



ICFL/LS/0221/2023-24

01 February 2024

**BSE Limited**

Listing Department, 1<sup>st</sup> 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 25 January 2024 at 12:00 p.m. (IST)

Dear Sir / Madam,

Please find enclosed herewith transcript of analyst(s) / institutional investor(s) call held on Thursday, 25 January 2024 at 12:00 p.m. IST, pertaining to the Unaudited Financial Results of the Company for quarter and nine months ended 31 December 2023.

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**

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

Encl: a/a

**IndoStar Capital Finance Limited**

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CIN: L65100MH2009PLC268160



“IndoStar Capital Finance Limited  
Q3 and 9M FY'24 Earnings Conference Call”

January 25, 2024



**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**  
**MR. PUSHKAR JOSHI – CHIEF FINANCIAL OFFICER -- INDOSTAR HOME FINANCE PRIVATE LIMITED**

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

**Moderator:** Ladies and gentlemen, good day, and welcome to the Q3 and 9 Months FY'24 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 star 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, Baraja. Good afternoon, ladies and gentlemen. I welcome you to the Q3 and 9-Month 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; Mr. Shreejit Menon, CEO, IndoStar Home Finance Private Limited; and Mr. Pushkar Joshi, CFO, 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 investor presentation and other filings that can be found on the company's website.

Without further ado, I would like to hand over the call to management for their opening comments, and then we can 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 for attending our Q3 and 9 months FY'24 earnings conference call to discuss the financial performance of IndoStar Capital. I hope all of you have got an opportunity to go through our financial results and investor presentation, which have been uploaded on the stock exchanges as well as the company's website. I wish to express a 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; Mr. Shreejit Menon, our Chief Executive Officer of IndoStar Home Finance; and Mr. Pushkar Joshi, the Chief Financial Officer of IndoStar Home Finance.

Before going ahead with the business update, let me give you a brief on the macroeconomic factors that prevailed in the preceding quarter. The Indian economics are positive trend on account of increased government spending, improvement in the domestic manufacturing and services segment.

GST collections increased by 13% as compared to the previous year, and both manufacturing and services PMI stayed in the positive growth journey. On the consumer side, better demand from shoppers due to increased spending in different areas led to a strong growth in the various sectors. The RBI maintained its interest rate at 6.5% and kept its stance unchanged, focusing on withdrawing support, while slightly lowering its inflation forecast for the second half of this year.

Looking forward, the economic outlook appears positive, with India's estimated year-on-year GDP growth for FY'24 at approximately 7%. Additionally for FY'25, the GDP growth rate is anticipated to be around 6.5%, solidifying its position as one of the world's fastest-growing major economy. On the CV side of things, the new CV had a muted year where the growth has been only at 1% over last year.

Turning our attention to the used commercial vehicle segment, as the demand and significance of used commercial vehicle in the market continues to rise, particularly within the retail and FTU segment, it was evident that the affordability and practicality of these vehicles will play a pivotal role.

In this landscape, where the price of the BS6 heavy-haulage vehicle have been reaching higher and higher, the used vehicle has been the only leeway for the financially challenging profiles to get into the CV business.

These segments continue to buy the used commercial vehicle segments, even at a price which is much higher than what has been in the market probably 1 year back. This is predominantly because there has been a lot of change of the BS-III vehicles with BS-IV vehicles.

At IndoStar, our mantra has been to make the life of customers better, focusing on giving a world-class experience, best-in-class experience of customer service and lasting sustainable value to our customers and stakeholders. Continuing this thought, we took various new initiatives to strengthen our deliverables and increase our presence. We are working on various aspects of business, which will help us scale to newer heights. We continue to build these aspects so that quarter-on-quarter, we will be able to improve our performance.

Technology has played a very crucial role in this last 1, 1.5 years of our growth. Our company continued to invest in various technology initiatives to remain competitive. Our focus is on making our technology infrastructure agile and flexible. We are focusing on the customer life cycle. And in this quarter, we plan to add more products so that the end-to-end life cycle of the customer can get addressed so that we can get funding at reasonable rates and not depend on unorganized players who are available in the market. We have leveraged the technology to drive this and will be reaching phenomenal results going forward.

We continue to focus on building our analytics to ensure that our model is agile and scalable. Our model is physical, which ensures that there is a digital touch as well as the physical touch with the customers because the profiles I'm dealing with are still adapting to the technology that are available in the world.

In the quarter gone by, the company's consolidated disbursements stood at INR1,345 crores, growing 6% sequentially. Our stated position in the beginning of the year has been that we will reduce our GNPA. We have been taking steps to reduce this. The last quarter, we resolved our corporate book. This quarter, we took one step further by ensuring that our SME book portfolio also goes away from the overall portfolio of the company. We did a deal with one of the ARCs, which are part-cash and part-SR transaction, so that our overall GNPA starts coming down, which will get elaborated going forward by our CFO. We have been reinforcing the financial

stability and improving the balance sheet quarter-on-quarter, and we will continue to do this going forward also.

We are expanding into our retail operations with a special focus on the used commercial vehicle segment. Our focus has been on the Tier 3 and Tier 4 segments only.

Looking ahead, we are committed to maintain our consistent capability to raise resources from diverse funding sources at competitive rates. Our focus remains on expanding the scale of operations so that we can increase our numbers quarter-on-quarter while holding on to the asset quality. Additionally, we aim for a sustained progress in profitability, consistently increasing the targeted return on total assets.

We expect steady growth in the used commercial vehicle segment, as I explained, because the BS6 prices have shot up significantly. The enduring demand for the used commercial vehicle segment ensures -- will be -- due to their efficiency in giving more cost-effective per ton rate while minimizing the downtime. Moreover, ability to collect payments has been exceptionally strong, underscoring the resilience of our business model and trust our customers have in us.

