"Poonawalla Fincorp Limited
Q1FY2023 Results Conference Call"

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ANALYST: **MS. BIJAL THAKKAR – AMBIT CAPITAL**

MANAGEMENT: **MR. ABHAY BHUTADA - MANAGING DIRECTOR – POONAWALLA FINCORP LIMITED**
MR. SANJAY MIRANKA – CHIEF FINANCIAL OFFICER - POONAWALLA FINCORP LIMITED
MR. MANISH CHAUDHARI – PRESIDENT – POONAWALLA FINCORP LIMITED
MR. MAHENDER BAGRODIA – HEAD COLLECTION – POONAWALLA FINCORP LIMITED
MR. MANISH JAISWAL – MD & CEO – POONAWALLA HOUSING FINANCE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Poonawalla Fincorp Limited Q1FY2023 results Conference Call hosted by Ambit Capital. 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 Ms. Bijal Thakkar from Ambit Capital. Thank you and over to you Madam!

Bijal Thakkar: Thank you, Michelle.

It is our pleasure to host Poonawalla Fincorp Earnings Call. The company is going to represented today by

Mr. Abhay Bhutada – Managing Director - Poonawalla Fincorp Limited,

Mr. Sanjay Miranka – Chief Financial Officer - Poonawalla Fincorp Limited,

Mr. Manish Jaiswal – MD and CEO - Poonawalla Housing Finance Limited,

Mr. Mahender Bagrodia – Head Collection Poonawalla Fincorp and Mr. Manish Chaudhari – President - Poonawalla Fincorp.

Welcome Sir and I now handover the call to Mr. Bhutada – Managing Director to make opening remarks.

Abhay Bhutada: Thank you so much Bijal.

Good afternoon, everyone. Welcome to the Poonawalla Fincorp Q1FY2023 Earnings Conference Call and trust you are all doing good. So, let me take you through with the key highlights for the quarter.

I would like to start it by saying this has been a fantastic quarter for us. We have translated our strategy into execution and results are there for all to see.

- Our PAT increased by 118.3% YoY to Rs. 141 Cr.
- The AUM stands at Rs. 17,660 Cr up by 22% YoY.
- The disbursements increased 98% YoY to Rs. 3436 Crores.
- Our Cost of Borrowing reduced by 264 Bps YoY to 6.9%.
- Our NIMs grew by 155 Basis points YoY to 9.5%.
- In terms of asset quality GS3 reduced to 2.19%, down 319 Bps YoY while NS3 reduced to 0.95% down 176 Bps YoY.
- Our ROA improved by 155 Bps YoY to 3.4%.
- Our capital adequacy stood at 46.1%.
- We have created a management overlay of Rs. 224 Cr on legacy discontinued book.
- We initiated our capital market journey with maiden NCD issuance of Rs. 250 Cr.

Similarly on our Housing Subsidiary

- PAT increased to Rs. 30 Cr, up by 248% YoY
- AUM grew by 31% YoY to Rs. 5282 Cr
- Disbursements increased to Rs. 535 Cr, up 115.8% YoY
- GS3 & NS3 stood at 0.87% & 0.54% respectively down by 107 Bps and 71 Bps YoY respectively

Our **execution excellence** has ensured that this quarter has been better than last quarter despite Q1 generally being a muted quarter. Our **organic disbursement has seen secular growth quarter on quarter** since Q1FY22 and stands at around 80% of total disbursement in this quarter, as it grew 27% QoQ. The organic disbursements have grown from over last 3 quarters from Rs. 1295 Cr in Q2 FY22 to Rs. 1543 Cr in Q3, Rs. 2164 Cr in Q4FY22. In Q1FY23, we did Rs. 2738 Cr of organic disbursement. Strong disbursements on back of excellent organic disbursement growth is a validation of our business model.

During the quarter we have launched new products viz. supply chain finance and machinery loan and continued to witness traction from the existing product range. The AUM of focused products continued to register a healthy growth rate of 66.1%YoY and 13% QoQ.

With focus on Direct, Digital and Partnership (DDP) distribution model, the distribution stands very well diversified. DDP contribution grew from 17.5% to 34.1% QoQ.

