"Poonawalla Fincorp Limited Q4 FY2022 Earnings Conference Call"

May 13, 2022

ANALYST:	**MR. AJIT KUMAR– AMBIT CAPITAL**
MANAGEMENT:	**MR. ABHAY BHUTADA - MANAGING DIRECTOR – POONAWALLA FINCORP LIMITED** **MR. SANJAY MIRANKA – CHIEF FINANCIAL OFFICER** **MR. MANISH JAISWAL – MD &CEO – POONAWALLA HOUSING FINANCE** **MR. RAJIVE KUMARASWAMI – MD & CEO – MAGMA HDI GENERAL INSURANCE** **MR. MAHENDER BAGRODIA – HEAD COLLECTION - POONAWALLA FINCORP LIMITED** **MR. MANISH CHAUDHARI – PRESIDENT - POONAWALLA FINCORP LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Poonawalla Fincorp Limited Q4 FY2022 Earnings 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 Mr. Ajit Kumar from Ambit Capital. Thank you and over to you Sir!

Ajit Kumar: Hello! Everyone, welcome to Q4 FY2022 Earnings Call of Poonawalla Fincorp Limited. Today we have with us the entire senior leadership team led by Mr. Abhay Bhutada – Managing Director Poonawalla Fincorp Limited, Mr. Sanjay Miranka – Chief Financial Officer, Mr. Manish Jaiswal – MD and CEO of Poonawalla Housing Finance, Mr. Rajive Kumaraswami – MD and CEO of Magma HDI General Insurance, Mr. Mahender Bagrodia – Head Collections and Mr. Manish Chaudhari – President, Poonawalla Fincorp Limited.

We will start with the opening remarks from the management and then we move to question-and-answer. Over to you, sir!

Abhay Bhutada: Thank you so much Mr. Ajit. Good afternoon, everyone.

Welcome to the Poonawalla Fincorp Q4 FY22 Earnings conference call.

I will take this opportunity to wish and hope for a safe and happy period ahead for all of you.

During this call we will first summarize the business environment in which we are operating and then take you through Poonawalla Fincorp's FY22 journey of consolidation phase involving acquisition, integration, business transformation, tech, digital turnaround along with consolidation of people, processes and products.

As we look back at the outcome of the phase, we are very optimistic and confident about the company's prospect going ahead and the growth trajectory the company would see in FY23 and beyond. But before I talk about the business, I must outline the current business environment in which we are operating.

On the macroeconomic front, the inherent economic strength and potential growth for India continues to remain robust this is indicated by all-time high GST collection number in the month of April, world's highest GDP growth projection for India during FY2023 by IMF and the sharp business expansion visible in April PMI numbers.

The company by virtue of its inherent strength and the in-place growth levers is well placed to ride the rising credit growth that lies ahead for the economy. Though the monetary tightening by RBI and threat of unexpected inflation may act as headwind into the growth front of the economy and credit demand. However, we as a company are well prepared to manage the rise in the borrowing cost. The removal of accommodation by RBI is an expected event to control inflation and this has been factored into our business. The extent of borrowing cost reduction and re-pricing done by us last year holds us in a good state to ensure marginal decline to flat borrowing cost in FY23 as against Q4 FY22.

The company would continue to diversify its funding sources and liquidity pools to optimize the borrowing cost. FY23 would see the full benefit of 100% term loan re-pricing done till FY22. The geo-political risk has also risen driven by the Russia – Ukraine war. However, back at home, so far, we have not seen any major setback to domestic business condition, we expect that the structural factors to drive the retail credit growth, the growing acceptance of credit, rising internet and smart phone penetration, consolidation of marketplace in favor of digital aggregators and untapped credit needs of retail as the MSME sector.

FY22 has ended on a very positive note for us with all the basics in place and momentum by our side. I will give a quick update on key metrics and later our CFO Mr. Sanjay Miranka will cover the same in detail.

