequential decline in terms of percentage credit cost quarter-on-quarter. Obviously, it will be difficult to kind of put a number on the future credit cost and like we said, I think as the businesses get built and which is a good mix of secured, unsecured and across product lines, which Arvind spoke about.

Arvind Kapil: I think he's talking about the overall, did you say about the overall?

Sanjay Miranka: Overall credit cost, yes.

Arvind Kapil: Yes. I think overall credit cost, I think that the new book, we are very, very confident. I think whether it's 30, 60, 90, it's extremely well calibrated. All the AUM growth that I'm talking about, I mean, we took it when it was ₹25,000 crores. We're talking about a substantial book in probably the next 4 quarters. So, we are expecting things with every quarter moving rapidly substantially better.

It's just that I had advised from an investor's point of view that please measure us on AUM because I want to create sustainable profit, because if it's only profit it is much easier to create. If I have to create sustainable profits, we're going to just invest in that number of products, which gives me different distribution, and it creates a very different kind of tidal effect, which adds immense value to the whole construct.

So, credit cost, I mean, I am very optimistic on the kind of calibration we are doing. As a matter of fact, even the one product for which we provisioned one time, STPL, we have managed to crack the solution to such an extent that the bounce ratios, I think, Shriram, is around 50% down, right?

Shriram Iyer: Yes.

Arvind Kapil: So, it's something we're planning to even look at it in a controlled manner to gradually step it up, because we are well in control of that and we'll further calibrate it and step it up. So, I think between the mix of all the businesses that we are talking, between ROAs and credit quality, I think our bias is fairly strong on the risk side. So, when I say it in the stated objective. So, our credit cost should quarter-on-quarter start trending in the direction of the strategic stuff that we are building, because AUM is all controlled by how we are calibrating the businesses.

Nischint Chawathe: Fair point, but given the fact that we are fairly well capitalized, would you want to take one large hit, clear up the book? And if there is any reversal that comes in the later period, I think that's well and good, so that we'll be able to kind of track these metrices in a more linear manner. Because with this, it's a little difficult to kind of figure out as to where and how long it takes for the legacy book to be cleared.

Sanjay Miranka: Yes. See, we had taken one-time additional provision in Q2. As Arvind alluded to, the collection experience is pretty good. We have seen a significant improvement in bounce rate resolution from Q2 to Q3. In fact, in Q3 also, Q3 average to December bounce rate resolution has further improved. So, with that, I think we are hopeful that the collection should keep pace, and we have to assess it quarter-on-quarter.

Arvind Kapil: So, I think bulk of the problem, in my view, we're mostly trending towards much more robust building blocks from here on. Even on the old STPL book, both the best effort that can be put is on. See, you got to, as a financial discipline, do one-time provisioning with a sense of ability for collecting. You can't just go and provide for everything and then not make any effort on collections. So, the approach of a business has to be to collect. We are confident, I had mentioned to you last time that by Jan, our collections will shoot up. As a matter of fact, by December itself, our collection figures are looking very promising. But there's a steep improvement even in that quarter, if you see, there's a steep improvement between November, December. So that is the point I wanted to make. So, I think we look fairly in control. I don't think old STPL book should hold on our discussion anymore. In my view, we are well calibrated even on the STPL now. I think we are confident enough to produce the business lines from here on, AUM is nothing, but interest income increasing every quarter. It's just that when you financially show profits, it becomes averages. So that's the reason I've advised FY26-27 to be a very robust year.

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

Abhijit Tibrewal: So, a lot of discussion has already happened on credit costs. I just wanted to ask the same question again a little differently to see if I can get a different answer. So, until now, from what I understood, we are guiding that credit costs will keep coming down sequentially, which is fair. We did say that we have taken onetime credit costs in STPL last quarter, which is fair. We also said that, I mean, STPL is now well calibrated, and we are confident of growing that book again.

I'm just kind of referring to, I mean, if I just go back, while the whole management team itself has changed, we have a new management team in place, if I just go back maybe 3-4 quarters back and go through transcripts and audio recording, I mean, we used to hear that the new book is very good. GNPAs are as low as 0.1%-0.2%. My one simple question for you, Arvind sir, is out of the ₹27,000 crores of AUM that you inherited, what is the credit cost that you expect on the inherited AUM?

Arvind Kapil: Credit cost as we go along?

Sunil Samdani: On the ₹27,000 crores of inherited book.

Arvind Kapil: What was the figure?

Sunil Samdani: What is the cost estimated going forward on that?

Arvind Kapil: To give you a sense, I think fundamentally, if you hear my first earnings call, for which I stand credible, within 40 days of my earnings call, I gave you a sense that there's one ₹6,000 crores book, which I sense a problem and I said we will build on the businesses. Second earnings call, I gave you a list of the products which I'm going to do. Third earnings call, I've given you the progress of that, and I've given you the credit calibrated. Shriram has joined in first time on this earnings call, where he's given you a feel on the fact that we are on the verge and confidence of launching credit products, which the industry has not launched.

Now for us to have that confidence, while we've announced 6-7 products, I think it can give you a sense of what quality of credit we are moving from here. Essentially, initially, we saw the problem. We did provisioning one-time. We are continuing the financial discipline and policy. We are improving the collections. We have written off outstanding exposures, but that's an approach we are taking.

Abhijit Tibrewal: Okay, sir. So basically, all that I was trying to understand is that I mean, while you said in your first earnings call that ₹6,000 crores worth of book was the extent of the problem, what was the quantum of the problem? All I was trying to understand is what was the extent of the problem in that ₹6,000 crores book? Essentially, I mean, out of that ₹6,000 crores, how much do you expect to be eventually written off?

Arvind Kapil: Out of the ₹6,000 crores, how much to be written off? Eventually? If you ask me, I hope problem is behind us. But I think it's better to be conservative and say that every quarter, we'll keep a close eye on it. There are multiple efforts being made on this, and our progress is looking visibly successful over the last 60 days, a little sharper success in the last 60 days of this portfolio, because collection also took time to beef up. This very precise stuff I had shared with you in the second earnings call. The exact number is difficult to say in this ₹6,000 crores. But remember one thing, we've taken a one-time provision. There's write-offs done. We seem to be fairly adequately provided on it. I think I'm very optimistic that I think the framework is more in our favour from here on.

Abhijit Tibrewal: Got it. Got it. This is useful. That's all I wanted to confirm. I think, I mean, we're very clearly moving in the right direction. So happy to see that, and I wish you and your team the very best.

Arvind Kapil: Yes. So, while I can give you a very precise answer, I'd like to be a little conservative, let me be honest.

Abhijit Tibrewal: Sure sir.

Arvind Kapil: Thank you. I appreciate your questions. Thanks.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. With that, we conclude today's conference call. On behalf of Poonawalla Fincorp Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.