With our continued focus on technology, we are on track to be fully digital across all our product lines. We have started seeing traction because of the same as we have become a lender of choice for our customers as well as partners.

Let me take you through to what we can expect over the rest of financial year.

1. **Growth Opportunity**: Despite disturbances on the macroeconomic front, India's economy looks far more settled with the systemic strengths remaining intact. The high frequency economic indicators of GST collections, PMI indicate expansion in economic activity. As indicated by banks double digit credit growth numbers in Q1 the demand for credit continues to expand. Also, in the consumer and MSME segments where we operate, there has been a revival in consumption as well as MSMEs business activity post pandemic. The company after its business transformation is well placed to capitalize on the systemic credit growth in the economy.
2. **Digital First**: We are constantly making strides in continuously redefining and strengthening our 'Right to Win'. We believe Digital capabilities to be a source of competitive moat, a tool for efficient operations and a driver of sustainable profitability. Since we initiated the journey 4 quarters back, our focus has been on instilling the culture of '**Digital first and tech led'** across all the functions of the organization. Digital capabilities for sourcing, underwriting, onboarding, collections, and customer service are in

place resulting in us delivering the best-in-class turnaround time and overall customer experience. This gives us our '**right to win'.** Our **fintech architecture and digital capabilities** makes us a **preferred partner** for other fintech players in the overall ecosystem and enables us to leverage the strategic partnership, to accelerate customer acquisition and to offer digital first products.

3. **Disbursements & AUM**: We have reached a monthly organic disbursement run rate in excess of Rs. 1000 Cr and so are on track to do disbursements in excess of Rs. 12000 Cr for the full financial year. This should help us increase our AUM by approximately 30% Y-o-Y basis, translating to more than Rs. 5000 Crores of AUM growth by the end of FY23.
4. **Cost of Borrowing & NIM**: On liability side, despite the rising interest rate environment & the consequent factoring of higher interest rates in the debt market instruments', we have been able to achieve 264 bps reduction in cost of borrowing YoY with cost of borrowing at 6.9% in Q1FY23. Though we can see some rise in cost of borrowing in the upcoming quarters, however we expect the overall cost of borrowing by Q4FY23 to be still lower than that for Q4FY22. Initiation of capital market borrowing, dynamic management of liability book, optimizing liquidity, and continued diversification of our liability book would help us retain our competitive edge in our cost of funds. Also, we are passing some part of the price increase to the customer which coupled with liability side will help us maintain our NIMs at about same level for the full financial year.
5. **Asset Quality:** We have seen a consistent decline over the last 5 quarters in both GS3 and NS3, which now stands at 2.17% & 0.95% respectively. We will continue our focus on reducing it further and expect the GS3 to be less than 2% and NS3 to continue to be less than 1% by end of FY23.
6. **Opex:** Our current Opex to AUM currently stands at 5.6%. As shared during the last quarterly call, we continue to invest in capability building across people and technology. With further

increase in activity level, we expect the same to reduce drastically from next financial year onwards.

7. **Consolidate, Grow & Lead Strategy:** We have been executing the strategy to the tee. Infact within first 6 months of acquisition our consolidation phase got over and now we have moved to growth phase in Q4. We continue to be fully committed to our articulated vision and strategy. This is ensuring that we are well on track to achieve our management vision 2025.

With key metrics of disbursement, AUM, Cost of borrowing, NIM and asset quality showing excellent performance, we are at the right place at the right time with the right aspirations.

We have worked across the functions to get a multiplier effect. We will continue our rigor on execution, *investment in people, building technology and a strong retail consumer franchise*. We are very confident of our trajectory ahead in FY23 & beyond, and well on course to deliver an exceptional performance in line with our management Vision 2025.

Thank you everyone and requesting Bijal to start the question-answer session.

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

Vivek Ramakrishnan: This is Vivek Ramakrishnan here. My question was on the product suite, you have increased the number of products that you will have, is there a single product that will be dominant in your product mix going forward or is it going to be split very much to all the products, on supply chain finance is usually a very low margin business, low ROE business, we have seen in the lot of other players, what is your strategy there, that is the second question, and the third question is, is there a cross sell opportunity given in a complete diversity in product range that we see, is there anything which is common across these products? Thank you.