Our previous guidance remains unaltered and that we have confidence in our capacity to meet our objectives. 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 our stakeholders.

In conclusion, I'd 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, a healthy liquidity position and strategic initiatives, we are well positioned for prosperous and a profitable future.

With that, I now pass the call over to Mr. Vinod Panicker to present the financial performance.

**Vinodkumar P.:**

Thank you, Karthikeyan, and good afternoon to all of you. I sincerely appreciate your presence on this conference call today. Allow me to provide you with an overview of our financial performance for Q3 and also the 9 months FY'24 that has gone by.

Let's start with the net interest income. It has stood at about INR133.8 crores in the current quarter as compared with INR145.9 crores in the same quarter last year. Our interest margin is broadly the same that it was at the last year as well. That was 5.6%.

Turning to the operating expenses. It has stood at about INR119 crores in the current quarter versus about INR120.9 crores in the same quarter last year. Our profit after tax at about INR16.9 crores was lower versus the same time last year when we reported about INR36.7 crores in profitability.

We have achieved our collection of our INR997 crores in the current quarter versus the INR963 crores in the immediately preceding quarter. This shows the amount of collection efficiency that the company as a whole has. And this is the collection efficiency -- the overall collection

efficiency stood at about 135% in the current quarter, showcasing our commitment to maintaining of high credit standards and also operational efficiency.

Our focus on portfolio quality has led to a decrease in the Stage 3 assets, which has gone down to about 5.3% at the end of the quarter. Further, our consolidated net Stage 3 is at about 2.4%, demonstrating the efficiency of our credit risk management strategy, an improvement from about 3.3% that we had at the end of the immediately preceding second quarter.

In terms of funding, we have very steady progress, and we continue to improve liquidity position to ensure that we meet our committed targets of disbursements in the fourth quarter. We raised an incremental funding of roughly INR1,500 crores -- INR1,522 crores to be precise in the third quarter -- in the quarter that went by.

As of the end of the year -- end of the quarter, we had a cash and cash equivalent of about INR1,312 crores. And we had a capital adequacy of 30.4%, and the debt equity of about 2.1 times, which gives us ample headroom for both future growth and would give comfort to the lender of the kind of cover that they have on the lending that they took. We are confident of using this and driving the profitable growth in the coming months and quarters and years.

Our AUM for the -- at the end of the third quarter stood at about INR8,037 crores as compared to INR7,726 crores in the immediately preceding quarter. The increased disbursement of INR1,345 crores in the current quarter is slightly higher than the immediately preceding quarter where we did about INR1,269 crores. And that can be attributed to the same a strong focus that we have on the retail segment. Retailization efforts continues to yield favourable results, and we are confident in sustaining profitable growth in the coming quarters.

In the stand-alone entity, that is, IndoStar Capital Finance, where our focus has been on CV, we have a total disbursement of about total disbursement of INR1,074 crores during the quarter for the CV business versus the INR1,000 crores that we did in the immediately preceding quarter and INR334 crores that we did in the same quarter last year. We have come a long way with that.

It has been like a restart for us. And hence, the issues of the start-up keeps coming up. And with our past experience, we have been able to tackle them. While the overall book of the stand-alone has seen some increase, it does not reflect the INR1,074 crores disbursements that we have done in the CV business. It's largely on account of the INR292 crores portfolio that's to be sold of SME, which Karthik mentioned about in one of the first steps towards reducing delinquency and adding a solid balance sheet.

The book was one of the -- it was a stress to us, and we believe that it was appropriate to sell it off. That has made us bring down our GNPA to about 6.5% at the stand-alone level, which has always been a stumbling block when we used to speak to lenders for fund. While it reduced our revenue by about INR7 crores in the quarter, we believe that this will yield positive results in the coming quarters.

The sale of the corporate loan book in the previous quarter of about INR915 crores had impacted our revenues by about INR30 crores, and it continues to, on a quarter-on-quarter basis. But that would be temporary. And in the long term, we'll ensure that there are no hits from this.

In the vehicle finance business, our AUM at the end of the quarter stood at about INR4,850 crores, marking an increase of 11% over the immediately preceding quarter. As previously mentioned, our emphasis continues to be on growing the used CV segment, and we are experiencing significant growth in the AUM. Karthik did mention about the economy and the benefits that we are getting from that, which is also driving the CV segment apart from the efforts that our team is putting.

We realized that our ROA is not justified for the book that we are carrying, and we believe that the SRs that we are carrying is one of the reasons for this thing. We're finding ways to have the same redeemed and converted to cash at the earliest. We had in the past said that we would look at ensuring that there is no discount the -- on account of the corporate loan book and due to SME delinquency. We have worked on and achieved it. Now our effort is only getting profitability.

Last but not the least, I would want to point out that the quarter has seen an upgrade from CARE from A+ to AA- stable. This is a testimony to the changes that we have brought over to the company, the strong promoters that we have and the overall profitability that this would bring to us going forward. We are confident that we have bright future, and we are confident that we would achieve whatever disbursement targets that we have committed in the past over the last four quarters.

Now I invite my colleague, Shreejit Menon, to provide further insights into the housing finance business, which is another key focus area for us. Over to you, Shreejit.

**Shreejit Menon:**

Thank you, Vinod. Good afternoon, ladies and gentlemen. Let me start by wishing all of you a very Happy New Year. I have alongside me my CFO, Mr. Pushkar Joshi, on this call. I would like to start by taking you through the key highlights that illustrate our accomplishments during the quarter.

