"Poonawalla Fincorp Limited Q3FY2022 Earnings Conference Call

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ANALYST: **MR. KUNAL SHAH – ICICI SECURITIES LIMITED**

MANAGEMENT: **MR. VIJAY DESHWAL - GROUP CHIEF EXECUTIVE OFFICER – POONAWALLA FINCORP LIMITED**
MR. SANJAY MIRANKA - GROUP CHIEF FINANCIAL OFFICER – POONAWALLA FINCORP LIMITED
MR. MANISH JAISWAL – MANAGING DIRECTOR AND CHIEF FINANCIAL OFFICER - POONAWALLA HOUSING FINANCE
MR. RAJIVE KUMARASWAMI – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER - POONAWALLA FINCORP
MR. MAHENDER BAGRODIA - HEAD COLLECTIONS – POONAWALLA FINCORP
MR. JINESH SHAH - POONAWALLA FINCORP LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Poonawalla Fincorp Limited Q3 FY2022 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kunal Shah from ICICI Securities. Thank you and over to you Sir!

Kunal Shah: Thank you, Janice. Good morning everyone presents on the call. Today we have with us Mr. Vijay Deshwal, Group Chief Executive Officer, Mr. Sanjay Miranka, Group Chief Financial Officer, Mr. Manish Jaiswal, MD and CFO of the Poonawalla Housing Finance, Mr. Rajive Kumaraswami, MD and CEO, Magma HDI and Mr. Mahender Bagrodia, Head Collections from Poonawalla Fincorp to discuss their third quarter as well as nine months FY2022 earnings so over to you Sir!

Vijay Deshwal: Good morning Kunal and good morning everyone. I welcome you all on behalf of Poonawalla team for joining the Q3 investor call. I hope and pray that you and your loved ones are safe and healthy. The management team here at Poonawalla Fincorp is excited to share the updates on an eventful quarter gone by. We continue to look forward to building a long-term and sustainable relationship with the capital market community, analysts and all our shareholders

We will take it up into two parts, first I will share with you the major updates related to business and our transformation journey and then I will hand over to our Group CFO, Sanjay who will discuss the financial results for the quarter in details and thereafter we will request you to take up any questions.

Let me begin with the economic background prevailing during Q3. While we witnessed the Indian economy gaining momentum in October and November, the same was challenged a bit due to the rising COVID-19 infections towards the end of December prompting the authorities to bring back some restrictions. This created a little bit of uncertainty regarding the growth; however, the good news is that the new wave has turned out to be less threatening than the previous ones. The GDP growth forecast for FY2022 has been pecked at 9.5% by the RBI which is well supported by all the macroeconomic indicators like GST collections, which have been clocking over 1.3 lakh Crores every month in the last four months, the CV sales and the others.

In light of the above, our business continued to gain traction during the quarters with organic disbursements growing by 28% year-on-year and 19% quarter-on-quarter. While we consolidated our AUM, it remained flat due to rundown of the discontinued portfolio. Our focus book grew by 6% quarter-on-quarter.

As highlighted previously, our focused lending segments continue to be consumer and small businesses. Our current offerings consist of secured products including pre-owned car loans, SME, LAP, and affordable housing and unsecured products including personal loans, loans to professionals and business loans. Even as we continued to sharpen our branch and digital distribution infra during the quarter, we entered into multiple Fintech partnerships to enhance our reach and ability to build a quality book. We also added small ticket LAP and medical equipment loan products to our portfolio.

Within our overall customer segment, we will keep evaluating new products and partnerships and launch them at an opportune time after evaluating these on our defined matrix of scalability, operating profit and credit costs. Earlier we decided to discontinue some products in their previous forms for specific reasons, that we had explained earlier. The discontinued book now forms about 24% of our AUM and is expected to run down substantially over the next 24 months. Our endeavor is to continue to build a portfolio with a healthy mix of secured and unsecured products giving us superior risk adjusted return.

Let me now give you some updates on the key operating levers that we have defined in our strategy and that I talked about in our previous calls. First and foremost, our brand, equity capital and cost of funds,-we continue to benefit from the brand and backing of a strong group coupled with our strong capital position.

