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3 November 2023

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 30 October 2023 at 12:30 p.m. (IST)

Dear Sir / Madam,

Please find enclosed herewith transcript of analyst(s) / institutional investor(s) call held on Monday, 30 October 2023 at 12:30 p.m. IST, pertaining to the Unaudited Financial Results of the Company for quarter and half year ended 30 September 2023.

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: 2023.11.03 17:21:36 +05'30'

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

Encl: a/a

"IndoStar Capital Finance Limited Q2 & H1 FY2024 Earnings Conference Call"

October 30, 2023

ANALYST:	**MR. NIKUNJ JAIN – ORIENT CAPITAL**
MANAGEMENT:	**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- INDOSTAR HOME FINANCE PRIVATE LIMITED**

Moderator: Ladies and gentlemen good day and welcome to Q2 & H1 FY2024 earnings conference call of IndoStar Capital Finance 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 over to Mr. Nikunj Jain from Orient Capital. Thank you and over to you Sir!

Nikunj Jain: Thank you Ashia. Good afternoon ladies and gentlemen. I welcome you for the Q2 and H1 FY2024 earnings conference call of IndoStar Capital Finance Limited. To discuss this quarter's business performance we have from the management Mr. Karthikeyan Srinivasan, CEO; Mr. Vinodkumar Panicker, CFO, and Mr. Shreejit Menon, CEO IndoStar Home Finance Private Limited. Before we proceed with this call I would like to mention that some of the statements made in today's call maybe forward-looking in nature and may involve risks and uncertainties. For more details kindly refer to the investor presentation and other filings that can be found on company's website. Without further ado, I would like to hand over the call to management for their opening comments and then we will open the floor for Q&A. Thank you and over to you Sir!

Karthikeyan Srinivasan: Good afternoon, ladies and gentlemen I Karthikeyan Srinivasan would like to extend a warm welcome to all of you attending our Q2 and H1 FY24 earnings conference call to discuss the financial performance. I wish to express my heartfelt gratitude to all those who dedicated their time to join the call and have consistently been part of our journey. Joining me today are Mr. Vinod Panicker, our Chief Financial Officer and Mr. Shreejit Menon, the Chief Executive Officer of IndoStar Home Finance Private Limited. The performance of our company is closely intertwined with the Indian economy's performance as we focus mainly on the commercial vehicles. The Indian economy grew at 7.6% in FY2023 exceeding government's projections. India was one of the fastest growing economies in the world and this performance underscored the country's resilience compared to the general slowdown in Europe and other parts of the world. The GDP growth outlook for 2024 is currently expected to be more than 6% with a decent monsoon, well-contained inflation, increasing consumption would likely boost the private capex the manufacturing sector is also experiencing robust expansion with the IIP reaching a 14-month high of 10.3% in August. Despite the global geopolitical uncertainty, the economy seems to be resilient and showing signs of gaining momentum. Consumer demand is on the rise and is expected to strengthen further during the upcoming festival season. In June retail inflation surged to 7.4% and has corrected to 5% in the month of September. In the commercial vehicle industry, the industry is poised to grow in a very robust manner due to the continuing robust industrial activity with the GDP growth. The commercial vehicle business is seeing heightened activity in freight and passenger movement seeing significant growth. The GST collections are greater than 10%, FASTag collections greater than 20%, and stable fuel prices since July 2022 indicate a very good year for the commercial vehicle business.