Disbursement stood at Rs.9494 Crores up 158% year-on-year. AUM stood at Rs. 16579 Crores up 17% year-on-year, 9% quarter-on-quarter. Average cost of borrowing reduced by 215 BPS over Q1 FY22, while GS-3 and NS-3 stood at 2.7 and 1.1 as of March 22, down from 3.5 and 1.8 quarter-on-quarter, respectively. The NIM stood at 8.9% for FY22 up from 8.2% FY21. While PAT stood at Rs.375 Crores, our return on assets stood at 2.5 for FY22 and the capital adequacy which is quite comfortable, as of now it is at 49.5% on March 2022. We continue to hold management overlay of Rs.140 Crores which is 0.8% of our AUM. With this we are at the cusp of moving from consolidation into the growth phase. With all growth levers in place we are confident of our trajectory ahead in FY23 and we will continue with our execution excellence to deliver our management vision 2025.

We believe our digital first tech led strategy is a source of economic moat which brings operational efficiency and will lead to sustained profitability. Being digital to the core, at the start of the year we embarked on an end-to-end digital transformation across sourcing, sales, under writing, customer on-boarding, collection, and customer servicing. Within a record time we have implemented this state-of-the-art LOS, LMS, CRM platform, launched new optimized website with a seamless integration to our back-end systems. We remain committed to it, and we will continue to invest in people and technology capability building for business transformation.

A couple of developments that I want to highlight, recently the board of directors of the company on May 12th, 2022, have given an in-principle approval to raise funds for PHFL subsidiary and a dividend of 20% on the face value of the share subject to the shareholders approval. The housing subsidiary has almost doubled its AUM in last two years, crossed Rs.5000 Crores of AUM in March 22. The proposed capital raise would not exceed Rs.1000 Crores and would be used for business expansion, presence enhancement and fund the AUM growth. This growth capital infusion we believe will place it well to grow at CAGR of 25 to 30 % and we will be able to achieve Rs.10,000 Crores AUM in housing subsidiary by 2025.

Thank you everyone and with this I hand over to Manish Jaiswal – Managing Director and CEO, Poonawalla Housing to take us through the housing subsidiary update.

Manish Jaiswal: Thank you very much, Abhay. Coming to Poonawalla Housing Finance Limited, over the last four years the institution has emerged as a leading affordable housing finance company with a focus on low-income group and contiguous markets across semi-urban, peri-urban locations across 128 branches in 20 states.

The company has a national presence, a granular retail portfolio with an average ticket size of Rs. 11 lakhs per customer and the customer expansion has been four times over last four years and currently it stands at around 46000 customers. The company has recorded 29% CAGR growth over last four years.

The affordable housing finance franchise has been consistently built with a relentless focus on imparting our mission “dignity of living” to our customers by serving them directly through our mission of “Go HL and Go direct.” The company’s business model has undergone significant transformation over the last four years and our on book affordable home loans stands at 69%.

The financial year ended March 2022 has been momentous for the organization as Abhay just mentioned, the company went beyond the mark of Rs.5000 Crores to close the year at Rs.5060 Crores with almost 27% AUM growth. The disbursals increased by 57% over the last year and stood at Rs.1970 Crores and the disbursal for the last quarter alone stood at Rs.797 Crores. 77% of our business has been sourced directly.

The earning asset book in fact ran ahead of the AUM growth and stood at 46% increase over the last year and the ratio of earning assets to total assets has sharply risen from 73% to 84% of the AUM in the current fiscal. Poonawalla Housing delivered its highest ever profit before tax of Rs.101 Crores against Rs.14 Crores last year and the RoA of the company stands enhanced from 0.3% last year to this year at 1.8%. The PBT for the quarter enhanced from previous quarter of Rs.28 Crores to the last quarter of Rs.36 Crores.

The company’s business model of high margin, high growth and most importantly high quality has seen three stress shocks of the pandemic and has shown resilience to bounce back with collection efficiency for the quarter at 98.9% against 97.6% for the previous quarter. The company recorded its lowest ever gross stage-3 asset at 0.96% at the end of FY22 and it has a robust PCR at 27.44% for stage-3 asset and it has overall provision at 1.7% of the loan book. Poonawalla Housing Finance has been assigned the eminent long-term CRISIL ratings of AA+ stable.

