INDOSTAR

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10 August 2023

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

Scrip Code: 541336

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

Symbol: INDOSTAR

Sub.: Transcript of analyst(s) / institutional investor(s) call held on 03 August 2023 at 01:00 p.m. (IST)

Dear Sir / Madam,

Please find enclosed herewith transcript of analyst(s) / institutional investor(s) call held on Thursday, 03 August 2023 at 01:00 p.m. IST, pertaining to the Unaudited Financial Results of the Company for quarter ended 30 June 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: 2023.08.10 23:37:34 +05'30'

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

Encl: a/a

"IndoStar Capital Finance Limited

Q1 FY '24 Earnings Conference Call"

August 03, 2023

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 PVT. LIMITED

MODERATOR: **MR. NIKUNJ JAIN – ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY '24 Earnings Conference Call of IndoStar Capital Finance Limited. As a reminder, all participant lines will be in a listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal and operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

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

Nikunj Jain: Thank you, Dorwin. Good morning -- good afternoon, ladies and gentlemen. I welcome you to the Q1 FY '24 Earnings Conference Call of IndoStar Capital Finance Limited. To discuss this quarter's business performance, we have from the management, Mr. Karthikeyan Srinivasan, Chief Executive Officer; Mr. Vinodkumar Panicker, Chief Financial Officer; 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 may be forward-looking in nature and may involve risks and uncertainties. For more details, kindly refer to the IndoStar presentation and other filings that can be found on the company's website. Without further ado, I would like to hand over the call to management for their opening comments, and then we will open the floor for Q&A. Thank you, and over to you sir.

Karthikeyan Srinivasan: Thank you, Nikunj. Good afternoon, ladies and gentlemen. I'm Karthikeyan Srinivasan, and I'd like to extend a warm welcome to each one of you for attending our conference call on the earnings of Q1 FY '24. Joining me with today are Mr. Vinod Panicker, our Chief Financial Officer; and Mr. Shreejit Menon, the Chief Executive Officer of IndoStar Home Finance Private Limited.

We are focused on used commercial vehicle lending and affordable housing sector, and we have kept our focus unwavered. We continue to see promising growth prospects in both these areas. As you're aware, the Indian economy has displayed strong and commendable resilience in the last fiscal and the current fiscal too. With the sustained growth momentum happening, and RBI has also said that overall economic activity has remained robust. The GDP growth for Q1 '24 is now capped at an interest of 7.9%, and this has had a very positive impact on the commercial vehicle industry.

The outlook for the commercial vehicle industry for the year remains quite strong, and this has a positive ramp-up effect on the used commercial vehicles, too. As you are aware, because the new EV commercial prices have gone up, the value of the used commercial vesicles has been significantly increasing. And this presents IndoStar unique opportunity to leverage our expertise and capitalize on growing the demand in the used commercial vehicle segment.

Our focus remains on the Tier 3 and Tier 4 market, which contributes to the bulk of our volumes. I'm delighted to share that our company has been experiencing steady growth, and it is picking up each quarter.

This can be seen by the growth in our disbursement during the quarter, which stood at around INR1,116 crores, growing 33% sequentially. Our collection efficiency has been exceptionally robust, reflecting the trend of our business model and the trust the customers place in us. This is one strength, which we want to use it further and further.

Furthermore, I'm pleased to announce that our management team is now complete with the recent addition of our new Chief Risk Officer. We believe that a strong leadership team is crucial to achieve our objectives, and we are confident in the capabilities of our management. Looking ahead, we are confident about the coming quarters, and we see robust growth in the near future. Our earlier guidance remains unchanged and we are confident in our ability to achieve our target.

To augment further growth, we are also actively exploring new products and strategies that can help to generate additional revenue and improve yield. Diversifying our offerings will enable us to stay ahead of the market and deliver sustainable value to our stakeholders. I want to express my gratitude to all of you for your continued support. We are dedicated to maintaining our focus on growth, portfolio quality and operational efficiency.

With a solid financial foundation, a healthy liquidity situation and strategic initiatives in place, we are called for a bright and profitable future.

Before I hand out the session to my colleague, Vinod, I'd like to mention that last week, CRISIL has renewed the rating watch with negative implication from the company's debt instrument and long-term banking stability. While reaffirming the rating at CRISIL AA- and assigned a negative outlook to the long-term rating. Some of the key factors that have triggered this rating action include, strengthening of risk and control, the strong management framework and governance mechanism which we have established, formation of the new management team and focus on building the retail portfolio in a scalable manner. Over to you, Vinod.

Vinod Panicker: Thank you, Kartik and good afternoon to all of you. I sincerely appreciate your presence at this conference call today. This is the third conference that we have started, first time when we started it was the December quarter and the third time we are coming before you after a gap of one year that we had first come to you after the December quarter.