Turning our attention to the used commercial vehicle industry, the demand has remained robust primarily driven by the transition from BS4 to BS6, which resulted in a price differential of around 25 to 30%. For the past two years there has been an increase in the price of the used commercial vehicles and this trend is expected to continue in the coming year. However, it is unlikely that the average ticket size of the financing used commercial vehicle will see a substantial growth in the short term. The company is expanding its operations with specific focus on the used commercial vehicle sector where we concentrate on the more profitable used commercial vehicle segments particularly in the Tier-3 and Tier-4 towns. Additionally, the company's harnessing technology-enabled systems to enhance compliance with process, increase the collection efficiency, improve our credit underwriting, and boost the sales productivity. We can anticipate the robust growth in the used commercial vehicle industry in 2025. The demand for used CVs remained strong because we can transport the same volume of goods at a lower per tonne cost and experience reduced downtime. Further the useful lives of the CVs have extended following NBFC financing vehicles up to a vintage of up to 12 years. The maintenance costs of these vehicles have also decreased thanks to better engineered components in BS4 vehicles. The connection with fleet operators has gradually decreased over the past four or five years. In summary, the demand for used CVs remains strong driven by first time users and first time buyers. I am delighted to share that our company has been experiencing steady growth and it is picking up pace quarter-on-quarter. This has been seen in our disbursement growth during the quarter which stood at around 1269 Crores growing 13% sequentially. During the quarter the company took a decisive step forward in its stated retailization strategy by selling a significant portion of its legacy corporate book to Phoenix ARC. The sale consists of certain accounts that were tagged phase 2 aggregating to dues outstanding of Rs.915 Crores. This arrangement will enable us further to increase our focus on building the core retail lending business. Post the transaction the share of the retail lending book in the company's assets under management has increased from 85% to 95%. Our ability to collect payments has been exceptionally strong underscoring the resilience of our business model and the trust our customers have in us. Our previous guidance remains unaltered and we have confidence in our capacity to meet our objective. We are actively exploring fresh products and strategies to generate additional income and enhance returns. Diversifying our product range will enable us to maintain a competitive edge in the market and provide consistent value to stakeholders. In conclusion, I would like to express my appreciation for your ongoing support. We are committed to sustaining our focus on growth, the quality of our portfolio and operational efficiency. With a strong financial foundation and a healthy liquidity position and strategic initiatives in place we are well positioned for a prosperous and profitable future. With that I will now pass the call on to Mr. Vinod Panicker to present this financial performance.

Vinod Panicker: Thank you, Karthikeyan and good afternoon to all of you. I sincerely appreciate your presence on this conference call today and I appreciate the fact that most of you have been with us over the last several quarters. Please allow me to provide you with an overview of our financial performance for Q2 and H1 of FY2024. Our consolidated net interest income reached a figure of

148.1 Crores showing a 2% increase quarter-on-quarter, this is in spite of the selling of our corporate loan book of 915 Crores to Phoenix ARC as Karthikeyan just mentioned a couple of minutes back, which reduced our interest income by about 29 Crores. Our net interest margin for the same period expanded by about 20 basis points to reach 6.7%. We are pleased to report that our yields have significantly improved and we are focusing on Tier-3 and Tier-4 markets. Notably 95% of our CV disbursement is in the used CV space, which permits us to get better yields. Turning to the operating expenses we recorded a total cost of about 119 Crores in the second quarter representing a 3% increase over the immediately preceding quarter, which is mainly on account of increase in manpower cost, which is essentially needed to sustain growth. Also there was a onetime cost of 3 Crores which was in relation to the ARC sale. Our profit after tax for Q2 FY2024 stood at 25 Crores as compared to the PAT of 39 Crores in the immediately preceding quarter largely on account of the drop in the corporate loan book income as mentioned above. We achieved a total collection of 963 Crores during the quarter as against 1040 Crores in the immediately preceding quarter. Our gross collection efficiency reached a figure of 135% in the current quarter showcasing our commitment to maintaining high credit standards and operational efficiency. The EMI to EMI collection for the CV business was at 90% and in the HFC business it was as high as 96% and EMI plus overdue collection for the CV was at 97%, for HFC it was something more than 99%. Our focus on portfolio quality has ensured that there is only a marginal increase in the stage 3 assets which was at about 6.7% at the end of Q2 FY2024 versus 6.6% in the immediately preceding quarter. Even this increase is on account of the reduction in the AUM due to the sale of the corporate lending book, which was close to 915 Crores. Furthermore, our consolidated net stage 3 asset was at about 3.3% demonstrating an effective credit risk management strategy that the company has in place.

In terms of funding we made progress in improving our liquidity position by raising incremental funding of about 970 Crores in the second quarter. As on September 30, 2023 we maintained a cash and cash equivalent of about 372 Crores and our capital adequacy stood at about 32.8% and debt equity at about 1.8 times, both of which gives ample idea to anyone who looks at the numbers that there is ample headroom for further growth and for further borrowing which will lead to further growth. We are confident that this will help drive profitable growth in the coming quarters and years. Our assets under management of 7726 Crores as compared to 8062 Crores in the immediately preceding quarter was mainly as I said earlier was on account of the corporate loan book that was sold but then the intention like Karthikeyan had mentioned, intention was to show our focus on retailization which actually meant that we needed to sell off the corporate book. The increased disbursement of 1269 Crores in the current quarter was up versus the 1116 Crores in the immediately preceding quarter and that can be attributed to the strong focus on the retail segment.