The company’s cost of borrowings saw a sharp reduction of 230 basis points from 9.1% at the beginning of the year to end the year at 6.8%. The company has no short-term borrowings and all

ALM buckets are positively matched, and it carries a liquidity of Rs.1100 Crores in form sanction limits. During the year, the company has received a fresh sanction of Rs.725 Crores from National Housing Bank and the overall fresh sanction of Rs.3675 Crores.

Overall, in summation the last year performance of the Poonawalla platform saw many numerous institutional milestones both financial and non-financial being met and the company is poised to build further momentum from here with a sharp focus on quality vectors of growth. We are grateful to our investors, customers, employees, bankers, business partners and most importantly the regulator for placing their faith in the institution and supporting the mission of dignity of living to the affordable housing segment.

I now hand over to Manish Chaudhari – The President of Poonawalla Fincorp from here on. Thank you.

Manish Chaudhari: I will quickly take you back to our strategy that we announced when the acquisition happened of consolidate, grow, and lead. Coming to the FY22 journey of Poonawalla Fincorp consolidation phase, we have been able to successfully plant all the levers of growth during FY22 to achieve our goal set for FY23 and beyond.

We could witness the momentum starting from Q4 itself which is the highest ever monthly disbursement in the month March for our continued products of used cars and home loans. Our unsecured offerings including digital BL, PL and LTP which were rolled out during the Q2 of FY2022 also scaled up during the year and recorded their highest monthly disbursement in March22.

We made an addition of digital consumption loan product to our 100% retail product portfolio in March through the partnership mode. The housing finance company subsidiary PHFL which is a pan India pure play affordable housing finance entity crossed the Rs.5000 Crores AUM milestone during March. It also delivered the highest disbursals, highest ever AUM, highest PBT and the lowest ever GS3 during FY22.

The company's focus on retail and small business segment aided by the digital and technology backed product offering and backed by robust balance sheet gives us an edge over others in tapping the structural credit growth factors.

The positive developments like leader board entry in POC and LTP on monthly disbursement basis, further strengthening of the retail product offerings and sustained scaling up of the affordable housing subsidiary makes us confident of achieving our 2025 vision of becoming the top three NBFCs in consumer and small business finance.

The Tech integration with partners via API sharing and CRM extension has led to a seamless flow of information. The Straight through processing enabled by business rule engine has led to a quick decisioning and consistency. Digital on boarding using digital KYC, the digital mandate, emandate, e-application, e-contract, and disbursement have enabled smooth on-boarding and enhanced experience for all our consumers.

As a result, the end-to-end turnaround time has seen substantial reduction over the quarter and is now amongst the best in the industry. We also created an in-house contact centre to ensure we offer excellent customer service that focus on first time right resolution. The quick loan turnaround combined with the end-to-end digital journey, digital engagement with customers and focus on overall experience makes us a truly customer-oriented organization focused on bringing customer delight.

Our Fintech architecture and digital capabilities make us a preferred partner for other fintech players in the ecosystem and enable us to leverage the strategic partnership to accelerate customer acquisition and to offer digital first products. We have also made the onboarding journey of our channel partner more seamless via digital on boarding with less than a day of turnaround.

We also continue to invest in our data mining capability to leverage data analytics across sales underwriting and collections. As India continues to grow in a digital way, we at Poonawalla are committed to remain digital first and a Tech led organization to the core. In line with it we will continue to make deep investments in technology to drive the economies of scale, productivity and build up profitable digital first tech led franchise.

We have further strengthened our distribution pillars of digital, direct and partnership DDP as we call it, our distribution strategy focuses on DDP, and we would continue to seek this ROA accretive opportunities to tie up with the likeminded digitally focused market players having scale and the right risk management practices.

The disbursement contribution of the DDP channel stood at a healthy 17.5% in Q4. The API backed integration with partners allow us seamless sharing of data and gives us an edge in partnering with Fintech as well other digital players in the marketplace. The contribution of partnerships in the pre-owned car disbursement has more than doubled in Q4 of FY22 over Q3 of FY22. The pre-owned car marketplace is undergoing consolidation in favor of digital aggregators, and we expect to seize further disbursement traction as the trend intensifies. Also, with the rise in customer acquisition we expect cross sell to act as an ROA kicker for us. Our disbursements from cross sell have increased 28% quarter-on-quarter during Q4 FY22, there also has been an exponential rise in leads generated from digital marketing, with 10X growth in Q4 alone. We expect the funnel optimization to make it a significant contributor in the coming quarters.