Allow me to provide you with an overview on the financial performance of the company for the first quarter of FY '24 . Let's start with the net interest income, where we reached about INR145 crores, showing a 7% increase on a quarter-on-quarter basis. Our net interest margin for the same period expanded by about 50 basis points to reach about 6.5%.

We are pleased to report that our yield has significantly improved and we are now fully focused on Tier 3 Tier 4 markets like Kartik mentioned in his comments. Notably, during the quarter, we need to mention that the focus has been on used commercial vehicles and 93% of the disbursement wwere towards used commercial vehicles, where the yields are significantly better than any period.

Turning to the operating expenses. We recorded a total cost of about INR115 crores for the current quarter, representing on the paper about a 24% increase over the immediately preceding quarter. But the last quarter had a one-time reversal of about INR50.6 crores. If that is adjusted

-- actually, there is a decline of over 1.2% in the expenses. We would, over the next 3 quarters, see continuous reduction in expenses because that's one of the focus areas that we are looking at. Besides the growing of book besides the looking portfolio, reduction of cost is one of the areas that we are definitely looking at.

Our profit after tax for the quarter was at about INR39 crores, an increase of 50% compared to the adjusted PAT of the previous quarter, which was at about INR26 crores. We achieved total collection, Kartik mentioned that collection has been very robust of our INR1,040 crores during the current quarter, which is a 13% higher than the immediately preceding quarter. Normally, March quarters are the best for the business, including for collection. But this quarter, the collection exceeded even the March quarter. Our gross collection efficiency was at about 129% in the current quarter. We definitely showcase our commitment to maintaining high operational efficiency, which is because of the high credit standards that we have maintained.

Our focus on the portfolio quality -- our portfolio quality has led to a decrease in the gross Stage 3 assets coming down to about 6.6% at the end of Q1 of the current financial year, indicating a healthy loan portfolio going forward. We are committed to maintain the reduction as we go forward into the subsequent quarter.

Further on consolidated Stage 3 assets, -- net Stage 3 asset was at about 3.1%, which is again a demonstration of whatever I said earlier of the commitment of the team to ensure that we have operational efficiency, we focus on high credit standards.

In terms of funding, we successfully raised about INR1,215 crores in the first quarter, contributing to a healthy liquidity position. As on 30th of June, we had a cash and cash equivalent of about INR1,151 crores, representing an 8% increase over the immediately preceding quarter. Our capital -- so that effectively means that no, we have a sufficient fund to ensure that the growth is happening and to ensure that the growth is happening, we have a very good capital adequacy of about 34.4%, and debt-equity is only at over 1.9x, which gives enough headroom for future growth. And we are confident that this will help us drive profitable growth in the coming quarters and years. The more we leverage, we will be able to get better ROE going forward.

Our assets under management, the AUM at about INR8,062 crores has grown by 3% compared to the immediately preceding quarter. Since the March quarter, we have now started, March quarter being the first quarter after three quarters, we have now started seeing an increase in the AUMs. The increased disbursement of INR1,116 crores in the current quarter, which was higher than the immediately preceding quarter, where it was INR898 crores, can be attributed to the stronger focus on the retail segment. Retailization continues to yield favorable results and we are confident of sustaining profitable growth in the coming quarter.

In the vehicle finance business, our AUM for Q1 FY '24, is to get about INR3,928 crores, marking a 7% increase over the immediately preceding quarter. As previously mentioned, our emphasis continues to be on the CV segment and the affordable housing segment. We are confident that we'll see significant growth as we go forward. As Karthik mentioned, with continued improvement in the economy, we are confident that we'll grow on a quarter-on-quarter basis, leading to better business numbers in the coming quarters. Now, I would like to invite my colleague, Shreejit Menon, to provide insights on the housing finance segment, which is another key focus area for us. Over to you, Shreejit.

Shreejit Menon: Thank you, Vinod. Good afternoon, everyone. I hope you're all doing well. I want to start by presenting an overview of Indostar Home Finance, continued progress in the affordable housing finance segment, with primary focus on Tier 2 and Tier 3 markets in southern and western part of India. Our strategy of focusing on small towns and semi-urban geographies has helped us to maintain the average ticket size under INR1 million with a very high origination yields.

Along with home loans, these geographies have presented us with a unique opportunity to build a high-quality lab portfolio of small ticket size loans in the range of INR5 lakhs to INR7 lakhs with LTVs of sub 50% and yields upwards of 18%. I'm also happy to inform that we maintain a best-in-class asset quality, evident from our net stage 3 rate, which is close to 0.9% and healthy spreads across our portfolio. At IndoStar Home Finance, with the power of the strong foundation bolstered by a robust branch infrastructure, dedicated team of employees, we are confidently moving towards our goal of expanding our assets under management by over two and a half times over the next two years.