Retailization efforts continue to yield favorable results and we are confident in sustaining profitable growth in the coming quarters. For the first half of the year we have done a total disbursement of about 2385 Crores as against our committed figure of about 5500 consolidated disbursement for the entire year. In the vehicle finance business our AUM as of September 30, 2023 stood at 4383 Crores showing a 12% increase over the immediately preceding quarter and the housing finance AUM at 1894 Crores showed a 9% increase over the immediately preceding quarter. As mentioned previously our emphasis continues to be on growing the used CV book and the housing finance segment book and we are experiencing significant growth in the AUM which we expect to continue. Now I would like to invite my colleague, Shreejit Menon to provide further and more detailed insight on the housing finance business, which is another key focus area for us. Over to you Shreejit!

Shreejit Menon: Thank you Vinod. Good afternoon everyone. I hope you are all doing well. Let me start by presenting an overview of IndoStar Home Finance progress in the affordable housing finance segment. We focus primarily on Tier-2 and Tier-3 markets with deep presence in southern and western part of India. We continued with our strategy of focusing on small towns and semi-urban geographies, which not only helped us to maintain the average ticket size under 1 million but also benefited us with very high originating yields. These geographies helped us to build onto our targeted segment of self construction along with an opportunity to originate high quality micro LAP. We continue to maintain superior asset quality which can be seen from our gross stage 3 asset level of 1.25% this is after recognizing the ONAN norms which came into play from October 1, 2022. Even with rising interest cost scenario we are able to maintain the spreads in the range of 5 to 5.5% consistently with the right mix of home loan and LAP origination. With a strong foundation in terms of distribution, risk and underwriting, technology and people we are on the right path to achieve the desired growth. In Q2 FY2024 we have disbursed loans worth 221 Crores at an average yield of 15.8% as compared to 190 Crores disbursed in Q1 FY2024 at similar yields. If I compare the half year disbursement performance, we disbursed Rs.411 Crores in H1 FY2024 as against 197 Crores in H1 FY2023; hence we have almost doubled our disbursements from a similar period of last year. Our customer profile composition remains the same with a 50:50 proportion between salaried and self-employed profiles. Our AUM stood at 1894 Crores as against 1623 Crores in March 2023 marking a growth of 17% for the H1 period. Our headcount as on September 2023, stood at 1053 and we have 140 branches pan India as of date.

On the liability side we raised 423 Crores during H1 FY2024 across different channels such as term loans, NCDs, PTCs, and direct assignment. Maintaining adequate liquidity has always been our priority and we built a robust pipeline of funding to support business growth. In this quarter, we assigned LAP only assets as a part of strategy which allowed us to originate more LAPs as well as to maintain a healthy share of home loan assets as part of the loan book. After launching series of technology initiatives which I talked about in the last call in Q1 FY2024 such as the sales, the collection, and the customer app, we continue to progress well on the automation journey with our personal discussion app going live this quarter. With almost 100% adoption rate of the sales and the personal discussion app, we are confident of achieving our objective of a paperless loan journey which is a significant step towards sustainable way of improving productivity and enhancing customer experience.

Now let us take a look at our financial performance. In terms of financial results we recorded a net total income of 91 Crores for H1 FY2024 representing an encouraging 12% increase year-on-year basis. Our profit ater tax stood at Rs.22 Crores for H1 FY2024 indicating positive momentum in our operations. As mentioned by me earlier managing asset quality has always been our top priority and we have been able to successfully maintain a gross stage 3 rate at 1.25% as of September 2023. Net stage 3 assets stood at 0.96% so we continue to be under 1% on our net stage 3 assets. I am also happy to share that our 30 plus DPD numbers stood 2.67% and our one plus numbers stood at 4.3%, in fact our one plus numbers have trended downwards from March 2023. Our capital adequacy ratio currently stands at 70.8% underlining our ability to support business growth while ensuring ample capital reserves. In conclusion, IndoStar Home Finance is well poised for a bright future. Our commitment to making housing affordable to the lowest rank of the Indian demography remains unwavering. We will continue to invest in technology, expand our reach in the chosen geographies and maintain a strong financial position to serve our customers better. We are excited about the progress we intend to make and we appreciate your continued support. Thank you for your attention. I now hand over to the moderator to open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Mr. Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead Sir.

Vivek Ramakrishnan: Sir my questions are on slide 36 and 16 of the presentation reconciling the various bits. We see that 90 DPD is increasing even as 30 DPD is actually coming down nice and sharply, so my questions are how many of those 90 DPD customers are currently paying at least one installment and keeping their account current and the second thing is are you going to repossess the trucks and sell them if that is the case and then reconciling that with the collection efficiency number you have indicated more than 100% on a cumulative basis when will that bring the GNPA down especially in the non-housing business down significantly and just one additional question if I can ask is on the ARC sale which you said about 915 Crores is it in the form of security receipts or have you sold it for cash? Thank you.