I am also pleased to inform that during the last few days we have received a long-term credit rating of AA plus stable from CRISIL along with reaffirmation from the other rating agencies. This is followed by an AA plus stable credit enhancement from CARE in the month of August. This has enabled us to further diversify our lender base and keep our cost of funds highly competitive. We have diversified our fundraising from the banks which was earlier largely within the PSU banks to now a range of PSU, foreign and private sector banks with very large lines coming through. We continue to strengthen our liability mix with the banks, debt capital markets, long-term finance institutions including refinance and continue to optimize our costs.

The second lever - the senior leadership team, I am happy to share with you that entire senior leadership setup is largely complete. Given the rich experience of the team we are confident of delivering the ambitious business plans that we have envisaged.

The third which is our distribution infrastructure we continue to leverage on our pan India branch infra along with enhancing our digital capabilities. The process of branch rationalization is in alignment with the new product strategy and it has continued. For the newly launched SME LAP product we have operationalized 38 out of 65 identified locations and have on-boarded 600 plus channels.

We have also expanded our presence in the unsecured businesses, which are personal loan, business loans and loans to professionals, to about 97 locations now up from 59 in Q2. In affordable housing as well, we have expanded our footprint to 113 in Q3 from 103 in Q2. Apart from this, we have enhanced our reach through various Fintech partnerships as I mentioned which went live or during the quarter.

Digital strategy, which is another pillar of our growth, is at the core of our overall business strategy where tech and analytics will drive product innovation, direct customer acquisitions, improved TAT and provide data for analytics to further serve the customer better. We continue to develop end-to-end digital journeys for our products. I am happy to share that our unsecured products which were already on an end-to-end digital journey, from on-boarding to disbursement, now a similar digital approach for our newly launched SME LAP product has been kicked in and it is making rapid progress on all other products.

Our tech architecture is gearing up towards supporting multiple products and integrating with partners in a seamless fashion. On the analytics front, we continue to develop tools for sourcing, credit underwriting, risk monitoring and collections. We expect all these to bring cost efficiencies, expand our reach, improve customer experience, make our credit decisioning consistent and collections more efficient.

On asset quality and credit cost, I will now share a little bit about how the quarter has gone by. Our collections efficiency continued to witness improvement during Q3 across all the products. During the quarter we sustained healthy collection efficiency above the pre-COVID levels and achieved above 99% for the month of December. We continued our efforts on collections and were able to reduce our stage 2 and stage 3 book quarter-on-quarter.

We continue to make significant recoveries from the written off pools and are adequately provided at this stage. In November 2021, all of you are aware that RBI notified a revised NPA recognition and upgradation norms for NBFCs. It was more of a clarification than revised norms I would say. The impact of this for Poonawalla Fincorp will be an increase in GNPA by about Rs.552 Crores compared to gross stage 3 at a consolidated level.

It is worth noting that this pool of assets registered a collection efficiency of about 107% in December. We continue to follow the Ind-AS provisioning and the same remains higher compared to the requirements under IRAC. Also pleased to share that our bucket movement, which is a real factor on showing the economic value of the assets, has improved consistently so therefore we do not see any impact of these norms other than regulatory reporting on the asset quality and provisioning. Credit costs for Q3 have reduced substantially both quarter-on-quarter and year-on-year due to combination of lower slippages, write backs due to improvement in bucket position, some release of the COVID provisions due to improving collection efficiencies.

Moving on to key highlights for Q3 performance before Sanjay takes you through it in detail, our consolidated AUM remained at about 15228 Crores, the AUM of focus products grew by 6% quarter-on-quarter. Disbursements witnessed healthy traction across all active product lines aided by improving macros. Book growth had an offsetting impact due to the rundown of the discontinued product book, NIM improved by 25 basis points year-on-year aided by sharp reduction in cost of borrowing. this, coupled with very sharp reduction in credit costs, led to a healthy growth in PBT from our lending businesses which came in at about 136 Crores.

I will now hand over to Sanjay, our Group CFO to take you through the financial update in detail. Thank you.

Sanjay Miranka: Thanks Vijay. Good morning everyone. I am pleased to share the update on the financial performance of Poonawalla Fincorp Limited for the third quarter which has been an eventful quarter to say the least.

Our consolidated AUM was at Rs.15228 Crores staying at a similar level on quarter-on-quarter basis however, the AUM of focused products grew by 6% quarter-on-quarter which is encouraging. We saw good traction across all our active product lines with organic disbursements growing 28% Y-o-Y and 19% quarter-on-quarter.