Risk management is the most critical piece for our business. Post-acquisition we tightened the underwriting standards, front ended the write offs, followed the most stringent write off policy and placed the conservative portfolio guard rail using analytics for quality optimization and also monitored early warning signals for our portfolio. As a result, our asset quality significantly improved, and we have been able to bring the net stage-3 at 1.1% as on March 2022 which is amongst the best in the NBFC space.

Our portfolio remains well within the set guardrails. The portfolio we have on boarded post the acquisition has been performing much better than the earlier portfolio on-boarded in terms of the early indicators of bounce rates, the zero plus delinquencies and the 30 plus delinquencies. We also witnessed substantial rise in collection efficiencies with the March figure at 108.4%.

With fall in cash collection account a need for branch infra has also come down. Our branches stood at 242 as of 31st March 2022, down from 297 in March 2021. Gujarat, Karnataka, Maharashtra, and Tamil Nadu are the areas where we opened branches during the year. The consolidated AUM remains well distributed geographically.

People and operations consolidation has been another focus pillar for us. We increased the employee coverage under ESOP policy. We are now focusing on "Future Ready Human Capital Initiatives" and are investing in culture building, L&D and productivity enhancement programmes.

Over to Sanjay, our CFO to take up through the financial performance.

Sanjay Miranka: Thanks Manish. Good afternoon everyone, I am pleased to share the financial performance update for Poonawalla Fincorp Limited, for the financial year FY2022 and Q4. Consolidated AUM grew by 16.5% year-on-year and 8.9% quarter-on-quarter and stood at Rs. 16579 Crores as on 31st March 2022. AUM of focused products grew at a faster rate of 64% year-on-year and 17.3% quarter-on-quarter which is highly encouraging.

The discontinued book now stands at 17.9% of our consolidated AUM and we expect it to run down over the next 18 to 24 months. During the month of March 2022 our housing finance subsidiary crossed Rs.5000 Crores AUM mark, PHFL AUM stood at Rs.5060 Crores as on 31st March 2022 going by 27.2% year-on-year and 10.6% quarter-on-quarter. We saw good traction in all our active product lines and witnessed the highest ever monthly disbursements across all our products.

Total disbursement for Q4 stood at Rs.3336 Crores showing a growth of 80.8% quarter-on-quarter. FY2022 disbursement stood at Rs.9494 Crores and grew at a robust 158% year-on-year. Q4 NIM improved to 9.5% vis-à-vis 8.8% for Q3 FY2022, an increase of 77 basis points whereas the FY2022 NIM stood at 8.9% an increase of 65 basis points year-on-year. The consolidated profit after tax stood at Rs. 375 Crores for FY2022 as compared to a loss of Rs.559 Crores in FY2021.

The ROA stood at 2.5% for the full year, the Q4 ROA was at 3.1% with quarter-on-quarter rise in each quarter during FY2022. The board of directors has also recommended a dividend of 20% in the very first year of our operations post acquisition. The normalized cost of borrowings for FY2022 after adjusting for one off pre-payment charges in Q3 comes to 8.5%. The average cost of borrowings for Q4 was 7.4% a sharp reduction of 63 basis points over the normalized average cost of borrowing for Q3 FY2022.

During Q1 FY 2022 we framed the management vision 2025 including 250 basis point reduction in cost of borrowing. I am happy to share that we have already achieved 215 basis point reduction in average borrowing cost between Q1 and Q4. During the Q3 call we had guided for 50 basis points incremental reduction in Q4 over and above what was achieved till Q3 FY2022 and we have surpassed that number with the actual reduction coming at 63 basis points.