In Q1 FY ‘24, we disbursed loans worth 190 crores at an average origination yield of 15.8% as compared to INR183 crores disbursed in Q4 FY23 at an average yield of 15.2%. Our commitment to ensuring liquidity is unwavering and we have a robust funding pipeline to support our growth aspirations. We avail term lending from a couple of private banks and the largest public sector bank in Q1 FY24. This quarter also marks our maiden NCD issuance by way of a private placement, which is a significant step towards diversification of our funding profile.

To further strengthen our initiatives, we have bolstered our workforce, bringing the total number of employees to 948 in Q1 FY24, with a particular focus on our feet on street to better serve our customers in diverse markets. We've also launched a series of technology initiatives in Q1 FY24 to improve the productivity and enhance customer experience where we have gone live with our sales app, the collection app and the customer app. We are in the process of launching further tech initiatives to improve the productivity as we speak today, which I will share with you in our next interaction.

Now let's delve into our financial performance. As of 30th June, 23, our AUM has grown by an impressive 7% to reach INR1,741 crores compared to INR1,623 crores as on March 23. This growth reflects the efforts of our dedicated team and our focus on expanding our customer base in Tier 2 and Tier 3 markets. In terms of financial results, we recorded a net total income of INR37 crores for Q1 FY24, representing an encouraging 11% increase quarter on quarter. Our profit after tax to date, INR8 crores for Q1 FY24, indicating positive momentum in our operations.

Managing asset quality is one of our major achievements over the last few years, and we've successfully brought down our gross stage 3 rates to 1.2% as on June 23. This accomplishment becomes even more important considering that we have adopted the new O-NAN norms from

1st of October, 2022. Maintaining a healthy capital adequacy ratio is a key priority for us and I'm pleased to share that our ratio currently stands at 73.41% underlying our ability to support business growth while ensuring ample capital results.

In conclusion, our progress in building a small ticket, niche, home loan and micro lab play in Tier 2 and Tier 3 markets in our targeted geographies has been instrumental in shaping our success story. We are fully committed to furthering this growth trajectory, remaining focused on providing affordable home finance solutions to a diverse and expanding customer base. Thank you all for your attention. I now hand it over to the moderator for Q&A.

Moderator: Thank you very much. We will begin the question-and-answer session. The first question is from the line of Nakul Doshi, an individual investor. Please go ahead.

Nakul Doshi: Good afternoon, So my first question is based on the vehicle finance sector and incrementally most of the vehicle finance has margin compression. So I would like to know what are our guidance about FY24 as we go ahead. And what would be the sustainable margin which we can consider for post FY24?

Vinod Panicker: Nakul, we are, like we said, myself and Karthik, both of us said that we are predominantly in the used CV segment. And there we have not seen any, I would say, reduction in the market. It has been in the, depending on the, and that too, in the used CV also, we are in the Tier 3, Tier 4 markets. There we have not seen any, I would say, squeezing of the margins or the reduction of the yield. That continues to be robust, and I would say that the demand is pretty good. And there is, today we don't see any reason to believe that the margins would see any kind of squeeze in the immediate quarter, in the immediate future.

Nakul Doshi: Okay, follow up question on used commercial vehicle and then about the scrappage policy which the government is planning on. So what could be the possible impact of the scrappage policy on our used commercial vehicle business?

Management: Nakul, we are operating only up to the 12-year-old vehicle. So even if the scrappage policy comes, which will be a positive momentum to the industry, for the used vehicle sale will go further faster. We are very much protected against whatever is going to happen. But in our assessment, we are hearing about the scrappage, nothing has come about as a norm or anything that has come till today. So till 12 years, I do not see any major impact that is coming into the business. Today, we are in the 5 year to 8 year or the 7 year to 10 year cycle. That will get quickened up if the scrappage policy comes and which will be positive for us in the overall scenario.

Nakul Doshi: Okay. And since the number for the July month were out for the commercial vehicle and there was a slowdown observed in that, so what are your views on that? How could it impact the new commercial vehicle business as well?

Karthikeyan Srinivasan: Typically, in monsoon months, there is a bit of a slowdown in the new commercial vehicle industry. But we didn't see any slowdown in the used commercial vehicle industry. A new commercial vehicle industry takes some time because there is a body-building aspect that is involved. And you saw half of North India and West India getting impacted badly by the flood. That has impacted the new commercial vehicle industry, and this is an annual phenomenon.

So June, July, August, the construction activity slows down because concession activity slows down, the movement of cement, steel slows down. So naturally, the trucks also slow down. Our truck can get stuck in a deep flood. Those kinds of issues happen. So we don't see any major things coming in the immediate thing. Close to the elections, we can see something coming and hitting the new commercial revenue.