Abhay Bhutada: Thank you so much. To answer to your first question on the product side, as mentioned in our overall management vision 2025, we want to be in top three consumer and the retail space wherein we have already mentioned in terms of loan to professional and in terms of pre-owned car, we are already in top three in terms of monthly disbursal rate in the NBFC segment and going further, all the retail products wherever we are operating, loan to professional, pre-owned car, consumer finance and business loan wherein we are targeting top three position, so these four products will be targeting going further and other products of course the growth will be year-on-year will be 25% to 30% but these three–four products wherein predominantly right now also we are preferred choice of lender considering our last 12 months of experience.

Second, answer to your second question on the supply chain side, as of now we have lot of partners who are contacting us as in terms of Co-Lending opportunity and we have already done integration with them, will be not able to disclose the name of the partner but yes we have onboarded two or three partners last quarter and we are getting good margin, so we expect this business to continue, though there is a lot of competition but the product proposition and the rate of interest because of our low cost of fund which we are offering and because of our tech capability, we are getting a preferred choice of option. Considering your third question, cross sell opportunity, so we are already doing lot of cross selling to our existing customer base, as we speak we have already crossed more than 6000 Chartered Accountant disbursement, in professional loan and personal loan also we are doing lot of cross selling, so we have started getting fee based income, insurance income and as and we grow, we have started organic disbursement in last four quarters considering the existing customer base of Magma and considering the new customer base, we are getting good traction in terms of cross selling and the way ahead will be we will focus, we will have exclusive team who is focusing on the cross sell, digital that is our DDP model wherein we focus on the digital side, so we are getting good traction on the cross selling, will be able to give you more numbers from next quarter onwards on the cross selling side.

Vivek Ramakrishnan: Thank you so much. We look forward and good luck.

Moderator: Thank you. The next question is from the line of Sonal Gandhi from Nirmal Bang Institutional Equities. Please go ahead.

Sonal Gandhi: Abhay Sir, I have a question on this management overlay position that we have created in this quarter, so what is your thought process behind it and secondly, how did you see credit cost for the entire year since we have such large positions you know that we are carrying in our book, Sir, if you could answer these two questions?

Sanjay: Yes, Sonal we have created management overlay of Rs. 224 Crores, this is the additional provision which we have created out of one time gain which we got by sale of Magma HDI shares, the provision has been created specifically for the discontinued book, so what it does that the discontinued book which is close to Rs. 2000 Crores on book, the provision which we were carrying was 9.3%, it has gone above 20% with this additional provision and we believe that basis the recovery expectations, we do not have to take any additional hit in the P&L. Also based on the expected collection efficiency, we are well placed to recover, in fact more than what we have already provided for.

Sonal Gandhi: Right Sir and how do we see credit costs coming for the year I mean also I am coming if you could give us some sense on the new book that you have generated over last one year, so any initial signs over there that what is the credit quality of that book in any slippages, some color on that and given both the things into factor, how do we see credit cost for FY2023?

Sanjay: Yes, absolutely. The entire new book across products which we are generating because we have made changes to the target customer segments, I think the experience so far has been fantastic, right from early bounce rates to eventual delinquency, we are not experiencing anything more than what we had anticipated, in fact actual experience is far for better than our initial business plan and our expectation in terms of credit cost is that on a steady state scenario, our credit cost would remain less than 1% because as you know that we have gone for a conservative provisioning and write off policy, so after taking that into account, we still expect credit cost to be less than 1% on steady state basis.

Sonal Gandhi: Even for FY2023?

Sanjay: Yes, absolutely.

Sonal Gandhi: Okay. Sir, another observation was our fee income has come down on a Q-o-Q basis wherein our organic disbursements have gone up, so what has happened over there exactly?

Sanjay: So, as you know Sonal that Q4 tends to be a heightened activity level though for us Q1 in terms of disbursement and overall activity level has further gone up, so there would be marginal change in fee income but overall, in terms of our ROA tree, in terms of profitability, I think we are well placed even for the rest of three quarters in the current financial year.