Quarterly NIM improved by 25 basis points Y-o-Y to 8.8%. Our normalized NIM was 9%. We continued to engage with banks and achieved repricing of all eligible term loans. We have continued to expand our lender base with majority of the incremental borrowing in Q3 coming from foreign and private banks.

We also tapped the capital markets and raised funds through issuance of commercial paper. We are raising funds at one of the finest rates in the industry. Further assignment of AA+ stable rating by CRISIL to both PFL as well as PHFL is expected to strengthen our capital market presence. Since our last call, we have received fresh term loan sanction of about Rs.4000 Crores at an average rate of 6.3%.

On-quarter-on-quarter basis our normalized cost of borrowing declined by around 100 basis points in Q3 to 8%. On opex front there was an increase to 5.1% compared to 4.8% in Q2 on account of capacity building done in line with the growth strategy. The opex is likely to normalize with growth in business overtime.

Talking about our ALM and update on liability management, we have an extremely comfortable liquidity of over 4500 Crores and surplus ALM across all the buckets as on December 31, 2021. The Gross stage 3 declined sharply by 340 basis points Y-o-Y and 60 basis points quarter-on-quarter to 3.5%. On similar lines, the net stage 3 book declined by 270 basis points Y-o-Y and 20 basis points quarter-on-quarter to 1.8%. The credit costs stood at nearly 0%, 480 basis point lower Y-o-Y and 100 basis points lower quarter-on-quarter basis.

Our restructured portfolio improved to 5.7% of AUM in December 2021 vis-à-vis 5.9% in September 2021 aided by recoveries. The collection efficiency continued to surpass pre-COVID levels and was above 99% for December 2021. The bucket position of the book also improved with stage one proportion improving both Y-o-Y and quarter-on-quarter basis, indicating overall improvement in asset quality. As on December 31, 2021 our provision coverage on stage 3 book stands at over 50%.

We are also carrying a provision cover of about 16% on stage 2 book which is quite healthy. As on December 31, 2021, we are carrying about 134 Crores of specific COVID provisions. There has also been some recovery from write-off pool during the quarter. Our conservative provisioning basis revised policy, sustained improvement in the collection efficiency, reduced slippages and further expected recovery from write-off pool provides enough cushion and would help bring down the credit cost for rest of the year. We would strive to achieve net stage 3% of less than 1.5% by the end of financial year.

During Q3, PFL accepted binding offer for sale of its shareholding in its joint ventures, Magma HDI General Insurance Company Limited and Jaguar Advisory Services Private Limited which has been approved by the Board of Directors on November 2, 2021 and also by its shareholders on December 13, 2021. The said transactions are subject to requisite regulatory approvals. Accordingly, as required by Ind-AS105, these investments have been presented as 'non-current assets held for sale' and share of profit of the joint ventures have been considered up to the relevant date.

Consequently, we are highlighting profit figures for the lending business along with the consolidated figures. So consolidated PBT for the lending businesses in Q3 FY2022 was at Rs.136 Crores against Rs.17 Crores achieved in Q3 FY2021 and 124 Crores in Q2 FY2022 witnessing a significant 700% Y-o-Y growth and 10% quarter-on-quarter growth.

The profit after tax for the lending business has increased to 102 Crores against 13 Crores in Q3 FY2021 and 93 Crores achieved in Q2 of this year. Our ROA for lending businesses increased to 2.7%. Thank you. Over to you Kunal.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question answer session. The first question is from the line of Kunal Shah from ICICI Securities. Please go ahead Sir.

Kunal Shah: With this rollout of new products as well as maybe in the existing one if you can just highlight in terms of how the initial experience has been both in terms of the acceptability and even in terms of scale up some of the product segments would have surprised positively and you have highlighted right to win so what is the key differentiation which you are seeing in the market with respect to those products so if you can just give some granular detail on the focus product segment that would help?