Nakul Doshi: So basically, post this quarter, we can see a comeback in this sector?

Karthikeyan Srinivasan: Correct, post August they naturally post, typically what happens after the Janmashtami, when the monsoon starts withdrawing, you will automatically see an increase in the commercial vehicles.

Moderator: We have the next question from the line of Harsh Shah from Dimensional Securities.

Harsh Shah: So my first question is on the leverage that the management touched upon. So since last 4 to 5 quarters, we are at INR5,500 crores, INR6,000 crores range in terms of borrowings, and we are at only 1.9x, 2x leverage. So with some traction on the disbursement side for the next couple of years, what is the management's view on where it would like to take the leverage, and also what incremental rate are we able to borrow from the bank?

Vinod Panicker: Harsh, Vinod here. I will take the call. We would be comfortable as management is the leveraging is up to 4x in terms of the debt versus equity. So we are currently -- which is why I said in my opening remarks that there is a lot of scope for growth and which can be well funded by the additional borrowings that we do. As far as the incremental cost of funding growth, the current quarter, it was in the range of about 11.3%. We have now only recently started approaching the banks, which we had stayed away from for almost a year. It's only after the Q4 results that we started going to the bank. We are expecting that took the rate -- the cost to start coming down from the third quarter onwards.

Harsh Shah: Okay. Typically, how much basis point do you expect the cost could come down for us?

Vinod Panicker: We would wait and see because, obviously, we are going to the banks after a long time, and there will be funding us -- I mean why some of them have been funding us unblock when we start speaking, we would wait to see how they will do it. But then we are expecting a substantial benefit in terms of cost.

Harsh Shah: Okay. And currently, how comfortable are the banks in lending us? I mean, are there liberal -- can we get -- say tomorrow, over the next 6 to 9 months, if you want to get to, say, 3x 4x leverage, will the bank be comfortable in lending that much?

Vinod Panicker: First and foremost, we would ourselves not be comfortable going to the 3 to 4x in the next 6 to 9 months. We will also want to do it slowly. So we would -- when we are approaching the bank, we are very clearly pointing out on what our expected growth trajectory is. Basically, we have seen most of the banks or most of the lenders that we like have been pretty positive. In fact even the NCD insurances that we came out with have been subscribed to by very, very large entities.

Most of them are very careful about whom they give money. So we are fairly confident that will also be blended.

Harsh Shah: Okay. And you've mentioned that the company had issued certain, had raised funds via NCDs. At what rate were these NCDs floated?

Vinod Panicker: 9.95%.

Harsh Shah: So going ahead, what would be the funding mix between banks and NCDs? Will we be tapping NCDs market more than the banks?

Vinod Panicker: No, we believe that we will be looking at banks more than anything else. Then from the bank, it could be in any form. It may be in terms of short term loans. It could be in the form of a securitization. It could be in any form.

Harsh Shah: Okay. And the last question is on the ROA side. So our ROA has been quite muted despite the increase in our business and we are still lagging in terms of ROA both at the consol level as well as the housing finance. So what are the key levers that we as a company have to take this ROEs to double digits and then take it forward from there?

Vinod Panicker: ROEs, I think one of the key leverage would be the leveraging that we do. So that is one thing. Second is, definitely, we are looking at improving the yield. And obviously, I mentioned about reduction in the interest cost. These two will definitely help in improving the ROAs, therefore, the ROE. And last but not least, a lot of expenses which are there currently. We are in a stage where the book is actually going up, has started to go up.

It is not reached where we would want it to be. As we go forward, we expect the operating expenses to go up but go up in a very muted manner while the revenues will grow up significantly. And then if that happened, the ROA will go up, and also basically the leveraging that we do, the ROE would go up significantly.

Harsh Shah: Okay. And during the current quarter, Q1, we saw that the rundown was quite higher compared to previous 3 or 4 quarters. So any reason behind that?

Vinod Panciker: The rundown was not much, but we did mention about collections being very good. So that also leads to some amount of rundown because actual disbursement were significantly higher at the first time actually, in the CV business, we had a disbursement of INR750-odd crores in the quarter after nearly 5 to 4 quarters. So actually, the rundown of impact numbers are in front of me between the second quarter and the third quarter of last year, from INR6,400 we came to INR6,100.

And in the last couple of quarters, which has actually gone up from INR6,143 to INR6,190 and TO INR6321. This is why I'm talking about the stand-alone business. And like housing finance, so Shreejit may pointed out, that has only gone up. That has only gone up from about 16.26 to 17.30 or something.