Sonal Gandhi: Understood and Sir, if you could just indicate what is the GNPA as per RBI circular?

Manish: Yes, so basically the GNPA percentage as compared to March 2022 has come down significantly, at consolidated level the GNPA as on June 30, 2022 is 3.6%, this number was 5.9% as on March 31, 2022 and similarly I will give you one more number which is net NPA, so NNPA which was 4% as on March 31, 2022 has come down to 1.9% as on June 30, 2022. So the entire trajectory and this is what is reflective of the conservative provisioning which we have followed since acquisition, the second is the kind of segments which we have gone into and the rigor around collection which has been put on ground, so across GS3, NS3 as well as when we talk about GNPA, NNPA, it is I think a fantastic story and we expect even in future both our GS3 and NS3 number to be much better in fact our expectation is that as we close this financial year, our GS3 number should be less than 2% and NS3 number in line with our 2025 vision less than 1%.

Sonal Gandhi: Understood, Sir if I could just please one last question, so the write off number I think it is somewhere around Rs. 90 Crores – Rs. 94 Crores for this quarter, so if you could just give what is the write off that is happening from the restructured book and from the normal book?

Sanjay: Yes, so the total write off has been about Rs. 105 Crores during the quarter, I do not have the breakup in terms of how much is from restructure and how much is from non-restructured book, but it is suffice to say that even our restructured book, first of all restructured book by itself has come down significantly, so right now the restructured book is at Rs. 619 Crores as on June 30, 2022 out of that about 45% is a zero-bucket book and on restructured book, we are carrying a provision of about Rs. 147 Crores. Again, our expectation is that our recovery would be in fact better than the net of provision book which we are carrying and hence broadly one does not have to see the restructured book and normal book in a different direction.

Sonal Gandhi: Sure. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Nikhil Rungta from Nippon India Mutual Fund. Please go ahead.

Nikhil Rungta: Thanks for the opportunity and congratulations on the numbers. Sir, two questions from my side. First is on the provision side, you indicated that you have taken these provisions for the discontinued book, last year if I remember we took similar I mean the amount was significantly higher provision on this existing book and in the past two quarters, we have been seeing that there are write back of provision despite our book being I mean on the upper trend, so do you think from these provision, we can see write back coming in over next few quarters as and when that book continues to trend down?

Sanjay: Yes, absolutely, so on prudent basis, Nikhil, we have made provisions and like we have said that we take pride in our collection infrastructure and we believe that whatever provision we are carrying in our books whether on restructured or normal book, it will put us in good space in terms of recoveries and yes one would always expect and work towards getting write backs out of the provision which we are carrying and like I said that we have been right since we acquired this entity, we have adopted a highly conservative provisioning and write off policy, so obviously when the policy is conservative and your collection efforts are completely onboard, definitely there has to be better write backs.

Nikhil Rungta: Okay and Sir my second question, is last quarter we announced capital raising plans in our housing finance subsidiary, so any update on that?

Abhay: So, Nikhil, right now we have appointed the investment banker and transaction as we discussed last time, it will be completed before end of this financial year, so will be able to give you more update once we start signing NDAs and may be quarter-on-quarter will give you the updates, so we have just appointed investment banker and now we are closing on IM and other activities.

Nikhil Rungta: Perfect. So, that is all from my side and all the best for the future. Thank you.

Moderator: Thank you. The next question is from the line of Shreepal Doshi from Equirus Capital. Please go ahead.

Shreepal Doshi: Congrats for the good set of numbers. Sir, my question was with respect to the focused book and rather the overall loan book, so in the overall loan book, 30% is from the mortgage business, what will be the largest five segments for us on the overall loan book because we have not highlighted that so if you could throw some light on the larger side segment can you give some color with respective of the percentages and who would be our peers in each of the landscape?