Karthikeyan Srinivasan : I will start one-by-one. See my 90 plus increase is because I have a tie-up with ICICI which is a sourcing and servicing arrangement, post 60 DPD I am obligated to buy the loan from ICICI so it directly comes into my book as 90 plus where the customer keeps paying one EMI, but because of the ONAN criteria I am not able to roll it back to less than 0 DPD that is why it remains in stage 3. Most of these cases typically what happens is these guys pay for some months and then try to switch it to some other financial and go away or the extreme case repossess the vehicle and realize the value that is why the 90 plus always goes up my 30 plus is better because when I buy back from ICICI it directly comes into my book as 90 plus that is the answer for that. Overall in the commercial vehicle segment, we are seeing quarter-on-quarter reduction without assuming the ICICI numbers probably we can send it across to you separately as to how the book is behaving without ICICI so that you can get a fair picture. We feel like in the next two quarters we will be seeing significant reduction in the overall non-housing stage 3. Two things are happening, one is on the CV space the overall market is doing well so month-on-month I am able to see reduction. On the SME portion of it we have tightened our legal aspects of it. We have a lot of cases where we have realized where we have the possession of the asset or where we have been able to move significant process in the legal that will create a good impact in reducing my overall stage 3 percentage by March. On the corporate portion of it, it is an SRD 85:15 is the SR, we realized 103 Crores as cash and the balance as SR.

Vivek Ramakrishnan: Sir thank you very much and wish you all the best.

Moderator: Thank you. The next question is from the line of Mr. Hitesh Arora from Unifi Capital. Please go ahead, Sir.

Hitesh Arora: Yes I had a couple of questions. If you could enlighten us on the funding arrangement with banks how are we looking there our interest cost seems to have gone up this quarter, if you could kindly entitle how are we both on the standalone side as well as the home loan side?

Vinod Panicker: I will speak about the standalone first and then on the home finance I will request Shreejit to touch up on the details. On the bank funding we started speaking to the bank only towards the end of May or early June which is what we have said in the last call also and banks have started coming back to us and they are very positive about the whole thing when we actually got our first sanction of a term loan after about 18 months from a bank and we are expecting many more to come along the way in this quarter, in fact in the third quarter some to come and many more to come in the next quarter that will see a reduction in the cost, you specifically harped upon the increased cost, the increased cost is on account of the NCDs that we had done which including the other cost was slightly on a higher side but we are seeing that the bank funding that we would end up getting now would bring down our cost but we feel that that seeing some I would say benefit or some significant benefit on the cost could be a couple of quarters away.

Hitesh Arora: How much is this term loan that we sanctioned what is the quantum of that?

Vinod Panicker: It is 100 Crores to begin with.

Hitesh Arora: This is a PSU?

Vinod Panicker: No, it is a private sector.

Hitesh Arora: The PSU banks have not been welcoming enough?

Vinod Panicker: There are about two, three of them in the pipeline which should possibly fructify in the current quarter.

Hitesh Arora: Yes maybe if you could enlighten us on the housing finance business how is the funding there?

Shreejit Menon: So as I mentioned we raised about 423 Crores in the first half of this year and it was a combination of term loans where we got support both from a PSU as well as a couple of private banks, in fact existing bankers to us topped up their loans and we also had a couple of direct assignment transactions. As I mentioned in my opening note we looked at selling out our LAP pools, which got a lot of interest from the market and we also did a PTC transaction, which works very well on our ALM strategy.

Hitesh Arora: The bank funding of this 423 Crores would be how much?

Shreejit Menon: So we had about 130 Crores that would came in from banks.

Hitesh Arora: That is a mix of PSU and private bank?

Shreejit Menon: That is right.

Hitesh Arora: If I could ask you the status of this we were talking with JM earlier and then there is **spin-off**, what is the status of that, is the DD done, we move to the next stage, etc.?

Shreejit Menon: Thanks for inquiring on this potential merger. As you know the DD is done, the negotiations are ongoing, there are several critical aspects of the transaction which we are evaluating right now and at this stage there is nothing to report. If there is something that is to be reported publicly we will come back to you on that.

Hitesh Arora: Assuming it goes through, etc., in your desired format what would be the expected timeline?

Shreejit Menon: Difficult to give a timeline at this stage, time will tell actually. I think we will need to wait patiently.

Hitesh Arora: One more question if I could ask was on the SME business I know we wound on some part of the books there, how is it looking, what is the strategy and if you could also tell on the gross and the net stage and the provisions there and how much is in stage 2 as well?