Harsh Shah: My question is more on the -- so if I look at Q4 AUM, we were at around INR7,800 crores. And then we did a disbursement of INR1,100 crores. And we closed the book at INR8,036. There was a rundown of around INR900 crores. That is what I meant by...

Vinod Panicker: No, that is because of the collection. I think I did mention that earlier. It is mainly because of the collection as we mentioned about 129% of collection efficiencies, which is one of the main reasons for the run down, which has happened. Secondly, CVs are very short-seller book. If you look at it, you say 30, 39-month average. So automatically, one third of the book keeps running off.

Harsh Shah: Okay. So when we are reporting 100% plus collection efficiencies, what is the pool of the assets which would be in the restructuring or which are NPA? And for how long can we expect this more than 100% sort of collection efficiency?

Karthikeyan Srinivasan: See, CV is the mix of both overdue collection -- overview due pool plus there is a restructure pool plus there is a Stage 3 pool. My Stage 3 has significantly come down look out last year to this year, our Stage 3 has dropped significantly. So that momentum will remain. We also have the customers not paying on time that gets covered in the next month. So that's why the collection efficiency always looks higher for all of the CV financials because in the cyclical industry, people don't get paid on time because they are the last level, with whom we are dealing with. Our assessment is this kind of beyond 100% continues for everybody, and we'll also continue well.

Harsh Shah: Okay. Just last question, is there any element of interest write-back that is leading to increase in the yield because since we are recovering more than 100%, is the element of this interest write-back, which might not be there going forward or the increase in yield is organic in nature?

Karthikeyan Srinivasan: It's organic in nature. We are not doing deals below a particular rate, and that is giving us the overall book -- see, the old book is at a lower rate is running off, and the new book is getting added at a much higher rate. That's why a significant increase in yield is coming up.

Harsh Shah: Thank you.

Karthikeyan Srinivasan: Thanks Harsh.

Harsh Shah: Got it. Thank you, sir. I will join in the queue if I have more questions. Thank you.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Hello, sir, and thank you very much, sir, for the opportunity. Sir, first, I just wanted to understand -- and you mentioned in your opening remarks about next two years, 2.5x of AUM, right. So that at the company level we are looking at, right?

Shreejit Menon: Deepak, this is Shreejit here. I was referring to the housing finance company.

Deepak Poddar: Housing Finance. Okay. And overall, at the company level, what sort of growth we are looking at over the next two years, three years, CAGR?

Shreejit Menon: On an overall basis, in fact, the next couple of years, we would possibly look at more than being at about INR10,000 crores plus. We may not want to give any guidance right now, but then it would be the kind of growth that we are seeing in this quarter, and what we saw in the previous quarter, that will continue that will be faster than what we have seen in the last two quarters.

Deepak Poddar: Okay. But two years, INR10,000 crores, already we are at INR8,000 crores plus, right, in terms of AUM?

Shreejit Menon: Yes, two years means I was referring to FY '24 and FY '25. My reference of INR10,000 crores plus as a stand-alone on an overall basis, we should be in the range of our INR13,000 crores odd.

Deepak Poddar: INR13,000 crores in two years, that is by FY '25, right?

Shreejit Menon: Yes. That's our, I would say, wishful thinking, or I would say that our efforts will be towards that.

Deepak Poddar: Understood. Fair enough. And you also mentioned earlier in the call that leverage, which is currently at 2x, we are comfortable with leverage at around 3x to 4x and that we are likely to achieve over the next maybe two quarters to three quarters, right?

Shreejit Menon: No, I didn't said two quarters, three quarters. In fact, I told Harsh, who ask the question earlier that, we will not be comfortable going from 2x to 4x in the next two quarters to three quarters. It could be in a sustained fashion as we go forward. Five quarters, six quarters, I would say.

Deepak Poddar: No problem. Five quarters, six quarters. But I mean, as you increase your leverage, your ROE will see a boost, but your ROA will go down, right? So just -- on a sustainable basis, what sort of ROE, ROA, we should be comfortable with at the business level?

Shreejit Menon: We will be comfortable, if our ROAs are in the 2.5% and 3% range. But, that could be some time away. And maybe ROEs, I would say, in the, I would say, in that teens, I would say.

Deepak Poddar: 14%, 15%, right?

Shreejit Menon: Yes.

Deepak Poddar: Okay. But ideally, ROA currently, which is at about 2.1% in the first quarter. We'll see a downward pressure, right, when you increase your leverage?

Shreejit Menon: No. When we increase the leverage, ROA, it will be used for disbursement and therefore, we get the kind of yields that we currently are looking at, the ROE should start going up. And when the ROA goes up, the leverage goes up, the ROE should also go up.

Deepak Poddar: Okay. And you also mentioned, your operating expense will not go up proportionately as compared to your AUM and your NIMs growth and NII growth, right?