Vijay Deshwal: Kunal thanks for the detailed question and I will take it up into two parts. First on the specific focus product segments, as we spoke about pre-owned cars, we got into some partnerships and we also revived our branch distribution engine. We have reached a run rate of about 110 Crores per month on the pre-owned car which is almost back to pre-COVID levels. We had defined that from partnerships we aim to have a contribution of about 10% to our total distribution engine. I am pleased to share that only with the first partnership which isCars24 we are able to clock in almost 7 Crores per month in a very short span of time of one month. The positive thing here was that we were geared up with our tech stack, we were ready for integration and we have ensured that the entire process is end-to-end digital as we have committed to ourselves and also to the entire process and to our customers. So this is what was worth highlighting. In terms of other relationships there, we are at advanced stages of discussion with various other large online aggregators on this product and our aim is to have a contribution of 10% to 15% of the business coming from these channels. It may actually come sooner than later in terms of overall composition and we are very confident of that. Looking at the other products like personal loans, business loans and the unsecured piece of it, we partnered with Paisa Bazaar in the last quarter and we are seeing a good traction in terms of whatever fits our credit filters. So we have made sure that whatever partnership we do, the BRE remains ours. So we do not dilute the credit underwriting standards we rather create a STP process which helps in a reduced TAT and helps in terms of overall delivery of the product in a faster time and with the pre-approved credit matrix. In terms of our loan against property, the SME LAP product which we launched in the last quarter, initial two months have gone by and I am happy to share that out of the 65 locations more than 50% have been activated with over 600 plus channels which have been activated now and the traction for the business is gaining momentum. When you start any new business the market also tests you, so we are going through those tests and we are building up a business which is quite sustainable. Let me share some numbers- we have reached a number of almost about 40 Crores a month in terms of run rate within a short span of time of about two months on this process.

Kunal Shah: Sure this was helpful and in terms of the differentiation and maybe the distribution apart from the online if you can share a bit about the internal as well as the outsourced channels and the acceptability out there?

Vijay Deshwal: **On** Differentiation, when I talk about both i.e partnerships and our own channel distribution, we are endeavoring that everything happens end-to-end paperless. While you will appreciate that in a environment of credit underwriting of collateral properties which is LAP, the physical properties continue to be sort of evaluated through the legal and technical framework on a physical basis, but the entire application right from the channel on-boarding, application login, credit assessment and disposal, everything happens online in a digital format which we feel is giving a large comfort to our channel as well as the partnerships that we have engaged with. So that is a small differentiation if we may call it is what we look forward to.

Kunal Shah: Sure thanks a lot.

Moderator: Thank you. The next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: I had a few data keeping questions and one rather strategic question in terms of how do we see Poonawalla Fincorp in terms of geographies going forward? You mentioned about products because the NBFC seems crowded space and many of the players seem to be doing the same thing, would your cooperative driven by the fact that you have a strong backing low leverage and low cost of funding or what would be if we look at it three years from now what would we say Poonawalla fincorp would be that would be the strategic question in terms of the data keeping questions if you could give us discontinued products in the restructured pool as well as the write-off pool what is the quantum that is there and how much recovery that you expect from them in the next few quarters are the customers able to pay at least EMIs at this point of time?

Vijay Deshwal: So Vivek I will take the first question in terms of the overall strategy and how do we see or how will one see Poonawalla Fincorp emerge over a period of time and then in terms of the numbers I will request Sanjay to delve a little bit more into that. So we have a stated objective of being a diversified, tech enabled NBFC, focused on risk calibrated growth, with customer-centric approach, of providing a growth-oriented environment for its people and creating value for the shareholders. That is the larger stated objective. You also had another question on how do we see the geographical expansion because we spoke about products you wanted to understand a little bit about geography. As a baseline I will share something with you that over the last number of years while we were strong in northern part of India. We were also strong in the central part of India and in South other than Chennai, we were good in Andhra, Telangana, Karnataka and Kerala. So the markets where we are focusing more and we intend to build or rationalize the geographical expansion will be Tamil Nadu, Maharashtra and Gujarat and on a steady state, maybe over a number of years, the way the market opportunity offers itself, our share of market also will be something similar what is there for the larger players; which if you look at east will be contributing less than 15% and there will be almost an equal distribution between North and West followed by South, this is how we look forward to our future and Vivek but we missed your second part of the question if you can repeat then Sanjay will answer specifics from the numbers.

Vivek Ramakrishnan: Thank you for that so just one add-on question to the first question itself is it will be like a semi-urban tier two, tier three cities would be the focus for you?

Vijay Deshwal: We will have urban and semi-urban focus, Vivek will not have too much of a rural focus and that is in line with the customer segments that we have defined and the geographies.

Vivek Ramakrishnan: Sure it makes sense. The second question I will repeat again in terms of the restructured pool that you have how much of it is part of the discontinued pool and the same question is also in terms of the write-off pool. What is the write -off pool that you have and what can we expect as recoveries from this pool going forward. Are the customers at least be able to if not for a one-time settlement able to pay single EMIs and they would not become current but they know at least your money will come back.