Besides that, two notch rating upgrade by CARE in Q2 FY2022 to AA+ stable, in Q4 CRISIL also assigned long-term rating of AA+ stable to both PFL and PHFL. We understand that recent interest rate rise is a key issue for the entire credit industry, after factoring in the current rate hike as well as anticipated rate hikes by RBI in FY2023, we expect our liability book re-pricing to the well spread over the year instead of a sharp rise in a single quarter. This has been factored into our funding plan. Factoring in all the scenarios on a conservative basis we are confident of keeping our average cost of borrowing for FY2023 below Q4 average cost of borrowing and well below the average cost of borrowing for FY2022. On the asset side, floating rate assets would be re-priced higher in conjunction with liabilities, while maturing assets would benefit from re-deployment at a better base.

Talking about our liquidity surplus and ALM we had a comfortable liquidity of Rs.3890 Crores through on and off-balance sheet liquid assets. Both PFL stand alone and PHFL carry a well matched surplus ALM across all buckets as on 31st March 2022. Our funding pipeline remains robust with competitive rates as demonstrated.

On opex front, cost to income ratio came down by 110 basis points during Q4. Being a young and digital first tech led entity the company will continue to invest in technology, people, and customer service initiatives. Gross stage-3 book declined sharply by 103 basis points year-on-year and 84 basis points quarter-on-quarter to 2.7%. The net stage-3 book as on 31st March 2022 stood at 1.1% well on path to realize the 2025 vision of less than 1% of net stage-3. Our housing subsidiary recorded the lowest ever gross stage-3 at 0.96% as on 31st March 2022 declining by 63 basis points year-on-year. Our restructured portfolio reduced further to 4.7% of AUM as of March 2022 compared to 5.7% in December 2021 and 5.9% as on September 2021 aided by strong recoveries.

Collection efficiency continues to surpass pre-COVID levels and was at 108.4% for March 2022. As on March 2022 our provision coverage on stage-3 stood at 58.9%, one of the highest in the industry. As on March 2022 we are carrying about Rs.140 Crores of specific COVID provisions. The ECL model provisions this year include the impact of COVID into PD LGD hence the ECL model provision have increased over December 2021. PFL capital adequacy was 49.5% as on 31st March 2022 providing significant enabler for future business growth.

Thank you. Over to you Ajit, to move to Q&A session.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Nikhil Rungta from Nippon India Mutual Fund. Please go ahead.

Nikhil Rungta: Sir, thanks for this opportunity and congratulations on great set of numbers. The first question is on Housing stake sale, basically you are planning for Rs.1000 Crores of capital raising for a 15% odd stake, internally you would have done some calculation, What type of valuation actually you are looking for or should we assume this same to be Rs. 6500 to Rs.7000 odd Crores that comes through back calculation?

Management: Let me not get into valuation , we will focus on business and performance, we will let markets do there bit of assessment but there are great benchmarks available. So all of you would probably have your own conjectures we will wait for the common process of valuation discovery to happen and that should kind of really be telling us about the quantum of dilution to be done but very clearly we need growth capital of Rs.1000 Crores odd, so that’s our ask and need and being CRISIL rate AA+ rated and the kind of quality of performance and numbers, I think it is one of the upper quartile performances which will really show in terms of our expectations.

Nikhil Rungta: Okay, and second coming on the opex side, we have indicated around 30 basis point of impact because of this ESOPs, should we take this 30 basis point itself for next few quarters as well or you think this could change materially?

Management: Nikhil, I think as an organization we have adopted a very progressive approach of giving ESOPs and making people as partner in the growth journey. We have set aside already 2% of the capital for ESOPs and more can be added to this. So, as far as the specific question is concerned the charge we increased in FY2023 but as you know this is basically a notional charge to P&L and will get reflected multifold into the performance of the company.

Nikhil Rungta: Okay, and opex other than ESOP is 5.2% because we are investing a lot into technology and people. So, what type of sustainable opex should we look for the company over next two to three years?

Management: We have been investing in technology, people and customer service initiatives and we will continue to do that through FY2023. However, as we keep getting full leverage of the capability which we have built, you will see the cost to income ratio coming down, for few quarters in FY2023 or broadly in FY2023 the opex may remain around these levels or may move up. However, this investment into the long-term growth for the organization and post FY2023 you will see sustainable reduction in cost to income ratio.