Shreejit Menon: Because it's rental cost, it's the employee cost, those thing don't go up proportionately.

Deepak Poddar: Sir, enough. Okay.I understood. That’s it from my side. Thank you so much. All the very best.

Shreejit Menon: Thanks, Deepak.

Moderator: Thank you. The next question is from the line of Abhijit Tibrewal from Motilal Oswal Financial Services. Please go ahead.

Abhijit Tibrewal: Yes. Hi, good afternoon everyone. Karthik Sir, I had a question for you. I recall during your opening remarks, I made a note of it, you said guidance remains unchanged and we remain confident of achieving the target. So somewhere, I'm seeing that, we are shying away from articulating the guidance. And what is it that you're trying to achieve?

I understand, based on what we have been through in the recent past, right? Difficult to guide. But rather than guiding over the medium term, even if we take it step by step. So, it will make life easier for everyone can at least start articulating what is it that you're looking for in the next three quarters in terms of disbursements, in terms of AUM growth. Likewise, sir, you have already articulated, what is your cost of borrowings today.

So essentially, what is the incremental needs you are looking for? What is the opex at which you're looking to operate for a franchise like IndoStar that you're building now? What are the kind of credit costs that this business model can operate at?

Karthikeyan Srinivasan: Sure, Abhijit. See, the last annual call, which we did, we explained, we are expecting a INR4,400 crores disbursement this year. We are on target to achieve the same. That's why I said, like we are not changing our growth number. We will be in the used commercial vehicle segment.

We are operating at a sweet spot, where in the Tier 3, Tier 4 markets, where we have a NIM of around 8% on the incremental book. On the 8% around 4% or 5% will be the -- 4% will be my in opex. 1.5% to 2% is the credit cost, which I will carry, which will lead to a ROA of around 2%, and that's the guidance that doesn't change.

Because it has not changed, we have not made any -- I have not made any statement saying that, there is going to be any shock. So if there is anything there, then I should have made a statement. We are not looking at growing it aggressively this year. We are creating the building blocks so that we can jump to the next level of disbursement next year. But we want to see the technology initiatives.

We want to see the kind of policies, which we have launched are robust, are giving the desired kind of result. That we have been able to demonstrate to, that is why our, if you read our rating rationale also, even CRISIL has mentioned that, what is the kind of the new book which we are creating. We want to observe that and then take the next step. That's the guidance, which I have. That's why I continue to make the statement that, we don't have any change in our guidance.

Abhijit Tibrewal: Thank you, sir. This is useful. I'm glad. I'm reinstated the guidance that we've given earlier. Again, please don't get me wrong, the whole idea is so that we start appreciating what you are doing a whole lot better. Sir, my next question was around collections and what you said, these building blocks that you are building now, trying to see how robust they are, so that, you can move to the next level of disbursements from next year onwards.

Sir, I essentially want to understand that, after what transpired last year at IndoStar, what are those process level improvements, what are those changes that you've done in your team, which now makes you more confident of asset quality going forward. So essentially, if you look back, right, IndoStar, at least in terms of collection efficiency has always reported very good collection effeciencies (39:32)

They are always upwards of 100%, even in the past. Today, I'm sure you, and your team have done changes, which makes you more confident of asset quality going forward. So if you could just help us, understand that, so that we can appreciate the changes that have happened much better?

Karthikeyan Srinivasan: Yes. Two things which we have done, Abhijit. One is what do we source that has got corrected. Today, I have a robust loan origination system where APIs are available, where the customer data completely gets straight from the site, which is available say like, the PAN, get validated from the PAN site. The vehicle gets validated from the Parivahan site. We have created a bare minimum CIBIL score, below which we are not funding. We also have tightened the policies around the repayment track record of customers to ensure that only a good set of customers come in to me. That's the first step we have taken. That's on what will come in to me.

On the collection portion of it, even before the one-on-one got implemented, what we have now implemented is a robust follow-up mechanism. The customer doesn't slip into delinquency and then gets the follow-up call. Today, he gets a follow-up call three days before his due date. The field team is there are touching the customer on the due date or if a customer has turned delinquent immediately after the due date. So our focus has been on arresting ex-bucket flow, which will ensure that we will reduce our GNPA going forward. That's visible in the current book, the recent year sourcing book that we have done. Portion of the data, which is available in the rating reports of mine also reflects that.

Typically, my billing-to-billing collection was in the range of 80%. EMI-to-EMI collection per month was around 80%, 85%. We have moved it beyond 90% in recent years. That's the reason last three quarters, we are averaging beyond 90%. That's the major strength which we have brought in. These three and the Q1 quarter also, we have ended up at 90%, so which will ensure that the cases don't slip. The cases that come into us are robust. It sees to there, automatically, the finance company will start making money, and that's where we are reaching.