Karthikeyan Srinivasan : Yes one by one. SME our stated position is we will bind it down. We are working very vigorously to reduce the stage 3, and if you look at it our stage 3 has come down significantly. Quarter-on-quarter from 191 Crores in June to 163 Crores is what is the downward momentum SME. In stage 2 it is around 162 Crores, but the book is adequately provided, we have a provisioning of almost 30% in the book, we do not expect any significant deterioration in this because we expect a lot of release. Whatever we are settling we are setting at much beyond the provision value which we are carrying, so we do not see any major resistance there. We are working with the legal so that we can reduce the overall SME stage 3

Vinod Panicker: On an overall basis also SME has come down by more than 100 Crores in the quarter.

Hitesh Arora: It is just this 30% provision is on the stage 3.

Karthikeyan Srinivasan: Correct.

Hitesh Arora: I think you said something else.

Karthikeyan Srinivasan: I said it is actually 37.

Hitesh Arora: Thanks I will come back in the queue.

Moderator: Thank you. The next question is from the line of Mr. Gunit Singh from CCIPL. Please go ahead, Sir.

Gunit Singh: Hi Sir thank you for this opportunity, so we are seeing a rapid growth in the last couple of years and most of the NBFCs are growing faster than that but our revenues have been struggling since FY2019 so what is the reason for that and when we will be able to cross the 1600 Crores revenue that we saw in FY2020?

Vinod Panicker: After FY2019 we had seen the onslaught of COVID and that actually had an issue and then to make the issues worse there was this issue that we had come across in FY2022 basis which we had to take a huge provisioning and a lot of write-off that had an impact on the income that was getting generated and to correct the way we do our business we had to actually step back for a couple of quarters or maybe about eight months in the last financial year to ensure that we set things right before we actually take a leap and look at volumes or look at disbursements that is what we did and post the third quarter of last year we are seeing growth, we did about 343 Crores in the third quarter, we did about 656 Crores in the fourth quarter, 757 Crores and above 1000 plus in this quarter, so the income from all these are going to come now and then now that all the issues that were there have been cleaned up we see only the income going up. In the current quarter also the revenue did see a drop versus the immediately preceding quarter, in fact I pointed it out in my opening comments that there was a drop of 29 Crores on the sale of ARC book and like Karthikeyan mentioned that is a legacy book and we have come to an end of all the legacy issues so there is nothing else now left for us and the only way we see things going forward is there will be growth in revenues, growth in profitability and growth in the overall book.

Gunit Singh: Sir all the issues that were in the past have all of them been solved or some of them are still remaining?

Vinod Panicker: They were sorted out in the last year itself and post that only we started I would say disbursing all over again.

Karthikeyan Srinivasan: See the SME stage 3 is the only thing that needs to get resolved, the balance are under control.

Gunit Singh: By when will this be resolved?

Karthikeyan Srinivasan: In our assessment by March we will be able to find a solution for this.

Gunit Singh: Alright. So in terms of guidance what kind of numbers should we look at for FY2024 in terms of topline and bottomline for FY2025 and what kind of growth we can see ?

Vinod Panicker: We had said that we would do a disbursement on overall basis of about 5500 Crores in the current year and about 7500 Crores in the next year that is what we had said basis which we would look at an ROA of about 1% in the current year and look at the ROA of about 2% in FY2025.

Gunit Singh: Alright and if you have the numbers for FY2023 just to compare?

Vinod Panicker: FY2023 had seen a lot of reversals basis which I would say the ROA and maybe in the fourth quarter there was a huge reversal of about 50 Crores in relation to ESOPs, I would say ROA of about 1.25% but then that was on account of certain reversals which had happened.

Gunit Singh: How much was the loan disbursals in FY2023?

Karthikeyan Srinivasan: 1600 Crores roughly, exact figure was about 1687 for the standalone and on an overall basis.

Vinod Panicker: 2099 crores for the consolidated.

Gunit Singh: Alright see just to get an idea with the 5000 Crores loan disbursal what kind of topline and bottomline should we be looking at?

Vinod Panicker: I would possibly talk about the ROA part maybe have a separate call to discuss what is our expectation in terms of topline and bottomline because we did not want to get into that kind of detailing right now.

Gunit Singh: Alright that is all from my side. Thank you and all the best.

Moderator: The next question is from the line of Mr. Kush from Nippon India Mutual Fund. Please go ahead Sir.

Kush: Sir, with this regard to the sale to ARC can you specify the two accounts which you have sold and what was the aggregate value of those two accounts in our books?