Sanjay Miranka: So restructured portfolio is 5.7%, this number was 5.9% in Q2. So it has come down which obviously reflects that there are recoveries happening even on the restructured pool. The second question you had on the write-off.In fact on our write-off book also, we recovered 230 Crores in the past nine months and the larger part of that recovery obviously has been in Q2 and Q3. Because we have gone for quite conservative and stringent provisioning and write off policy, recovery tends to be quite decent. As we talked about in our opening remarks, even going forward we expect write-off recovery to remain robust.

Vivek Ramakrishnan: Sure Sir what is the quantum of the write-off pool that is what I wanted to know still remaining?

Sanjay Miranka: We will come back on that.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Sir my first question is you target to grow AUM about three times by FY2025. So right now we are almost March 2022 is completing so 2023, 2024 and 2025 if I am wrong there is three year target correct and March 2021 over the AUM was roughly about Rs.14000 Crores so from Rs.14000 Crores to Rs.45000 Crores roughly Rs.42000 to Rs.45000 Crores. so can you tell us from where this how do you see your AUM makes over a period of three years and how should we look at your company because it has seen a explosive growth correct what should be the milestones which one need to look at it say by March 2023 and then 2024 and 2025. Can you just take us through that and consequently as you grow from 14000 Crores to 45000 Crores your ROA from current level depending upon what kind of mix you are targeting how do you see that to move over the timeframe?

Vijay Deshwal: The way we are looking at our growth is on a steady state after 3.5 years or even three years, secured to unsecured mix of 65% to 35%. So we will be having a book of about 65% secured book which will constitute SME LAP, housing book, small ticket LAP and our pre-owned car finance and maybe a little bit of the machinery and the medical equipment loan. On the unsecured side we will have business loans, personal loans and loans to professionals there is a large category of the unsecured piece. This is how the mix would really look like. On AUM numbers and how do we traverse the distance from current 15228 to say about Rs.40000 Crores plus over the next three years: next year FY2023 we should be closing the book upwards of 21000 Crores and thereafter you can take the trajectory at a 30%-32% CAGR. One thing we need to understand that even as we speak today, we have reached a number of about 55% to 60% of our desired monthly run rate of disbursement and we are looking at almost 80% by the month of March. However, because we still have almost 3600 Crores of books which will continue to run down and that business we are not doing anymore so that does not allow a significant ramp up in the initial year or so. However subsequently as the new business lines kick in, these are the numbers that you can look forward to. In terms of ROA, we are at about 2.6% right now. We have stated that we will strive to achieve an ROA anywhere between 3% and 3.5% on a steady state over the next three years.

Rajesh Kothari: So you mentioned that you are at roughly I miss that number 60% percent of your desired monthly disbursement?

Vijay Deshwal: Yes.

Rajesh Kothari: So that desired monthly disbursement is basically you are saying target for FY2025 or I mean target for FY2024 or 2023? I mean when you say 'desired' means, can you elaborate on that?

Vijay Deshwal: FY23 is what I would expect you to know.

Rajesh Kothari: So for 2023 AUM of 21000 Crores which would also be some rundown impact and all that stuff what would be your target disbursement for FY2023?

Vijay Deshwal: You can safely assume somewhere around 12000 Crores for the full year.

Rajesh Kothari: 12000 Crores and what was your I do not have a presentation in front of me what was your third quarter disbursement?

Vijay Deshwal: About 1545 Crores of organic disbursement and total of 1845.

Rajesh Kothari: Total of eight so basically you are saying full year you are looking at 12000 Crores but of course there would be also loan repayment as well am I right so this would be on the gross basis disbursements what you are talking about?

Vijay Deshwal: See what we will do is we will engage more in person if you want to go through more of the details. What I have given you directionally because it will be unfair to really get into micro calculations on a monthly basis. So what you guys found is that we are targeting a monthly runrate of 1000 Crores per month by the month of say April and as demonstrated in the numbers itself we are already at about 550 Crores to 600 Crores.

Rajesh Kothari: Okay Sir my second question is with reference to the digital and the technology enabled kind of thing so can you tell us that total how many people are working under the digital what I would say the technology division of your firm and how you plan to further enhance the resources in this space?