Sanjay: Yes, so thank you so much, the largest segment for us if you look in terms of the customer segment, the two segments which we continued from erstwhile organization one is the pre-owned car where even erstwhile it was one of the leading organization and we have in fact infused the trajectory of business as far as the pre-owned car is concerned, yes the segment we have gone too far more formal segment as compared to what it used to happen earlier, so pre-owned car is clearly one strong segment for us and the second segment is the affordable home loan, so we are one of a few pure play affordable home loan company in fact with CRISIL and CARE AA+ rating, I think that puts us into the top league as far as the affordable home loan business is concerned, so these two are the segments which we are continuing from the earlier avatar. Now the two large segments which we have added to this is one is the unsecured products, now unsecured again this is the segment which is not new to us as a group because as Poonawalla group, we had started off as private limited company, it is a separate company Poonawalla Finance Private Limited, for about two years, we were doing digital lending in unsecured space and the products were personal loan, loan to professional and business loan. The best part is that the entire two and a half years period of Poonawalla Finance coincided with pandemic, despite that the performance of the book was extraordinary and now with another year of experience in Poonawalla Fincorp, so we launched unsecured product in Q2 of last year and now we are seeing the traction across the product lines month-on-month and to our liking, we talked about the performance of this book again is better than what we would have expected, so basically again an unsecured while it is year old product as far as Poonawalla Fincorp is concerned but we have experience of three years in the unsecured space, so that is the third vertical. Fourth vertical which we added in Q3 of last year, it is the loan against property segment, so this is where we are again targeting a high-quality credit worthy formal segment. So, these are the four large verticals which are there, now there are few product variants I would say we have launched which is the machinery loan, medical equipment loan and supply chain finance and then going forward, we are going to launch products on consumer durable side, we will launch on merchant card advance side as well as we are exploring what is going to be the best play, what should be the best play in the EMI card and credit card segment. However, the existing as well as the new product which we have already launched it should basically even on a steady state scenario should give us 90%+ of our business, so broadly our targeted bouquet is already there as offering to our customers. Now, in terms of overall secured and unsecured, so you asked about the mix, so right now we are having a mix of 76:24; 76 being secured and 24 being unsecured. On a steady state scenario that mix would be somewhere around 60:40 or 65:35 as things play out and as we become get more experience of new products in the market etc., will look at optimizing the mix.

Shreepal Doshi: Got it. Thank you and in POC I think we have been fifth of the sixth largest player there, and in an affordable highlighted it is third or fourth largest to be lender there, in the unsecured product segment, so who would be our predominantly competition?

Manish: Shreepal, all the NBFCs who are doing this lending, we compete with them to name a few, the likes of Bajaj, Tata Capital, Aditya Birla Finance, I think these are typically the players who are present in this segment, having said that we really look at ourselves being specifically focused on the formalized income segment here and that is where the differentiation comes in, I think even on the unsecured side, we have a huge spectrum which is available, we cater to the top most spectrum here. We are catering to those who are actually having some credit history available with them, they are not new to credit per se and specially on the business loan side of it, these are people who are covered under the GST regime for us to be able to underwrite them based on the cash flows there.

Sanjay: Just to add on POC side, we are amongst the top two – top three players in the NBFCs space and this is when we have within POC, we have identified super credit worthy segments, so for example, we do not do commercial side of pre-owned car finance even then we are among the top two – top three players in the NBFCs.

Shreepal Doshi: Right. I think the fifth is including the bank, right?

Sanjay: Yes, absolutely.

Shreepal Doshi: Sir, one question with respect to the disbursement, so in the last four quarters we have disbursed mostly Rs. 11000 Crores – Rs. 11500

Crores disbursements, so how has been the slippage for that particular fresh disbursement that we have done, if you could give some qualitative color or some numbers there, will be very helpful?

Manish: So, Shreepal in terms of the fresh business that we have done I think as Sanjay outlined it earlier, the performance has been better than what we have budgeted for, there are no slippages which are beyond the expectations that we had, even on a new portfolio basis the way if I look at it on the early vintages on their zero plus, 30+, I think we are way beyond what typically the numbers in the industry are, on the bounce rate as well which is the first level of indicator that we get, we are in low single digits there, so I think the performance for all the portfolio is phenomenal, I think currently on a consolidated basis if I look at the entire book that we would have originated over the last 12 months our 30+ would stand sub 0.3%, which will be the best in class today.