Karthikeyan Srinivasan : I do not know if I can mention the names. We will keep it offline Kush but these are two large interstate accounts of Bombay which were 915 Crores, so we will keep the name separate we will not go into a recorded transaction with that.

Kush: Sure okay no problem. Thank you.

Moderator: Thank you. The next question is from the line of Mr. Rishikesh Oza from RoboCapital. Please go ahead, Sir.

Rishikesh Oza: Hi. Thank you for the opportunity. Sir I missed the disbursement target you said 5000 Crores approximately?

Vinod Panicker: 5500 Crores.

Rishikesh Oza: What would that be for FY2025?

Vinod Panicker: 7500 Crores.

Rishikesh Oza: 7500?

Karthikeyan Srinivasan: Yes.

Rishikesh Oza: Okay also Sir, if you could touch up on the operating expense how do you see the operating expense for FY2024 H2 and for FY2025?

Vinod Panicker: FY2024 the opex as a percentage of AUM would be in the 4.5% kind of range and which should go down to about 3.5, 3.6% in the next year that is where we are expecting the cost to be. We are currently in the process of recruiting manpower, in fact I did mention it in my opening remarks saying that we are looking at growing and housing finance by themselves they are looking at increasing their number of officers, so all this will see some bit of increased cost in the current year, which is why we are taking about this 4.5%. Next year we should possibly have all this happening, but then the increase would definitely reduce.

Rishikesh Oza: If you could also indicate on credit cost how do you see them for FY2024 H2 and for next year FY2025?

Vinod Panicker: We are expecting a maximum credit cost of about 1.25% in the current year and next year we would be in the same range maybe in the 1.25 to 1.5%.

Rishikesh Oza: How do you see the normalized credit cost to be going ahead?

Karthikeyan Srinivasan: In this segment we expect it to be around 1.25 to 1.5% going forward also because we have mentioned the reasons why we are in the used CV space and we see the industry being robust in that segment because with the scrappage policy likely to come in with the overall operating efficiency at the used level being much higher we feel like that will be the cost we will be able to manage.

Rishikesh Oza: Just last question, the SME book that we are going to run down, are we going to run it down this year itself?

Karthikeyan Srinivasan: See the stage 3 book only will get run down this year. The overall book is much large it is around 800 Crores. Without the stage 3 it is around 700 Crores it will take some more years to run down because all these are long term loans with an average tenure of around 15 to 18 years and today with the rates going up the BT market is not that open in the market so it will take some more years to be, but those are all stage 1 books or stage 2 books we are not that much worried.

Rishikesh Oza: Got it. Thank you very much.

Moderator: Thank you. The next question is from the line of Mr. Sagar Shah from Piper Serica Advisors Private Limited. Please go ahead Sir.

Sagar Shah: First of all thank you for the opportunity. Good afternoon management. Now my first question was related to actually long-term vision means I can clearly see that you are turning the company around, you are actually revisiting your portfolio, you are actually cleaning up your portfolio and first of all since I am new to the company I wanted to understand your thought process when we look at your company for the next three years so first of all I can see you are targeting the CV segment and right now the CV cycle is strong, the business momentum is strong, so first of all I would like to understand the long term vision for the next three years and then I will follow up with my business question? Thank you.

Karthikeyan Srinivasan : Our focus is on improving the EWS segment, so our focus will be on the used commercial vehicle and on the affordable housing space that is how we want to be focused on. On the used commercial vehicle segment as Mr. Vinod mentioned some time back we want to grow the book. We want to disburse around 4400 Crores this year, 6000 Crores next year and 7500 Crores the year after that.

Vinod Panicker: The 4400 Crores is in the CV segment on an overall basis 5500 Crores, 6000 Crores is for the CV segment in the next year and totally 7500 Crores and currently the focus that the company has is these two segments. Karthikeyan during his initial comments he had mentioned that we are looking at new products which would possibly complement the existing bouquet of products that we have so those are things that would come on to the drawing board, in fact we are already looking at them, some of them would possibly come towards the end of this year or early part of next year, so we will have additional disbursement target and would actually grow the book even further.

Sagar Shah: Sure Sir, I got your point on that. So basically now coming on to your business question on your funding mix actually I can see your overall funding mix which have raised around you just said around 400 Crores from the housing business actually for the housing subsidiary and your funding mix your banks constitutes around 22% and so for the next three years should we at least assume that funding from the banks should constitute at least 50% or what is our target basically on your funding?