Vijay Deshwal: On the tech team we have about 75 people who are deployed right now, on the digital piece we have about 25 people and these numbers on the digital may double from here so we may have a team of about 50 over the next three to six months and on tech also you can see that about 125 to 150 engineers are working on building a very strong tech stack. So that work has already started and these are the numbers.

Rajesh Kothari: Do you outsource a lot of technology app development etc., or you primarily do more of it In-house?

Vijay Deshwal: Everything is opportunistic and through the measure of go to market. So whatever we need and we need to definitely develop in-house we are working on those but if there is a need to outsource something to reduce the go to market we will continue to evaluate that and do it.

Rajesh Kothari: Perfect Sir I will come back in the queue.

Moderator: Thank you. The next question is from the line of Harshvardhan Agrawal from IDFC AMC. Please go ahead.

Harshvardhan Agrawal: Hi Sir thanks for the opportunity so just one data-keeping question I wanted to understand is there any overlap between the restructure book that we have and the RBI GNPA book that we said of Rs.550 Crores so is there any overlap between the two?

Vijay Deshwal: No.

Harshvardhan Agrawal: Okay so these two books are mutually exclusive.

Vijay Deshwal: Yes.

Harshvardhan Agrawal: Sure thanks a lot.

Moderator: Thank you. The next question is from the line of Tejas Mehta from Omkara Capital. Please go ahead.

Tejas Mehta: Thanks for taking my question so one question is if you can give us a breakup of the entire loan mix segment by segment?

Sanjay Miranka: If you look at the slide in investor deck, we have included a slide number #20. It talks about the security-wise mix of the book. Our book which is secured by hard collateral it was 34%, books secured by movable collateral was 61% and unsecured portion was 16% and as you can see, the book which is secured by hard collateral has been going up over the last five quarters and so is the case with unsecured.

Tejas Mehta: Yes I saw this slide but I wanted to understand how much is LAP, how much is home loan, how much is pre-owned cars all of those segments if you can give a breakup of that?

Sanjay Miranka: So maybe we can connect later so that we are able to address larger questions on this call.

Tejas Mehta: No problem Sir. The second question is you mentioned that your discontinued book AUM is about 3600 Crores?

Vijay Deshwal: Yes that is right.

Tejas Mehta: What is the NPA on this bucket?

Sanjay Miranka: The good part is that our discontinued book is behaving pretty well and with 24% of the book being discontinued otherwise you would not have seen the kind of collection efficiency and the bucket improvement which has been visible across the last few quarters. So even the discontinued book is behaving quite well. I would not have specific GS3 numbers for discontinued book but the collection efficiency even of discontinued book is quite healthy.

Tejas Mehta: Last question from my end would be on the on the tech and the digital platform now every lender these days talk about the tech and the digital platform that they have built including the fintechs as well as players, the bigger players in the NBFC space, what is it that you are doing differently versus the other players?

Vijay Deshwal: Let me share what is the mission that we have in terms of digital, what are our foundational principles and what exactly we are really doing and I will try to see if I can do justice to this question. We are looking at building digital and tech stack for delivering digital first. That is the clear vision. Deliver top quartile cost to income ratio by using digital. Digital has to eventually result into lower cost of acquisition and improved ROAs to help a branch light customer model that we have very clearly stated, which eventually also dabbles into a digital collection infrastructure and deliver a top 10 digital primary cost that is our ambition. Then what are the foundational principles of this: first and foremost through digital and tech stack, as I said our cost of acquisition has to be low. It can only happen if we achieve a significant decongestion in the processes and by decongestion I mean that we target almost 100% straight through processing for the onboarding of customers led or backed by automated BREs for quick decisioning. We also look forward to therefore engage with the partners who are equally sharp on the digital stack and who invest in the customer success. This overall will help us deliver the risk-adjusted growth that we have really taken an ambition on. To build a complete tech stack and a digital capability to deliver 100% STP will be a journey. However, our initial experience in terms of rolling out of 100% BREs across all the products we are seeing a significant traction significant reduction in TAT and improvement in terms of the decongestion. So this is the overall thought process on our tech stack. It will be a journey from where we are and to what we really aim at so basically we are looking at optimizing and automating through STP as we spoke about, to support the new product lines that we create and also integrate seamlessly with the partners. This will cut across not only sourcing, not only acquisition but also to underwriting and to collections. So that is the overall ambition we have and the journey has already started in that direction.

Tejas Mehta: Just one last question where you hire your talent for the digital team?