Firstly, I'm happy to announce that we've reached a small but important milestone of INR2,000 crores of assets under management. This achievement is testimony of the trust our customers have placed in us. Furthermore, our active customer base has now crossed 25,000, underlining the expanding reach and granularity of the book.

Speaking about the liability side of the business, we have successfully raised INR535 crores of liabilities during the quarter. This includes the establishment of two new banking relationships, reinforcing not only our financial robustness but also our strategic intent to widen the lender base.

As I mentioned, in the past, we've always focused on enhancing operational efficiency and improving our customer experience. With this objective in mind, we have now gone live with the automated loan kit, which was the final leg of our paperless journey. This automated loan kit going live marks a pivotal moment in streamlining our own cycle processes and embracing technology. This also places us among the select group of affordable HFCs having developed

capability of e-stamping and e-signing of loan agreements, giving end-to-end digital experience to our customers.

Now turning your attention to the business matrices. Our customer profile mix remains balanced at 49-51 between salaried and self-employed profiles, which evens out the risk. The home loan to LAP composition at an AUM level stands at 70-30, showcasing the diversification ability to maintain yields.

Our strategic vision involves expanding our total addressable market to taluka places with a population upwards of 2.5 lakhs to 3 lakhs with a specific focus on the self-construction segment. This strategic move aligns seamlessly with our commitment of reaching a broader spectrum of customers and fulfilling their unique housing needs.

We continue to remain a true-blue affordable housing finance company with average ticket size of INR9 lakhs at a portfolio level. 85% of our total disbursements are towards ticket size of less than INR1.5 million. Out of our total disbursement of INR635 crores for nine-month period ended 31st December '23, around 40% is disbursed in Tier 3-4 towns and cities. Tamil Nadu, AP, Telangana and Maharashtra remain our core geographies with more than 80% share of our assets under management. So, our philosophy of going deep continues on that path.

Delving into financial numbers. Our portfolio yield stands strong at 15.1%, reflecting the prudent risk-based pricing policy that we adopted. Maintaining our spreads in the range of 5.25% to 5.5%, we continue to strike a balance between profitability and competitiveness in the marketplace.

Moving to the financial performance. We are happy to report a profit after tax of INR28 crores for the nine months ended December 31, 2023. Our AUM has exhibited robust growth at 26% on a year-to-date basis, with the loan book expanding by an impressive 24% on the same basis.

We are taking concentrated efforts on optimization of our operating expenses and reduction in our cost of borrowing. We firmly believe that these efforts would yield higher return on asset and return on equity in the coming future.

Crucially, our asset quality remains strong, with gross nonperforming assets under -- on hand at 1.24% and net NPA at 0.93%. Additionally, our one-plus day past due stands at 4.2% and 30-plus DPD at 2.7%, attesting our prudent underwriting policy risk management practices and strong collection capabilities.

In conclusion, the future for the company looks promising, underscoring our steadfast commitment to serving the credit underserved population of the country. Leveraging technology, developing a multichannel distribution model and fostering a best-in-class workforce will remain central to our growth strategy. We express our gratitude for your continued support and look forward to navigating this exciting journey together.

Thank you for your attention. With this, I hand over the call to moderator for the Q&A.

**Moderator:**

The first question is from the line of Vivek Ramakrishnan from DSP Mutual Funds.



**Vivek Ramakrishnan:** My two questions are around the profitability and the sell-down books. So, the first question on profitability. There is a high liquidity that you're keeping on the balance sheet as well as your cost of funding seems relatively high compared to a AA- company. So, is that acting as a drag on ROA? And what are we doing to improve that?

And a related question is the cost income also. Is the operating cost stabilized for the future growth? Or would you need to invest in more branches? And would it be just proportional growth? So that's the first question on profitability. I can ask the second question later, if that's okay.

**Vinodkumar Panicker:** Yes. Thanks, Vivek. Thanks for being on the call. This is Vinod. Let me address your profitability question right away. I'll start by talking about the cost of funds. Definitely, the cost of funds is something which is very high and definitely not something which suits a company with a AA- rating. The reason for that is the -- because we were away from banks until about end of June in the current financial year.

As for various reasons, we have not approached banks for funds. So, we, after June that we started speaking to bank. Banks have been slowly coming to us. And in the interim, to ensure that we kick-start the business, we went into and got a significant amount by way of NCDs, with -- I would say, collected roughly about INR2,900 crores over the last four-five quarters by way of NCDs, so which was at a slightly higher cost.

Now that the banks have started coming in and we have got two sanctions in the current quarter, we see that there will be a significant amount of reduction as we go forward. In the current quarter, maybe apart from the bank, we have also changed the mix of borrowing, and we have brought in securitization, which we have kept away for almost five quarters. And we have got that at a very attractive price.

We have got into other forms of CP and other things to ensure that the cost comes down. Basis this, what we are seeing is in the current quarter, while the -- immediately preceding quarter in mind, borrowing -- incremental borrowing was at about 12%, 12.5%. In the current quarter, it has been -- the incremental borrowing is about 10.5%, which we believe is a very big positive.

And the transaction happened towards the back end of the quarter, and therefore, it has not seen benefit in the current quarter. It will see benefit in coming quarter and quarters. And now we have decided that now that we have opened up, we are going to banks, we are looking at other means of funding, we will ensure that the mix system that the cost remains at this level or go down. That's one part of the -- of course, the point that you mentioned about profitability.

You also mentioned about the cost-to-income ratio. See, the cost-to-income ratio has about three components, definitely, the revenue. See, the revenue over the last quarter and this quarter has seen a reduction. Well, Karthik had mentioned it. I also mentioned about that. We had sold our corporate book, which was a Stage 2 book because of the delinquencies that it was carrying, which actually reduced the income by roughly INR30 crores for each of the quarters.