Vinod Panicker: For any NBFC that would be an ideal target. Our mixed banking contribution is currently lower because I think I said in one of my earlier responses that we started approaching the banks only after our Q4 results of last year that was only in early June that we started meeting the bank, so that is the reason why it took some time for us to get the sanctions and we believe that some of the sanctions will come in the current quarter, a lot more will come in the next quarter and over a period of time I would say over the next two to three quarters or three to four quarters we would see that 50:50 kind of mix, otherwise we have been getting funding mainly in this last nine months a lot of it has come through NCDs for the standalone company and in case of housing finance it has been a mix of securitization plus the bank.

Sagar Shah: Sure Sir. My last question Sir related to slide number 36 actually I can see your delinquency levels are decreasing but your bounce rates are increasing actually right from June 2022 to almost September 2023 your bounce rates are going by almost 100 basis points every quarter right now the bounce rates are 14.3 so what are the reasons for such a mismatch actually between the 30 plus DPD and the 90 plus DPD and our bounce rate is because in your slide you have clearly highlighted about your model actually about your analytics model, how you basically manage your risk using this model, I am not saying still it is a worry sign but by increasing 100 basis points every quarter might be alarming in the future, that is why?

Shreejit Menon: You are right about the observation in terms of the bounce rate for the HFC having gone up from 12% in December 2022 to about 14.3% we look at two aspects one is we look at the current bucket bounce and as the number of delinquent customers go up at an overall level you will find those customers will bounce and then we approach for repayment but when we look at our current bucket bounce rates, the current bucket bounce rates are still in the 9 to 10% range, which is what we target and that is why you see because there are very minimal flow forwards from the X bucket, which is why you see that our one plus numbers have actually gone down. That is one reason which gives us comfort even though there is a slight uptick. As you know in the last year-and-a-half we have been also increasing our LAP part of the business which today is about 30% of our origination typically in LAP you will see a slightly higher bounce rate or the repayments do come in after the customer bounces, so it is a combination of that. It is a combination of the seasoning of the book, a combination of a slight increase in the LAP part of the business we have also gone into Tier-3, Tier-4 where the banking habits are still getting developed but we are not worried, as you rightly pointed out you see the one plus numbers and the 30 plus and the 90 plus numbers, they are well in control.

Sagar Shah: Basically the reason that you are highlighting is acquiring new customers basically and for that reason your bounce rates for the initial level are going up, but they are actually there you can say maybe they are stabilizing once the customer has a journey with IndoStar is my understanding correct?

Shreejit Menon: So as the vintage goes up, you will find some of the bounces on the vintage pool going up that is point number one. Second is by virtue of changing the mix from more home loans to a little bit of LAP, in LAP you typically see a slightly high bounce rate that is the second thing. Third is as the absolute pool of delinquent customers go up those customers will anyways bounce so the current bucket bounces are in control and so overall which is why even though the bounce rate has gone up the overall delinquency is flat. In fact the one plus numbers have actually gone down because we have seen a lot of resolutions as well.

Sagar Shah: Sure. Got your point. Thank you so much. All the best Sir.

Moderator: Thank you. The next question is from the line of Ms. Saloni Shah, an individual investor. Please go ahead Madam.

Saloni Shah: Hello, good afternoon Sir. Thank you for this opportunity. So I have few questions, first one being how much percentage of the housing book is towards the rural areas versus Tier-1, Tier-2, and Tier-3 cities?

Shreejit Menon: So today Tier-1 cities contribute less than 30% of all the business that we do. Our large concentration is on Tier-2 and beyond. I would not say they are absolute rural because we do not go into the villages, we go into the semi-urban pockets and that would be about 70% of the business that we do.

Saloni Shah: My second question is how is underwriting policy different like how do we keep a check on the quality of these lending in the rural areas?

Shreejit Menon: You know in every geography when we look at our business we have a specific policy both in terms of the underwriting and the risk that we will on board, the ticket sizes, caps that will keep on the loan that will originate, the collateral policies as you know in every geography is different from the other geography, so when we start a geography we do a very detailed review of the landscape, we will also look at what the competitors are doing before we frame our policy and we of course pay a lot of attention to the people that we hire in each of these geographies so a combination of all of these things has really helped our business keep this kind of a quality of portfolio that you see.

Saloni Shah: Alright. That is it from side. Thank you so much.

Moderator: The next question is from the line of Mr. Pranav Singh, an individual Investor. Please go ahead, Sir.

Pranav Singh: Thank you for taking my question. We have touched on these points. I just wanted a little bit more information. So our borrowing costs in the standalone entity and also in housing finance seems to be higher by about 2% so do we have kind of an expected timeline by which it would normalize?