Vijay Deshwal: Actually see a little bit difference between the core tech stack teams and the digital. The digital is more from the ecosystem of digital which is there, how the markets have evolved over the last four-five years and that most of this talent right now it is sitting in Fintech and the like. If you look at tech, we are looking at hardcore engineers who have experience in product development in the large IT companies and also who appreciate the banking and finance part of it. We also encourage people who are at the beginning of their careers and who want to make a long-term career into a meaningful tech engagement. So that is our approach and we are getting a good response in terms of hiring and scalability.

Tejas Mehta: Great. Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Prashanth Sridhar from SBI Mutual Fund. Please go ahead.

Prashanth Sridhar: Sir on the various partnerships that you enter I wanted to understand two things, one is how do you differentiate yourself because every NBFC would be looking to partner with somebody like a Paisa bazaar for example and number two generally do these partnerships come with some sort of FLDG arrangements if you could highlight those?

Vijay Deshwal: Our idea of partnership Prashanth is as I mentioned earlier is to reduce the cost of acquisition and deliver a risk-adjusted return which is superior to our normal channel and also becomes complementary to our branch distribution network. In terms of how do we really identify or differentiate ourselves-, we will have two-way approach. One is that we are also clear that which are the partnerships that we want to enter into. We want to get in partnerships with the players who have almost similar ethos like us, who have in our opinion, while we may not be experts to comment on that but we make our own assessment on what is the longevity of this business model and what is the sustainability of this business model or the company that we are partnering with. In terms of our own ability and how do we differentiate ourselves is the speed of integration with their systems. That is where the largest differentiator. in the success of any partnership will be. How fast one is able to integrate, what are the basically the credit underwriting teams on both sides whether they are on the same page and the SOP is defined upfront to deliver almost 100% STP if I may call that. So these are the differentiators that we are looking at and we continue to. I shared with you that the very first partnership that we started has given us very good results basis these principles of operating.

Prashanth Sridhar: Sure Sir that was a pretty helpful and what about the FLDG portion?

Vijay Deshwal: I would not want to comment specifically on FLDG but we evaluate every partnership from the perspective of whether it is giving us the desired ROA or not so that is the single metric on which we measure any partnership.

Prashanth Sridhar: Just one data keeping points if I look at the organic disbursements of around 1545 Crores which product would take up a majority share and is there any disbursement to the discontinued segments?

Vijay Deshwal: So as we said, we do not disburse to the defocused segment. So that is very clear. The second part of the question- actually the disbursement ramp up has been pretty secular across all the segments whether it is pre-owned car, whether it is personal loans, business loans whether it is affordable home loan, everything has been growing at a pace what we had anticipated. So there is no disproportionate growth. As we have defined ourselves and what Sanjay was earlier mentioning in terms of a mix of secured and unsecured we also calibrate that irrespective of what could be the opportunity available at a certain point in time.

Prashanth Sridhar: Sure and lastly on the management front, are you like now done with the hiring or should we still expect some more hiring to happen?

Vijay Deshwal: The senior management hiring is pretty much complete across Fincorp and housing. The middle management strengthening is an ongoing exercise which will continue to happen depending on what opportunity, what kind of business do we really see in various geographies and various products. So that will be an ongoing exercise but for the senior leadership you may assume that it is largely complete.

Prashanth Sridhar: Sure great thank you so much and this has been helpful.

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

Tushar Sarda: Thank you for the opportunity so on slide #7 of your presentation you have given a vision to reduce cost of funds by 250 basis points. So would this result in increase in NIM that is question one, second is what is your current cost of borrowing and averaging yield on assets?

Sanjay Miranka : As far as the 250 basis point reduction is concerned, a reasonable part of this has already happened. so about 180 basis points across term loan and CC bank lines put together reduction is already there. Now obviously whatever reduction was carried out say in Q3, the full impact of that will get reflected over a period of time so we expect another 20 basis point of reduction in cost of borrowing in Q4 over and above 100 basis point which had happened in Q3 on normalized basis. The cost of borrowing like I said was 8% for Q3, the incremental borrowing is happening at 6.5%, we have about 2200 Crores of earlier borrowing in the form of instrument so that will run down over the next two to three years period but I think the amount will incrementally become insignificant with the growth in book and the incremental borrowing taking the larger share. In terms of our yield, in steady state should be between 13.5% to 14% and NIM should be in the range of 8.5% on steady state basis.