Apart from that, the SME book that we sold has actually reduced the income by roughly about INR7-odd crores. So roughly INR65 crores, INR67 crores of income has gone away, but the cost

doesn't go away because it is sold partially in cash and partially in -- by way of SR. And therefore, it would be a couple of quarters it will take for us to actually cover up for whatever we have lost. We have been helped.

We are locked by the CV disbursement that we are doing at 18%-plus. And therefore, that is something which will ensure that the cost-to-income is taken care of. The other cost-to-income ratio will definitely be taken care of when the interest cost goes down, which is what I said maybe some time back.

So overall, we believe that the cost-to-income ratio will come down, which will lead to profitability.

**Vivek Ramakrishnan:** Sir, the related question was also on the liquidity. I mean you had mentioned that you had kept, I think, INR1,000 crores of liquidity. So that would also be dragging, right?

**Vinodkumar P.:** I thought I think I missed answering that. These funds came towards the back end. It came in the last three, four days -- or last five days of the quarter, and there was very little we could do to actually utilize it. Otherwise, we would be always comfortable to ensure that we keep money sufficient for three months of loan repayments. That's what our policy talks about. In the interim, we might find a situation like this, where the bank balance looks slightly bloated.

**Vivek Ramakrishnan:** Excellent, sir. Sir, the second question is regarding the sell-down that you have done. So how much of it is holding as security receipts? And you have mentioned in the call that you don't expect any hit. So, I mean are they being sufficiently provided for when you sold it down? And there was also -- last quarter, you mentioned about an ICICI book, which was causing delinquencies. So, has that also been resolved? That's my only question, sir.

**Vinodkumar P.:** I will take the first part of the question, the ICICI, and request Karthikeyan to speak about. On the SRs, last quarter, we had a transaction there of the corporate loans, and we had a security receipts from that. From that, we have started redeeming some of it. Some negligible portion has come in the month of December. We expect a significant portion of reduction to happen in the Jan to March quarter.

On the SME transaction that we did, we expect the reduction of that to happen possibly three to four quarters from now. That will not happen immediately. So, we believe that, that will start generating profits. Now when I meant that it will not take any additional hit, we mentioned -- what we meant was that it will remain as it is. But then for it to start generating cash, it is some -- one of it will start generating in the coming quarter, or it has started generating in the December quarter.

And it is -- the generation will only increase as we go forward. And the second SME that we did would start generating possibly three to four quarters from now.

**Karthikeyan Srinivasan:** And we are also adequately provided for.

**Vinodkumar P.:** Your question on provision, we are evidently provided. While we follow Ind AS, and as per Ind AS, as per the clause 7, we did not strictly follow the RBI mandate on provision under 75, 76

and 77 clauses. So, we have been providing at the same rate that we provided for -- on the book -- when it was in our book. Our belief is that just because the terminology of the amount changes from a receivable to a security receipt, the realizability doesn't change. That's the reason we continued maintaining the provision.

**Karthikeyan Srinivasan:** And Vivek, just to remind you that last year, we did a deal with one of the ARCs. We got INR120 crores of SR. We have completely recovered those SR. So, our ability to collect the SR and get it back is quite high. And we believe that we are adequately provided so that no extra will be left for us. That's the point on SR.

On the ICICI portion of it, we still have around INR150 crores of book. Around 85% of it is in Stage 1. 6%, 7% is in Stage 2. So, we end up having around 3 to 4 quarters every month, which come into our book. In our assessment, that will continue to run like this probably for the next one, one and half years. By this time, the ICICI book will run out. So, our best assessment is like around INR40 crores, INR45 crores will come to our book. The balance will get paid off automatically.

**Vivek Ramakrishnan:** Excellent, sir. Thank you very much and wish you all the best.

**Karthikeyan Srinivasan:** Thank you, Vivek.

**Moderator:** The next question is from the line of Sumit Bhalotia from MK Ventures. Please go ahead.

**Sumit Bhalotia:** Yes, thanks for taking my question. Just as an extension of the earlier question on clarification on SME and also the corporate book that we've sold, what is the total quantum of SR that are sitting on our books as of December end?

**Vinodkumar P.:** Sumit, Vinod here. --On the corporate book, the SR, the gross value is at about INR682 crores, against which we have got a provision of INR103 crores. On the SME, we have got a SR of INR160 crores on which there is a provision of INR30 crores.

**Sumit Bhalotia:** Okay. So basically, this INR335 crores deal that we did, 50% was in the form of SR, and the balance was in the form of cash?

**Karthikeyan Srinivasan:** Correct.

**Vinodkumar P.:** Yes, broadly.

**Sumit Bhalotia:** Okay. And sir, on the overall disbursement guidance, so the sale that we have done, this is completely Stage 3 book? Or what was the categorization of the asset? And going forward, the balance book of SME that we have, what is your view of that? Will we be looking to do more of these deals? Or -- so what is the time frame of rundown of the SME book? Are we looking to do that? Or we'll start growing it? What is the guidance on that?

**Vinodkumar P.:** To answer your second question first, we don't intend to grow the book. That's what has been our stated position from the time we started speaking to all of you five quarters back, number one. Number two is on the...

**Sumit Bhalotia:** I will need to further -- do more of these deals going forward? And also, the categorization of the book that you have sold, was it completely Stage 3 or Stage 2?