Nikhil Rungta: Okay, and last question from my side on the provision, we had made big chunk of provision earlier how much of that is used and when will we see standard asset provisioning coming in our numbers?

Management: We have been carrying COVID provisions of Rs.140 Crores as on 31st March 2022. Basis the performance of the portfolio and the environment one could have written back a part of this provision but on prudent basis we thought that let us carry it into future year and every quarter we are going to have an assessment and accordingly we will go for the amount which can be released out of this and overall provision is very healthy at 58.9% as far as the stage-3 PCR is concerned.

Nikhil Rungta: Right, perfect Sir. That is all from my side. Best wishes for your future. Thank you.

Moderator: Thank you. We will take our next question from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: With reference to slide 21, where you have given the product suite that you have which is very well spread of product suite, could you tell us which product will dominate the mix and whether there is a commonality of the customer segment that will allow you to keep your opex low and yet grow. That is my only question. Thanks.

Management: The way we are looking at the products, we have a mix of products which are both medium-term as well as short-term, what we are trying to achieve here is both the profitability as well as the AUM growth, the long-term, medium-term products will actually help us grow the AUM and help get the opex under control while the short-term products if you see here which are supply chain finance, which are merchant cash advance, EMI card and the credit card these will help us actually add to our bottom line may not really add to the AUM bought. So, I think it helps us manage two things, one is the profitability, second it also helps us leverage the liability side of it that we have, so that is the way we are looking at it from our product strategy perspective.

Vivek Ramakrishnan: Okay, then could you just break it up in the secured and the unsecured in terms of how you would look at it?

Management: If you look at on the existing products only that we have today the pre-owned cars, the affordable home loans, the LAP, medical equipment, auto lease, these all remain as secured products. Also, if you look at it from a digital SME LAP perspective that is again another secured loan product. The way we are building up on the unsecured loan products which are the business loan, personal loan and the consumption loans and professional loans that we are seeing these are actually acting as feeder for our other secured loan products. The medical equipment ties in with our loan to professional segment that we do. Similarly, we want to be a substantial player when we look at the MSME side of it and that is where the merchant cash advance and supply chain finance comes into play. While typically you look at supply chain finance as an unsecured product, technically we look at it as a secured product because we will have the corporates and the anchors involved there. Again, the machinery loan is something which will continue to be a secured product, the rest of the products which are unsecured in nature typically do not bring in too much of risk to the book because these are all short-term products that we are entering into. On a steady state what we want is a good balance of secured and unsecured, today if you look at it the book that we will have, we will have about 19% of the products which is on the AUM mix if you look at it which is unsecured. At a steady state as the book drawdowns which is the old book, we will actually be hitting a number of round about 30 to 35% by the end of FY2023.

Vivek Ramakrishnan: Okay, excellent Sir. Unsecured products could be used as a lead for the secured products, and they would be short-term in nature is what you are saying, right sir?

Management: It will be a mix of short-term as well as long-term, but short-term just to manage the profitability.

Vivek Ramakrishnan: Okay, excellent. Good luck. Thank you very much.

Moderator: Thank you. We will take our next question from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Thank you very much management team because indeed a very fantastic result. You have mentioned supply chain advance and merchant cash advance, what will be modus operandi and how much business we are thinking for this worth?

Management: Thank you very much for the question. Let me take it in two pieces, when we look at supply chain finance and the merchant cash advance, first thing is we do not want to do this business to any intermediary these are all going to be the direct products for us. First is the way the origination has been looked at. Second the way we look at it is what is the kind of customer segment that we want to target here. On the supply chain finance side of it we would want to target big corporates and their downstream or upstream cycle that we want to manage. On the merchant cash advance side of as we see the digital economy is actually booming, we want to look at merchants who accept card payments, who accepts UPI payments and other modes of digital payments. So, this merchant cash advance is going to be typically looking at segment which has the digital acceptance of all the payments in the ecosystem. These upcoming products that we said both of supply chain and merchant cash advance as we said are short-term products and hence, they will actually help us also widen our customer base which is very critical as we go because we want to be a big cross sell franchise as well.