Tushar Sarda: Thanks a lot and I saw that you have not given quarterly balance sheet reason for that?

Sanjay Miranka: No, I think basically in an NBFC / lending business, the book and all the numbers which are important have already been captured. So there is no specific reason.

Tushar Sarda: Okay thanks a lot.

Vijay Deshwal: Also in case you want to understand more Tushar we can engage on a one-on-one or in case there are still any questions around that?

Tushar Sarda : I have been trying and I have been traveling actually I know Sanjay for a long time so I have been trying to visit but unfortunately it is not happening.

Thanks.

Moderator: Thank you. The next question is from the line of Agam Shah from Raj Trading. Please go ahead.

Agam Shah: Thanks for opportunity. I just had a simple question on the slide number #22 is as you say that as per the RBI circular an amount of Rs.550 Crores should be added to GNPA so the number we are seeing right now is it added or will it be added in the next quarter? How do you see this number?

Vijay Deshwal: It is already added in the GNPA reporting which has happened to the regulator. But we have to differentiate between bucketing and the GNPA to the regulator.

Sanjay Miranka : For an NBFC Ind-AS is the guiding accounting methodology so GS3 is a number which you can look at from the health of our book. GNPA number is also given in line with the circular.

Agam Shah: Okay so Rs.492 Crores is the GNPA which is on the current book as per your slide?

Sanjay Miranka : See our gross stage 3 is Rs.492 Crores .Because of the circular, GNPA number would go up so Rs.552 Crores will get added to this number to arrive at GNPA. However this Rs.552 Crores book is also behaving pretty well if you look at even stage one book a part of the stage one book is also featuring in this Rs.552 Crores and the collection efficiency of this Rs.552 Crores is 107% in December.

Agam Shah: So what will be the correct number to look at it?

Sanjay Miranka: See we have given all the numbers, we have given GS3, we have given GNPA. As far as the economic impact of delta increase because of the circular is concerned, there is no economic impact. We continue to carry provisions which are far higher as compared to IRAC provision requirement.

Agam Shah: Okay thank you.

Moderator: Thank you. Ladies and gentlemen due to time constraint we take that as the last question for today. I would now like to hand the conference over to Mr. Kunal Shah for closing comments. Over to you Sir!

Kunal Shah: Just prior to the closing comments I want to touch upon this last question on the regulatory norms so now when do we see it converging with these stage three so maybe it is like 3.8% or 3.91% extra GNPA so how much time would it take to converge and are we realigning the business processes and the ground staff to make this round that these are more technical and we should be okay with this kind of a collection efficiency which is there?

Vijay Deshwal: Kunal two ways to look at it. One is that these are basically regulatory reporting norms and these are two different accounting standards so staging and bucketing is more from a economic impact on the asset and the IRAC norms really consider about a certain way of classifying the assets. If we look at really converging, it may take next one and a half years to even see that if there is any convergence. In terms of the accounting standards, what we are following are Ind-AS norms. So frankly there will be always a difference in terms of GST and the GNPA numbers that you look at. What we have started doing, and that is anyways irrespective of the RBI clarification on harmonization of norms, is that we are anyways looking at zero bucket collection efficiency and that continues to improve and that is what we will continue to focus if that will help in a little bit on the regulatory reporting as well and as the product mix also changes, there will be some movement towards harmonization of these two but really you cannot ever compare these Kunal, and say that they need to necessarily converge.

Kunal Shah: The only thing was maybe almost 13% of Stage 2 is there so now when we look at stage 2 at 13% and this is 3.9% or so that is almost 30% percent of Stage 2 getting classified as GNPA?

Vijay Deshwal: I think Sanjay mentioned that we carry almost about 16% of provisioning cover in the Stage 2 which would be, safely assuming, highest in the industry. So we follow completely the process of expected credit losses basis the PD, LGD and we follow it and therefore we are confident that the economic impact of any of these things will be negligible.

Kunal Shah: Thanks a lot and thanks for patiently answering all the questions and articulating the medium-term to the long-term strategy and thank all the participants for now being there on the cal.

Vijay Deshwal: Thank you Kunal. Thanks everyone for a keen interest in participating in this call and look forward to a continued engagement with all of you through this forum as well as whenever there are any individual requirements for them. Thank you so much and have a good day.

Moderator: Thank you very much. On behalf of ICICI Securities we conclude today's conference. Thank you all for joining us. You may now disconnect your lines.