**Vinodkumar P:** Yes, coming to that. Maybe I will just clarify what we have said, so four, five quarters back also. This kind of SME, which is INR1.5 crores, INR2 crores ticket is not something that we want to grow. We will come back and do SME in a different avatar . Could be in INR15 lakh to INR20 lakh or INR15 lakh to INR25 lakh kind of ticket in our Tier 3, Tier 4. And we intend to start that process at the earliest, maybe in the -- this quarter itself or definitely in the coming quarter.

As regard the stages of the book that was sold, while the stage continue or can be Stage 3, 2 and 1, all of them were stressed accounts. I would say roughly 70% of that was in Stage 3, and some of it was in Stage 1 and Stage 2 from the point of view of the DPD. But they were account which were, I would say, stressed and were in Stage 3 for 2 to 3 months in the immediately preceding months. That is the reason this sale happened of those accounts also.

**Karthikeyan Srinivasan:** So, the balance SME portfolio is the DA portfolio, so it continue to be remaining in our book.

**Vinodkumar P:** Yes. Majority of them is DA or PTC, which we cannot sell off unless we get the concurrence from the investor as well. There is a very small portion of Stage 3, which is on our book, which would be roughly -- on our book, which we have not sold, could be about INR15 crores to INR20-odd crores.

But the Stage 1, which is there on a book is roughly about INR220-odd crores, which continue to be there, and we'll continue to generate revenues from there, unless we see some delinquencies.

**Sumit Bhalotia:** Okay. Secondly, the non-focus book for us was SME and corporate. I mean both the segments we have degrown our book to the extent that we would have liked to. So, SME, some here will not be growth is what you're saying and in a big way in any quarter, and similarly, corporate in any case has come down meaningfully.

So, from the overall yearly annual target that you mentioned that we will not be very different from what you've guided earlier. In terms of disbursement, we had given a target of around INR5,300 crores, INR5,400 crores. Are we on track on that? And also closing AUM, I think you were indicating something around INR9,300 crores, INR9,400crores earlier in our previous calls. How are we placed on that?

**Vinodkumar P:** We had given the target of INR4,400 crores plus INR1,100 crores is the target that we've kept for disbursements, INR5,500 crores. And we have said that at the consol level, we will be close to INR10,000-odd crores. That's what we have given. So, we are -- both the teams, based on the liquidity that we have, are confident that we'll achieve numbers or be very close to that by the end of the financial years.

**Sumit Bhalotia:** So today we are right -- I mean, INR8,000 crores. You're saying that closer to INR10,000 is still possible for us from INR8,037 crores AUM?

- Vinodkumar P:** I'm saying it will be closer to it, could be roughly about INR9,500 crores. That's the way I look at it.
- Sumit Bhalotia:** Yes, yes. Obviously, because of the book rundown that we have seen. So, on a console level, that is the number.
- Vinodkumar P:** Maybe one more reason was the -- because of the two sales that we did, INR915 crores plus the close to INR300, roughly INR1,200-odd crores was sold by us.
- Sumit Bhalotia:** Right. Right. Sir, one question on housing book. The P&L looks a little weaker on a Q-o-Q basis. I might have missed out something. So, can you please help us on that? And also, on a sequential basis, disbursements have also not picked up. Any specific reason for that?
- Pushkar Dattatray Joshi:** Yes. This is Pushkar here. So, I would like to take the first part of this question. So, on the profitability side, the major dip on the profit is on account of the reduced upfront income book in the quarter three. So, the quarter two, we sold our last portfolio about INR108 crores. As against that, we sold only INR25 crores in the quarter three. So that is the major reason why the profitability is dipped. I would like to request Shreejit to take the second part.
- Shreejit Menon:** Yes. On disbursements this year, as I mentioned earlier as well, our focus has been to balance out the spreads, the yields and the ticket size. So, we continue to play the small ticket game, and we also had to balance on the liability side. So, it's been more deliberate to keep it at that number. Now that we have a full line of visibility on the liability side, we would -- we have built capacities now to grow the disbursements from hereon.
- Sumit Bhalotia:** Okay. Okay. Sir, one last question on profitability. On a consol basis, we are looking at around 2.5% some kind of a range of ROA for our FY'25. Are we on track to achieve that?
- Vinodkumar P:** We are on our target to achieve that because that's the number that we gave, and we are working towards achieving that.
- Sumit Bhalotia:** Okay. Okay. Thanks so much for the response.
- Vinodkumar P:** Absolutely. Nice speaking to you again.
- Moderator:** Thank you very much. The next question is from the line of Harsh Shah from Reliance General Insurance. Please go ahead.
- Harsh Shah:** Hello, sir. Sir, so you said that we'll be able to have an AUM growth of approximately closer to INR10,000 crore for this year. Sir, with disbursement, which is closer to INR600 crores, INR650 crores, how -- so I would like to understand how we'll be able to reach that.
- Vinodkumar P.:** Harsh, Vinod here. See, the disbursement is not INR600 crores. The disbursement is in the range of about -- both, together, was in the range of INR1,300 crores, roughly about INR1,121 crores in the stand-alone and both, together, about close to INR1,300 crores. This is the one number which we intend to ramp up in the INR1,345 crores to be very precise. This is the number that we both are confident -- both entities are confident of ramping up in the fourth quarter. And we should see the number.

Today, we are about INR8,000 crores AUM. So, both, together, if we do a disbursement of close to INR2,000 crores, we are confident of being close to that number because even with the rundown, which will happen in the normal course.

**Harsh Shah:** Okay, sir. Got it.

**Vinodkumar P.:** Thanks, Harsh.

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

**Deepak Poddar:** Hello. Am I audible, sir?

**Vinodkumar P.:** You are, Deepak. Kindly go ahead.

**Deepak Poddar:** Yes. Thank you very much. So first off, I just wanted to understand in terms of growth, you mentioned about -- INR9,500 crores this year. So how do we see that over FY'25 and '26 in terms of advances, what sort of target we have?