Shreepal Doshi: Sir you said 30+ would be?

Manish: Sub 0.3%.

Shreepal Doshi: Okay, got it. Just last few data questions, on the balance sheet if you could give us the borrowing number and net advances number like earlier, we used to give the entire balance sheet, so just a request if we could continue with that disclosure.

Sanjay: Yes, I think balance sheet numbers primarily there are two numbers, one is the net worth and second is borrowing from NBFC standpoint, right and yes, we can include that slide again from next quarter onwards, as far as our total borrowings is concerned, our total borrowings has been in the range of Rs. 10,800 Crores, this is consolidated number and the net worth Rs. 6235 Crores.

Shreepal Doshi: Okay. Thank you so Much Sir.

Moderator: Thank you. The next question is from the line of Harshvardhan Agarwal from IDFCA Mutual Fund. Please go ahead.

Harshvardhan Agarwal: On the write off of Rs. 105 Cr that we had this quarter wanted to understand where this write off is coming from which segment?

Sanjay: Yes, so the entire write-off has been coming from legacy book and majority of them has been either from pre-owned car segment and the asset with financing which we have discontinued, so for the largest portion is coming from asset based finance which is a discontinued book then it is pre-owned car and then in erstwhile organization there used to be some kind of SME financing, so it is coming from there and a very small amount is coming from affordable home loan piece.

Harshvardhan Agarwal Right, so when you say the most portion is coming our legacy book, it is the Rs. 2300 Crore loan book that we show currently, is that from there the write-offs are coming from?

Abhay: Yes, so Rs. 2300 Crores is the balance book from the existing product line which we have discontinued and out of that more than 50% book stands in zero bucket and for the remaining of the bucket, we have provided enough provision earlier also and currently because of the one-time insurance gain sale, we have provided additional management overlay of Rs. 224 Crores, so from that perspective though it is a policy write-off, we have changed the policy write-off at the time of Magma acquisition, we have done 90+ unsecured write-off and 180+ secured write-off, so we are not expecting any single rupee loss from the balance legacy book of Rs. 2300 Crores because of our extra provisioning, which we have done towards the legacy book, and we are continuously writing off every quarter, it is only policy write-off every quarter on 90 and 180 basis.

Harshvardhan Agarwal: Sure, and so just wanted to understand the provision movement between the number that were put out in ECL and the number that we have put out in the P&L because ECL has grown by around Rs. 100 Crores but in the P&L has a negative number, so if you can just reconcile that?

Sanjay: So, basically Harshvardhan as you know what happens is the book which we would have written-off the book which part of it would have been sold off, so all of that book would be carrying much higher provision and this only shows that the legacy book has come down significantly as a proportion to the total book and with the new underwriting being in high credit segment the ICL provision obviously ought to come down.

Harshvardhan Agarwal: Right sir but just wanted to reconcile the numbers as in the ECL, the total provisions have grown by Rs. 100 Crores and in the P&L, we have taken a provision write back, so just wanted to reconcile those numbers?

Sanjay: So, the provision write-back, basically the measure of the difference which you are seeing in recon could be because of one time provision which you have made of Rs. 224 Crores and write back whatever have taken we have not taken any specific write back of provisions, whatever has got written back basis the performance of the book has got written back.

Harshvardhan Agarwal: Okay. Sure and Sir one last question on our new product, we see that we have mentioned credit cards as one of the products in our PPT, so this product is it like we are going do a co-branded credit card or it is like we are going to issue credit cards on our own?

Abhay: Initially, we were exploring the co-branded credit card but now we are exploring both the options, we are waiting for the further clarification from the regulator side because we just received last quarter the new guidelines, so now we are exploring and within one or two quarter, we are going to decide internally whether we will go ahead for the co-branded card, or we will launch on our own.

Harshvardhan Agarwal: Okay, so basically, we will have a clarity during the course of the financial year?

Abhay: Yes.

Harshvardhan Agarwal: Perfect, sure. Thank a lot. All the best.

Moderator: Thank you. The next question is from the line of Jignesh Shial from InCred Capital. Please go ahead.