Vinod Panicker: The housing finance cost would be definitely lower than the standalone. Here the difference is about 2% and we mentioned in one of the earlier queries I replied that it is a lot to do with the NCD borrowings that we have done with the banks now starting to come in we would be having our cost reduced and I had said that this could be about reducing it in a substantial way would be about two to three quarters.

Pranav Singh: Another thing Sir right now home finance operating expenditure is about 6 to 7% of AUM, so which would be higher because we are undertaking expansion, so for the housing finance piece, what would be the long term range for operating expenditure if you have something in mind?

Shreejit Menon: The long term range in housing finance will be in the range of 3.5 to 3.75% and the opex to income will be under 50% so it will be about 45% will be our long term rates. At an opex to average asset ratio will be about 3.5% that will be the range that we like to keep.

Pranav Singh: Great these things and one small question I had. I read in a rating rationale that our CV disbursements after April 2022 they have been performing very well with average 1.2% gross stage 3 so what will be the proportion of the older portfolio before April 2022 and is there any difference in asset quality and interest rates across these two portfolios?

Karthikeyan Srinivasan : See the interest rates of the new portfolio is much higher, they are at around 300 bps higher than whatever is the old portfolio which now contributes 50% of the overall, so 50% is the old portfolio and 50% is new portfolio so that is how it is.

Pranav Singh: Any asset quality of the old portfolio will there be substantial difference?

Karthikeyan Srinivasan : As you are aware last to last year we ran into certain problems on control issues basis which we have ourselves downgraded and kept few assets at a lower staging compared to that the new assets we do not have any issues so that is why they are at 1.2%. Secondly we have also tightened the way in which we underwrite the processes around how we underwrite, so we feel like the new portfolio will be much more superior and over a period of time when the old portfolio dies down or runs down we will be one of the best in the industry in terms of our overall stage 3.

Vinod Panicker: You yourself pointed out the CRISIL rating rationale which mentioned about 1.2%.

Pranav Singh: Since it is already about 18 months in April 2022, so should expect that maybe one and a half years or two years by end of FY2025 this portfolio will all be gone, so we will be with a new portfolio. Thank you. That is all. Thank you and best of luck.

Moderator: Thank you. The next question is from the line of Mr. Rikesh Parikh from Rockstud Capital LLP. Please go ahead, Sir.

Rikesh Parikh: Yes thanks for the opportunity. Regarding CV business we are seeing that the LTV has gone up to 78% so anything to look into it?

Karthikeyan Srinivasan : No, if you look at it overall, if you go deeper geographies there is a significant movement towards the single axle trucks and these trucks where there are a lot of asset value that has gone up because single axle trucks at a point of time ICVs were replacing it, but today it has come back to single axle again, so that has increased the cost of these assets significantly, so that is the reason why it has gone up marginally. I believe that even at 78% the LTVs are very reasonable because the customer almost pays 25% on the overall cost.

Rikesh Parikh: Can you just quantify the size of our ICICI bank AUM since lot of 60 plus DPD is coming into our books as such, so what is the asset quality over there in terms of 60 plus DPD as a percentage?

Karthikeyan Srinivasan : See 250 Crores roughly is the overall ICICI book and we are maintaining around 93% stage 1, so that is how the overall book is trending.

Rikesh Parikh: So 60% plus moving over there?

Karthikeyan Srinivasan : Probably I will come back to you offline on that separately.

Vinod Panicker : Rikesh if you can separately call us maybe in the latter half of the day we will respond to you.

Rikesh Parikh: Last request on stock exchanges there is some compliance pending as such for the last few quarters, so anything you can just complete those compliance details as such like something like details on compliance officer is still pending or something like that.

Vinod Panicker: I think the only compliance which was pending was in relation to the SDD which we have subsequently we have responded to the stock exchanges maybe 3-4 days back. I think they will possibly review our response and then confirm that there is no noncompliance left.

Rikesh Parikh: That will be nice because that is recognized in the trade-to-trade segment for a long time. Thank you. That is it from my side.

Moderator: In the interest of time that would be the last question. I would now like to hand the conference over to Mr. Nikunj Jain from Orient Capital for closing comments. Please go ahead Sir!

Nikunj Jain: I would like to thank the management for taking the time out for this conference call today and also thanks to all the participants. If you have any queries, please feel free to contact us. We are Orient Capital Investor Relations Advisors to the IndoStar Capital Finance Limited. Thank you so much.

Moderator: Thank you, Sir. On behalf of IndoStar Capital Finance Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.