**Vinodkumar P.:** Deepak, in the previous call, we had said that our aspiration is to do about INR6,000 crores in the stand-alone and about INR1,400 crores to INR1,500 crores to the housing finance. That together should take our number to close to INR13,000 crores by the end of the next financial year.

**Deepak Poddar:** FY'25, INR13,000 crores. And what about FY'26?

**Vinodkumar P.:** I would want to restrict it to '25 right now. I don't want to be too much of a forward looking statement.

**Deepak Poddar:** Fair enough. I got it. And then in terms of your ROA strategy, I wanted to understand, I mean, more 2% ROA -- 2%, 2.5% ROA. I think currently, our ROA is 0.7%. So, in next four, five quarters, I think journey from 0.7% to 2%, and that's the average. So ideally, you have to end your year with a much higher ROA. So, I just wanted to understand, so what's the strategy that we are likely looking at to bridge this gap of our ROA? So, where all the improvement is likely to come that will boost your ROA?

**Vinodkumar P.:** I thought I answered it when I answered the debate, but I'll repeat it. First is on the revenue front. We said that we were losing roughly -- in the stand-alone, roughly about INR35 crores to INR37 crores on a quarterly basis. And it will take about four to five quarters for it to start going away -- that impact of that to go away because the disbursement in the CV portfolio is significantly high, so -- which is also at 18%. So that will definitely come in.

We are also looking at -- starting with the LAP -- I mean, not LAP. I mean SME in -- definitely in the coming year, which will be an additional benefit to the bottom line and, of course, the ROA.

Cost of funds is something which I mentioned about. We have changed our mix basis, which the cost of funds has reduced -- the incremental borrowing has reduced significantly in the Q3, and

we expect that trend to continue. And with the banks also warming up to us, we are fairly confident that the overall cost of funds would go down. So today, in Q3, it has been exorbitantly high at about 11.7%. So, we are confident of that coming down to a 10.5% kind of level possibly for the better part of the next year. And revenue is also going up. That's number two.

Number three is the basis my book going up with the -- not very proportionate kind of increase in my opex. I definitely expect the ROA as a percentage to also significantly improve because cost to -- my opex currently is at about 4.5% of the total asset. That is something which we see going down to about 3.75% to 4%. It's a combination of all these things, and all that will happen simultaneously. All are currently happening simultaneously.

Maybe I will be incomplete if I don't cover the last point. I also mentioned about SR that our aim is to see how do we monetize and get the SR redeemed at the earliest. So that's one focus area that the company has going forward.

**Deepak Poddar:** Yes, that's very helpful, sir. But will it be safe to say that, I mean, from current ROA levels we stand on a quarter-on-quarter basis, every quarter, we should see some improvement?

**Vinodkumar P.:** We should see that.

**Deepak Poddar:** We should see that. Okay. Fair enough. I think that's it from my side. All the very best to you. Thank you.

**Vinodkumar P.:** Thanks, Deepak. Thanks for being on the call.

**Moderator:** Thank you very much. The next question is from the line of Vibha from Fairconnect. Please go ahead.

**Vibha:** Yes, thank you for taking my question. My question is, I'm just trying to relate your income from CV balance sheet. If you were to look at your income of INR666.38 crores, how much of it is from on balance sheet CV portfolio? And what would be that portfolio? I can see in your presentation, the AUM is INR4,850 crores. But out of that, some could be your securitized book or assigned book and where income is booked differently. So, I'm looking at your on-balance sheet assets in CV and corresponding income.

**Vinodkumar P.:** Good afternoon, Vibha, Vinod here. We have negligible amount of DA, which is, I would say off book. Everything else is one book. In case you specifically mentioned about CV, I'm responding to the CV part of it. We have a book of INR4,850 crores and entire thing actually generates that kind of revenue for the organization. It's only -- internally, we have possibly split it up as what is organic, what is inorganic and some part of it, which comes from the ICICI book. Everything is on the book. We have got nothing outside.