Jignesh: Thanks for the opportunity. I think I missed out one data point that already has been you answered to previous question, can I get a bifurcation of your liability side with your borrowing is it also that it is possible to give us about your PHFL?

Sanjay: Yes, you are asking bifurcation between the two entities?

Jignesh: I am asking for borrowings bifurcation, so between capital market bank borrowing securitization whatever you would have done on a consolidated as well as on standalone basis?

Sanjay: Understood, so basically first of all because we are highly capitalized company and then equity becomes a very important component of our total liabilities, so Rs. 6235 Crores like we called out is coming from equity and thereafter there is the entire piece of the term loans and CC lines from banks, so that accounts for about close to Rs. 1000 Crores, we have fixed rated debt of about Rs. 2500 Crores so that makes it to the total borrowing for across both the company.

Jignesh: This fixed rated will be what, capital market borrowings or how will it be?

Sanjay: The fixed rate debt is capital market borrowing, obviously see part of this borrowing has been there for the time since we acquired this company now that number would be close to Rs. 1800 Crores and obviously that number over the next 12 to 15 months will come down by 80% that will again give the opportunity for us to reprice and then replace it with lower cost fixed-rated liabilities.

Jignesh: Okay, understood, that is useful. Second question I had was, you said ignore my apologies for my bit of an ignorance, but you said there is a Rs. 1000 Crores plus a legacy book, right which you gradually have to write it off and all and you have created certain provision against it and you are expecting a write back also from it, is my understanding correct?

Sanjay: Let me clarify it, so there is a discontinued book, so there are certain products which were being done by Magma earlier because of we having to do cash collection and as a policy we do not want to get into a business where we ourselves have to do any kind of cash collection, now that is the book which we call as discontinued book, the total book is about Rs. 2300 Crores out of which on book is Rs. 2000 Crores, on Rs. 2000 Crores we were carrying a provision of 9.3%, we have increased that provision to 20% plus, so there is an additional 11% provision which we have created, and this is the number 11% is equivalent to Rs. 224 Crores of management overlay which we have created, now obviously on prudent basis looking at the recent experience, bucket movement, etc., and because the book has also become vintaged, right, so and that is where we thought it appropriate to create this one-time provision, given our collection franchise and the rigor on collection obviously the objective is that we do not have to utilize that provision completely and basis our actual collection performance on discontinued book, yes one would always love to have some write backs.

Jignesh : Understood, this is quite useful and lastly just understanding more on your business strategy side, I understood that you have created already pretty niche for yourself on the pre-owned car segment and you are already entering into you know entering new lending segments all together definitely this all segments have been pretty competitive whether it is Bajaj or even as you say Tata Capital or any of the players around, so what is the niche that basically Poonawalla is trying create to make sure that there is a legacy customer coming to you and basically the customer base it means little stickier that is first and number two, is it specific to any geographies where you are expanding pretty heavily or you are saying, so if you can just give a brief about the kind of customer profile you are handling and what is least that you are specifically doing if you can highlight that, that would be really useful to us?