Vinod Panicker: Also Abhijit, one thing maybe just to add to what Karthik said just now on the quality, the disbursement, which has happened in the last 12 months, the 90-plus is about 1.2%. I think it's there in the CRISIL report also.

Moderator: Thank you. We have the next question from the line of Harsh Shah from Reliance General Insurance. Please go ahead.

Harsh Shah: Sir, I would like to understand that for a housing finance subsidiary, we're even in talks with few of the player. So any progress on that front?

Shreejit Menon: Harsh, hi. Shreejit here. Well, we did mention last time that JM Financials to the subsidiary was interested in looking at our possible collaboration. The due diligence for that action is on, it's still not concluded. And we will come back to you if there is anything further to report on that.

Moderator: Thank you. The next question is from the line of Pranav Singh, an individual investor. Please go ahead.

Pranav Singh: Hello. Congratulations on a good set of numbers. I wanted to actually have a follow-up question on the short-term balance that you have given. I was wondering that we have – NIM of about 8% and we're looking at opex of 4%, credit cost of about 1.5% to 2%, ROA of about 2%. So going forward, as we leverage, NIMs I guess, come down from 8% to 6%. And in that case, you case, we have either interest costs that have to go down to increase the spread, or I think opex will have to reduce from 4% over a medium term. If you could guide how a reduced will take place after this event.

Vinod Panicker: I think, Pranav, if you don't mind, you need to repeat it because I think your voice was continually breaking. Sorry.

Pranav Singh: Sorry Yes, sure. This could be bad connection. I was looking at the projections that you gave of NIM of about 8%, opex of about 4%, and credit cost of 1.5% to 2% for commercial vehicles, giving us RoA about 2%. So as it evolves, we leverage more from 2x to 4x. NIM would, I mean, would come down. It's spread the constant NIMs should come down to about 6%, and then RoA will decline substantially. So I'm wondering, the two improvements that I see, one could be opex would have to go down from 4% level over the medium term. or the spread has to increase, the interest costs are higher, and they would probably come down. So I was wondering if you have some guidance on that front, which will give us more clarity.

Vinod Panicker: So, Pranav, I think this -- I would say, leverage the growth of the cost will go up and the RoA will go down both the comment made by one of the fellow participants, and I corrected him saying that we are expecting the yields to go up, the cost of funds in a different context I said that would be going down because we would be approaching banks and therefore, my cost of funds would go down.

And if that is -- if that happens and when that happens, the NIMs would increase substantially. And on a larger base, you would be spending your opex, which I think Kartik did mention about 4%. I expect it to be slightly lower than even 4%. Credit cost, while we have said 1.5% to 2%, I think over the last 12 months, which was reasonably turbulent, it has been in the range of 1.2%, 1.25%. So I'm saying that after that also, we came with the figure of -- we are coming out with a figure of about 2.5%-odd of RoA. And leveraging goes up, definitely, the RoE will also go up. We don't see any reason for the profitability or the RoA or RoE to go down.

Pranav Singh: So just one follow-up question. Over the longer term, do we expect our opex to be lower than 4% significantly, let's say, around 3%, is that possible?

Karthikeyan Srinivasan: It would be basically, the base with increases because, finally, a lot of the opex would be in relation to the fixed cost. It must not be closer to 3%. I would say, it would be closer to 4%, but definitely, we'll lower that to 4%.

Moderator: Thank you. Ladies and gentlemen, we will now take the question for today from the line of Darshan Shah, an Individual Investor. Please go ahead.

Darshan Shah: So I just wanted to -- because I'm quite new to the business, I just wanted a couple of pointers. First of all, I wanted to understand your credit suite when it comes to your SME financing. So I know it is a non-focus area of yours, but I just wanted to have some clarity regarding the same.

Karthikeyan Srinivasan: See today, we are focusing on reducing the NPA levels in the SME book. It's a pure LAP portfolio with the average LTV is around 50%, 55%. Unfortunately, it has got caught in the liability pricing. Because the liability rates have gone up, the tenors have got extended, basis which we have kept a conservative provisioning. Our focus today is to reduce the Stage 3 percentage, then come back to the market with a clear strategy on our SME portfolio. Our focus on -- the future focus on the SME portfolio will be on the lower ticket slab at around INR20 lakhs, INR25 lakhs. That's the focus we come back on the SME. As of today, we are running down the book. We are trying to reduce the NPA without much of losses. That's the call on it.

Darshan Shah: Okay, sir. So the rundown that you are planning to do right now. So what – actually, what percentage of AUM would be comfortable depending on how many prepayments have gotten back. And so, what level is it that? Is there any level that you are trying to this much percentage of AUM would be sufficient for me to now get back into market with my lower ticket disbursements?