**Vibha:** Okay. So, your total book is INR5,454 crores. Out of that, CV is INR4,850 crores. What is balance?

**Vinodkumar P.:** INR5,454 crores is the on book. .

**Vibha:** Loan book, yes.

- Vinodkumar P.:** But it's actually INR5,800 AUM. INR4,850 crores is the AUM. On book is slightly lower. It is at about INR4,000 crores -- close to INR4,666 crores to be very precise.
- Vibha:** Okay. And rest is the securitized book?
- Vinodkumar P.:** Rest is the DA book because securitization is on the book.
- Vibha:** Okay. Okay. And how much is the interest income out of this INR4,666 crores?
- Vinodkumar P.:** The entire amount that you mentioned comes out of it.
- Vibha:** But that would include your income from bank balances and other things, right? Interest income, part of it will be coming from the CV portfolio, and part would be from other. So, I'm looking at purely CV income. What I'm to -- trying to reconcile is what is your yield because your book yield was 18.9%. But if I were to compare this to your earning assets, it's pretty deflated partly because you have a large amount of SRs and other assets.
- Vinodkumar P.:** Yes. Vibha, the income coming from the vehicle finance -- the interest income was INR481 crores. You also mentioned about the 18.9%. The 18.9% is the incremental disbursement that we are doing. We are roughly about 4500 -- INR4,800 crores of book. And over the last 4 to 5 quarters is what we have been disbursing at that rate. The older book where we had a large amount of new portfolio was at significantly lower rate. So, the weighted average income from the CV would be in the range of 16%.
- Vibha:** Okay. When I see if I were to relate this INR481 crores to INR4,666 crores, it's -- and annualize it by way of calculation, it's 13.74%. And your NPAs are not very significant now. So why is there so much of dilution?
- Vinodkumar P.:** Our numbers are that -- I said 16% -- at 16.8%. We can definitely, possibly take it off-line. And then we can confirm our numbers with you. We stand by our numbers.
- Vibha:** Okay. Fair enough. Just one or two more questions if I can take. There is this goodwill of INR300-odd crores...
- Vinodkumar P.:** Sorry, Vibha. Can I just hold you for a minute? The INR4,850 crores are not numbers, we are saying is the number at the end of quarter. The income generation happened on the average loan book, which is a daily balance. Sorry, you can continue. INR300 crores of goodwill. Please continue.
- Vibha:** Yes, yes. Yes, I understood the question, but since I didn't have the numbers during the quarter, I just took the rough -- this thing. But of course, this may go up by -- because the growth is not very significant. This 13.74% may move up but not very significantly, but I will definitely take it up off-line with you.
- This goodwill of INR300 crores that, and SR as you said, majority will be redeemed. So, the balance sheet in your yield will start improving only when these nonyielding assets go down?



And third is that you said that you would want to keep liquidity for three months. Three months of what, disbursements or repayment? And broadly, in relation to your earning assets, what would be that percentage? Because right now, the profitability is very depressed because your earning is not in relation to overall assets, are really low. What's your trajectory on this?

**Vinodkumar P.:** Yes. Vibha, liquidity, I mentioned, was the three months of the repayment that we would need to do. So, the repayment would be in the range of close to INR450 crores to INR500 crores. That's one point.

On the SR, the impact, I did mention about it that we would need to monetize it. We would start -- we would need to get it redeemed the earliest. So that efforts are on that to ensure that the SRs get redeemed. And therefore, it starts getting converted into cash, which is redeployed into the business and, therefore, start generating yields.

On the goodwill part, there's no provision under Ind AS to amortize it, so that would continue to be there. But then that is something which has some basis, the transaction which we did in 2019, where we bought over the CV business of IIFL. And it was from that point of time. And that is what has helped us grow to the level that we grew or we have grown so far. It gave us reach...

**Vibha:** Okay. But will it be -- when will it be amortized? It will stay on the books...

**Moderator:** Sorry to interrupt, Vibha.

**Vinodkumar P.:** Yes, it will not get more amortized. Ind AS doesn't have a provision for that, under Ind AS following it.

**Vibha:** Okay. Just a follow-on, this goodwill will be knocked off from your...

**Moderator:** Sorry to interrupt, Vibha. Can you join again?

**Vibha:** I will join. But just as an add-on. My question hasn't been answered.

**Vinodkumar P.:** Vibha, we can do a detailed call separately.

**Vibha:** Sure.

**Moderator:** Thank you very much. The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.

**Tushar Sarda:** Yes, thank you for the opportunity. You've given guidance on ROA, but your leverage is low. So, in what time period leverage will increase and ROE will catch up? I mean what -- how would it be in FY'25 and FY '26 in terms of leverage?

**Vinodkumar P.:** We will be happy with the leverage of about 4x to 4.5x. But that will be some time maybe. I don't see us going to that level even in '25. But...

**Tushar Sarda:** Not even in FY'26?

- Vinodkumar P.:** '26, we should be there, but '25, I don't see us going to that level.
- Tushar Sarda:** So, with 2.5% ROA and 4 leverage, your ROE will be just 10% or so. Is that right?
- Vinodkumar P.:** You're right, I would say. But then I would say that we need to look at other ways and means because on how do we do securitization, how we do BA and other things to ensure that it is not taken as a leverage, but at the same time, you generate income. So that's something which will continue to be there. And I think all NBFCs keep looking at ways and means to do that.
- Tushar Sarda:** So, do you have an ROE target? Because I don't think you've guided for that. You've guided for ROA.
- Vinodkumar P.:** No, we have guided for ROA. We have currently not guided for an ROE.
- Tushar Sarda:** Okay. But do you have a target for that? Can we look at some number in terms of ROE?
- Vinodkumar P.:** I mean, right now, we are not, I would say, discuss that outset. But we have currently stuck ourselves to the discussion of the ROA only.
- Tushar Sarda:** Okay. No problem. No problem. I just wanted to...
- Vinodkumar P.:** Great, Tushar.
- Tushar Sarda:** Yes. And I have one clarification on the Slide 17. You have collection, including overdue and then overall collection. So, what is the difference between the 2?
- Vinodkumar P.:** Give me a second. So, you are referring to...
- Tushar Sarda:** Collection Efficiency slide, Slide #17 in the presentation.
- Vinodkumar P.:** There are 3 percentages you are facing. One is billing efficiency. There is bill to bill. What is...
- Tushar Sarda:** Yes, I understood. Collection, including overdue and there is overall collection.
- Vinodkumar P.:** I have given you the details of all the three. Collection including overdue means that I have collected something for this month, plus I've collected something for the previous months. So that was collection plus overdue, which was overdue in the past. The third part is the case -- it includes the prepayment. There are many who would want to pre-close it and things like that.
- Tushar Sarda:** Also, my payment is huge, that means every month.
- Vinodkumar P.:** You will keep finding that because people would want to -- once they -- the kind of customers that we have, our customers, many of them are FT -- first-time users. So, they come in, they build up their credit profile by paying to us some time for a year, one and a half years. And then obviously, we are expensive, at about 18%, 18.5% yield. So, they always look out for a better - for a lower cost, which we will not provide, so we'll go to somebody else.
- Tushar Sarda:** Okay. Okay. Okay. And so, they repaid the whole loan or just part of the loan? And what happens to the EMI?