Ravi Naredi: Okay, what will be the rate of interest in range, can you tell?

Management: We will be quite competitive in this; we look at supply chain finance that any range between 12 to 13% and then we look at merchant cash advances the APR could be higher as these are short-term products.

Ravi Naredi: Right, and second question, direct digital partnership model you have mentioned whom you will do partnership can you tell something?

Management: As we speak we will be focusing on this as one lever for our origination capability, on the direct side of it we have two splits that we have, one is our direct sales force which goes and actually acquires the customer, however with the entire origination is now moving to a digital mode we have in-house developed contact center which helps us originate the leads through calling up the customers or through the inbound that we get, so that is going to be one mode of direct. As far as digital is concerned as you know we have our website where we have an end-to-end digital journey for all the unsecured products that we have, we use that and leverage that for our digital direct product originations. Apart from that on the partnership side of it as we had outlined various products it will be horses for courses kind of a strategy you look POC for example where we have the digital aggregators who come in as partners. We are also exploring co-lending opportunities across various products that will also be a form of partnership and as we know on the LTP side of it we have a pan India tie up which is for professionals across Chartered accountant, company secretaries and medical professionals. We continue to build on such partnerships which actually help us reduce our cost of acquisition as well.

Ravi Naredi: Thank you Abhay Ji and your whole team. You had given very good fantastic results. Thank you very much.

Moderator: Thank you. We will take our next question from the line of Harshvardhan Agarwal from IDFC Asset Management. Please go ahead.

Harshvardhan Agarwal: Hi! Sir, thanks for the opportunity. Sir, I have two queries one is that the disbursement number that we have put around Rs. 3300 Crores. Just wanted to understand does that has an element of any inorganic portfolio that we have acquired that is one and maybe post that I will ask another question to you.

Management: Yes, that number has got both organic and inorganic book, however if you look at our core focus has been building the organic book and that's where quarter-on- quarter there has been a significant increase in the disbursement of organic book. The organic book which was about Rs.1500 Crores in Q3 has been Rs.1850 Crores approximate in Q4 and since we have been having surplus liquidity there have been value accretive opportunities available and we have gone ahead and acquired the portfolio again in Q4. However, as I said the greater focus is going to be on the organic book and now that we have launched majority of our new products in the market. Across the product as we articulated it earlier there have been significant up take in the business front and we expect that to keep pace as we get into future.

Management: Just to add on these pre-owned cars we have done highest ever disbursement in the month of March, so organic disbursement for POC was Rs.165 Crores, loan to professional highest ever disbursement we have crossed Rs. 100 Crores disbursement in the March and SME LAP also we have crossed Rs.100 Crores of disbursement. In affordable housing company also, we have crossed Rs.225 Crores of highest ever disbursement. In most of the products we have done highest ever disbursement in the month of March, and these are all organic figures and in few of the products as we mentioned in the presentation also, we already taken our leadership position in monthly disbursement figures.

Harshvardhan Agarwal: Sure, thanks and sir one last thing that I want to understand was on the asset quality part. What I remember when the RBI circular has come in for reporting the GNPA norms we had reported around Rs.550 Crores of NPA which is probably sitting in stage 2, just wanted to know how that number has trended in the fourth quarter?

Management: That number has come down, so again Rs.552 Crores it has been Rs.506 Crores in Q4.

Harshvardhan Agarwal: Okay, and that this reduction of around Rs.45 Crores which has happened is it largely through recovery or was an element of write off there?

Management: It has been primarily coming from recoveries.

Harshvardhan Agarwal: Sure, thanks a lot sir.

Moderator: Thank you. We take our next question from the line of Sonal from Nirmal Bang. Please go ahead.

Sonal: Thanks for the opportunity. Sir, just wanted to understand this digital tie ups that we have, so there has been a bit of negative news flow around FLDG and all, so what kind of partnerships are we entering, is it like co-lending arrangement or are these aggregators working more like the agents to us, if you could give some color on that part?