Karthikeyan Srinivasan: See, we are planning to come back to the market once my net NPA starts falling below the double digits, which we are carrying. That's the benchmark we have kept. We have not kept any AUM benchmark, we have kept a net NPA benchmark. Once it falls below the double digits, then we will start seriously looking into it and start growing.

Darshan Shah: Okay. And may I just one of the, I guess, last question is a miscellaneous kind of question I have. But post your ESOP reversal, the numbers that you have for your employee expenses. So is that a sustainable assumption to also make in the future that they will be holding out at that level?

Vinod Panicker: It would be at that level. It should be at least in the current year. It would be at that level for the next three quarters kind of.

Moderator: Thank you. We will take the question from the line of Sumit Bhalotia from MK Ventures. Please go ahead.

Sumit Bhalotia: Yes, thanks for the opportunity and my appreciation for the good set of numbers, sir. Most of the questions have been answered. There is one question on, there has been too much discussion on the guidance, so I won't repeat those questions. On the overall AUM, if you can throw some light on the corporate book, how it is behaving and what is the mindset there in the next two quarters, three quarters, what kind of further rundown do you see and is there any change in the inherent quality there? A few of the bigger accounts, if you can share that.

And secondly, the overall guidance that you give for the full year, INR10,000 crores for the stand-alone book. And the INR15,000 crores is also for the overall consol level. What is the kind of run down that you are expecting on SME and corporate both, by year end?

Karthikeyan Srinivasan: Corporate, we are very serious to reduce it. We are looking at ways and means as to how we can reduce it without any impact to the P&L. You need to give us some more time before we come back with a clear action plan as to how much it will reduce this year. But our assurance is by the end of the year, the corporate book will reduce significantly.

Vinod Panicker: Same is the case with SME.

Sumit Bhalotia: Okay. And what is the average yield that we have on the corporate book and SME book?

Karthikeyan Srinivasan: Our SME book is around 13%. Corporate book is at around 15%.

Vinod Panikcer: Thanks Sumit.

Sumit Bhalotia: Yes, so on the guidance you are not including any rundown assumptions, right?

Karthikeyan Srinivasan: Which one?

Sumit Bhalotia: I am saying guidance that you have given for the whole year with AUM…

Vinod Panicker : Guidance are net of the rundown.

Moderator: Thank you. We have one more question from the line of Ankit Patel from HSBC Mutual Fund. Please go ahead.

Pankit Patel: My question was around Stage 2. On Stage 2, if you could give us an idea on the CV book that you have as of now because I think the numbers mentioned one plus two, but is this also seeing a reduction over the last few periods is an idea that we wanted to have. That's the first question.

Karthikeyan Srinivasan: Yes. Stage 2 numbers have also significantly reduced. If you look at it, we were at a very high number. It has come down to around 9% overall. I'll just give you the numbers. Just give me a moment. Percentage comes I'll give you the number.

Vinod Panicker: In fact, December quarter, the absolute number was INR223 crores. It has now come down to INR180 crores.

Pankit Patel: This is at the overall level?

Karthikeyan Srinivasan: No, only the CV Stage 2.

Management: You are refer to Stage 2, right?

Karthikeyan Srinivasan: It is at around 4.85% this quarter.

Pankit Patel: Okay. 4.85%, thank you.

Karthikeyan Srinivasan: 88% is the Stage 1, and 12.45 is Stage 2.

Pankit Patel: Is there any restructuring also included in this 4.85, or that is separate?

Karthikeyan Srinivasan: It is there, but restructuring is a very small number, less than probably INR50 crores.

Pankit Patel: Right, less than 1%. Okay. Also, on the remaining corporate book of INR1,100-odd crores, I just wanted to understand the nature of this, is it lumpy, very large accounts which are remaining, which you are planning to resolve, or is it something that you're holding back? Are you still disbursing in that? How are you handling that book now?

Karthikeyan Srinivasan: See, it's a lumpy exposure only. We have five customers contributing to this INR1,100 crores. There are certain commitments which we are honoring on their disbursement. But we are working on methodologies so that these can get resolved. Three accounts as Stage 1. The balance two are in Stage 2, which is both the lumpy account, which is INR800 crores are in Stage – roughly, INR870 crores are in Stage 2. We are working out with the promoters so that these can get resolved. These are those last of those accounts, which are remaining in our corporate book. Our assessment is we will be able to find a very good solution, probably very fast.

Moderator: Thank you. I would now like to hand the conference over to Mr. Nikunj Jain from Orient Capital for the closing comments. Over to you, sir.

Nikunj Jain: Thanks. I would like to thank the management for taking 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 IndoStar Capital Finance Limited. Thank you, everyone.

Shreejit Menon: Thank you.

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