- Karthikeyan Srinivasan:** And that's why it's called closed loan. He closes it and then he goes to somebody else with his truck.
- Tushar Sarda:** Okay. Thank you.
- Karthikeyan Srinivasan:** Thanks, Tushar.
- Moderator:** Thank you very much. The next question is from the line of Subhadeep Mitra from Nippon Mutual Funds. Please go ahead.
- Subhadeep Mitra:** So, I have three questions, sir.
- Moderator:** Sir, you are not audible.
- Subhadeep Mitra:** Hello?
- Vinodkumar P.:** Subhadeep, you are not audible. Could you speak a bit louder, please?
- Subhadeep Mitra:** Hello? Is this better?
- Vinodkumar P.:** Perfect.
- Subhadeep Mitra:** Sir, I have three questions. One is that there is a marginal increase in the corporate book in absolute terms, whereas our guidance has been not to grow this book. So that's the first question. Second...
- Vinodkumar P.:** I will answer the first question first.
- Subhadeep Mitra:** Sure, sure, sir.
- Vinodkumar P.:** See, while we have said that we will not be doing corporate loan book in future, there were -- there are certain commitments. This is the old sanctions that have been given by us. And we are the sole lenders to those projects. We cannot be not disbursing for those projects at least. So, I think in the previous quarter, possibly, you're not on the call, but then we had said that over the next four to five quarters, you will see roughly about INR20 crores, INR25 crores, INR30 crores kind of disbursement every quarter.
- Subhadeep Mitra:** Sure. Sir, second question is that you mentioned the provision on the SRs that you have received now is around INR30 crores on an SR of INR160 crores, if I heard you correctly. So, don't you see that those provisions are on the lower side? What's your take on that?
- Vinodkumar P.:** No, these are provisions which have been determined. This is the ECL method that are followed by us, and we have retained the same provision that we were -- percentage of provision that we were keeping when the books -- when the asset was on our books. So, when it has become an SR, we have not changed the provisioning. In fact, Ind AS doesn't require you to get provision. We thought it is prudent or conservative on our part to make provision. That's the reason we'll retain it.

- Subhradeep Mitra:** Understood. Understood. And sir, the third question is from the banking sector, how much sanctions did you receive during the quarter? Can you give us some number on that?
- Vinodkumar P.:** Two -- one in the form of term loan. One is in the form of WCDL. And two, sanctions in the form of securitization.
- Subhradeep Mitra:** Sure. And how much would that be, sir?
- Vinodkumar P.:** That will -- totally four. All put together, roughly about INR640 crores.
- Subhradeep Mitra:** Sure, sir. Thank you so much. That's all from my side.
- Moderator:** Thank you very much. The next question is from the line of Rikesh Parikh from Rockstud Capital Limited. Please go ahead.
- Rikesh Parikh:** Thanks for the opportunity. Sir, my question is related to the branch expansion. In last year, we have opened almost like 70 branch. And so, going forward, annually, what kind of branch expansion we are looking at? Or are we done with it?
- Karthikeyan Srinivasan:** I would like to add some 40, 50 branches. Mortgage, I mean, the housing, they have only completed their expansion.
- Vinodkumar P.:** The 60, 70 increase, which has happened is all -- most of it, I would say, is in relation to the housing finance business, where they have expanded into newer territories. And like Karthikeyan said that they have possibly come to the target of their expansion mode. Now I think they will try to monetize some way.
- Rikesh Parikh:** And just related to that, I wanted to understand what is the breakeven time to reach a branch? And what target do you look at the average branch are we getting? Because if I look at it, it is like INR3 crores or also if the number comes out based on disbursement, if I look at it.
- Karthikeyan Srinivasan:** See, we discussed, I think, See, these are all not lavish branches. These are all very small branches where we -- I put a person; he starts disbursing 5 units per month. In the six months, it will become breakeven. So, if average of INR2.5 crores to INR3 crores, the branch turns around. And that's the kind of infrastructure spend we are doing also. So, we don't see it as a major cost, but it will be coming at a much lower cost, and it will be coming at interior where we will be able to get our way.
- Rikesh Parikh:** And average time it takes to break even?
- Karthikeyan Srinivasan:** Six months. Worst case, six months.
- Rikesh Parikh:** Excellent. Okay. And sir, just last question, if I may, just on provisioning, we are at 50% coverage ratio now after down selling and other things. So, what will be the comfortable level you've been looking at over the next 20 years?
- Karthikeyan Srinivasan:** So, we continue to hold out that percentage only. We will have a relook at our PD, LGD in the March quarter, then take a call if we need to review. If you look at the industry, we are one of

the highest in terms of LGD, PCR. So, we will have a look at it in March because we have seen our portfolio is improving quarter-on-quarter. That's reflecting in the numbers we have been reporting also. So, in March, we'll be able to give you...

**Rikesh Parikh:** Okay. Thank you so much. That is it from me, sir.

**Karthikeyan Srinivasan:** Thanks, Rikesh.

**Moderator:** In the interest of time, that will be the last question. I will now like to hand the conference over to Mr. Nikunj Jain from Orient Capital for closing comments.

**Nikunj Jain:** Yes. Thank you. 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 query, please feel free to contact us. We are Orient Capital, Investor Relations Advisers to IndoStar Capital Finance Limited. Thank you so much.

**Vinodkumar P.:** Thank you, Nikunj.

**Karthikeyan Srinivasan:** Thank you, everyone.

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