Abhay: Thank you so much, good question. From the existing products if you see either it is a pre-owned car or business loan or personal loan, professional loan or any of the product, in most of the product, we follow customer select segment wherein with the help of data analytics team, we have started targeting the customer, as of now the targeted customer is the top rated customer, most of our customers fall 750+ CIBIL score, they are in formal income segment in terms of business loan, cash flow based lending, GST based lending, that is the reason just now as informed by our colleague after 12 months of seasoning 30+ is 0.3 and we do not expect any additional changes in that overall range and the credit costs again we are expecting will be less than 1 for rest of the financial year. So, the difference basically the USP here is as compared with the top three NBFCs or even some of the banks, one, we are giving the customer experience like a Fintech, the product proposition what we have, the transparency, the legacy which we carry from the overall Poonawalla group, the ethics and the principle, so there are no hidden charges, so I think that is giving us good advantage, if you see professional loan, as we speak we have crossed more than 6000 Chartered Accountants, which is around 2.5% to 3% of the total Chartered Accountants based in India and entire 100% paperless process there is no single signature required, so all the professionals, customers in personal loan segment, business loan, they are giving us first choice of preferred lender in NBFC space, monthly, we are doing constantly since last four months - five months we are crossing Rs. 110 to Rs. 120 Crores in terms of professional loan, CA's and Doctor and this is all digital acquisition, this is all direct acquisition, we do not have any kind of direct selling agent, so we save on the onboarding cost because of the low cost of funds, we are able to match with the top private bank even if we are with the top two NBFCs and considering our telephonic discussion and the internal survey, so 90% of the customers, their balance transfer from the mid-size NBFC or the mid-sized bank and more than 50% is a fresh lending to them, so overall customer proposition, customer experience, user experience to them and from the day one thought process was we have started targeting a customer like a bank, we started behaving like a bank in terms of lot of other transparency, so I think we have done much, much better than our expectation. So, that was the answer to your question that why we are different as compared with other NBFC, after two or three quarters, you will get to know, the segment wise reporting we will start, so we will get fair idea. Second with regards to the location, as of now we are a PAN India player depending on the opportunity we are open for any location because of our digital and the strong collection infra, we do not see any challenge in terms of location, With the data analytics team, we have enough team available as of now, we have strengthened that team during the last two - three quarters, so we do not see any major issue in terms of location, right now we are covering more than 250 locations for most of our products.

Jignesh: Understood and just lastly one more, just wanted to understand like if I see your consolidated business, your ROE is somewhere around 3.5% or 4%, correct and that we are only seeing an improvement of around 155 bps Y-o-Y and all, so what is on a consolidated business because you already have a housing subsidiary definitely there the overall ROE is relatively lower standalone would be definitely higher but what is because ROE is because we are loaded with excess capital right now will take bit of its own sweet time but what would be your thought process over what kind of sustainable ROA over the period of next three years, not immediately but over a period of say by 2024-2025, you will be targeting to achieve and considering the 9.5 which is substantially good and considering you already have a pretty decent liability franchise you built in, what would be the contributor in case if you are thinking about it expanding into an ROA at all, what do you think steady state business would be something you would be looking to sustain, any guidance or any thought process on ROA, that will be helpful?

Abhay: Sure, as you rightly pointed out as we leverage, current leverage is less than 2, so ROE will take time once we cross three or four leverage that will be the right point to look at that but in case of ROA for the current financial year, it will be above three in the range of 3 to 3.5 and on a steady sustainable basis, anything between 3.5 to 4, which we would like to see two year down the line.

Jignesh : Understood, so now incremental ROE suppose if I assume that another 25 bps – 50 bps if you want to achieve it, will it be more of a deep expansion whereby you will be getting into more lucrative products it all together or you would be thinking about because anyhow provision is not a concern for you at least at this point of time and all, so considering that the steady state business, you maintained your book well, so will it be a deep expansion that you will be looking out for or are you down thinking about cutting down the opex or something like that, just thought over it?

Sanjay: Yes, so see our reported ROA is 3.4% for the quarter, normalized ROA is 3.1% and like Abhay said on steady state, the objective would be to get to the ROA 3.5% to 4% now as far as the NIM is concerned, I think our legacy book because of the customer segments it was operating into, right it was at a much higher yield as that book keep coming down while during the current year, we expect NIM trajectory to continue but on a steady state basis, the NIM level could be lower than 9.5, however, there is a significant amount of operational efficiency which will kick in and that is where we expect from normalized ROA of 3.1% for Q1 on a steady state basis we expect this ROA to improve further.

Jignesh: Perfect, this is really helpful and just for my knowledge, has Hiren from Bandhan has already joined you guys or is likely to join now?

Sanjay: Yes, he has joined so Hiren Shah, he heads our Investor Relations.

Jignesh: Okay, perfect. That is really helpful and all the best Sir. Thank you so much.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Ms. Bijal Thakkar for closing comments.

Bijal Thakkar: Thank you, thank you Sir, thank you Mr. Bhutada, thank you Manish for being on this call and Michelle, you can now end this call.

Moderator: Thank you. On behalf of Ambit Capital, that concludes this conference.