Management: Thanks Miss for the question. Just to tell you a flavor of it as you said all the partnerships that we are doing, the partnerships will go and once that we enter into would need to have two things, one is the scalability and second is the risk management practices that they have and hence FLDG is something that we are not really banking on, on saying we would want the FLDGs only. Right, well RBI has been looking at it in a very different way we are cognizant of that and that is how we continue to look at it. We have enough of our data analytics in place when we are getting into these partnerships so the entire policy, the underwriting rules and the risk management practices are the ones which are adopted as per our understanding of the product risk. We leverage on the distribution capabilities of the partners that we work with. So, basically what we are trying to do here is that leverage their distribution capabilities, however from a risk management perspective we want to keep ourselves insulated and that is what we keep it to us. We really follow the underwriting practices that we want to do in any partnership in the true sense of it rather than just looking at as one mode of just increasing through the funnel approach.

Sonal: Okay, just to get some more clarity, whether this could be more like DSAs or co-lending partners?

Management: We do a mix of both, wherever we have NBFC available for the partner we would get for a co-lending arrangement, in absence of that we look at it as their origination with a risk management being done by us.

Sonal: Understood, and that is it from my side. Thank you.

Management: I would like to just update the organic and inorganic disbursement numbers, so organic disbursement was Rs.2200 Crores approximate in Q4 as compared to Rs.1543 Crores in Q3, this is a growth of 40% quarter-on-quarter and inorganic was about Rs.1150 Crores. Thank you.

Moderator: Thank you. We will take our next question from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal: Can you through some light on competitive intensity in the housing finance segment. The reason I am asking this question is that lot of large banks are entering into affordable segment, and they are seeing some mid-size banks expanding to this segment apart from all the HFCs . So, what kind of competitor intensity you have seen in the recent time?

Management: My views here would be as follows that, on the contrary the entire space has actually gone through a very deep rationalization. I would say that the housing industry landscape is around Rs 12.3 lakh Crores to which the largest player will merge with the bank, so without extent the size of the industry itself has gotten half and of the top five players we are quite aware about where are they and their journey so far. So, there are large vacant places and if you really look at the affordable housing sector which I would say is of around 18 odd companies above Rs.15000 Crores around is only one company, Rs.10 to Rs.15000 Crores there are couple of companies, around Rs.5000 Crores there are three companies and the geo intensity of most of the players are that they have 40 to 60% market share in three – four states, at a national scale presence there are far and few companies. So, I feel that while around the metros and peri-urban there could be a little bit of deepening of intensity but as we move towards the hinterland we move towards peri urban markets, I think there is tremendous opportunity given the GDP to debt ratio in our country which is barely 9%, so to that extent at least from next five to ten years standpoint we do believe there is significant play, as more players emerge they would be largely geo focused in far and few states, at a national scale level presence there are very deep sciences which need to be understood before you really go and scale up. We have been doing it for five years and so I am saying it from my experience.

Pankaj Agarwal: Given the competitive and the growth potential what kind of ROA and ROE we can expect on a sustainable basis, I know right now you are expanding, that is the number I would not look for but let us say three years – four years down the line?

Management: We any way are at 1.8% for the year, we exited the last quarter for the housing finance at 2.4. We believe that this is a year where we will kind of hold on to our opex to AUM for last year, we will not increase but at steady state level we look at a 3% ROA and sub 3% opex number in about three years' time. We are at 3.4% opex in housing, so my sense is that this year given our expansion plan of going to 42 odd branches will be at 3.8% but after this year they will be seeing reduction of 30 to 40 basis points year-after-year.

Pankaj Agarwal: And finally, if I look at RBI data the housing loans are hardly growing at 7 – 8% if I look at over the last year the year-on-year growth has fallen from roughly 13- 14% to 7 – 8%. On other hand when I talk to lenders including you, there is lot of positivity around the growth side. What is the missing point, the RBI data is showing the different number versus what lenders and developers are saying, anything on that would be helpful?

Management: I like to focus on talking about our space if the overall affordable housing overall industry is of Rs.12 Lakh Crores, the affordable housing segment is around Rs.70,000 Crores odd. This segment is growing at around 12 to 14%; the segment is poised for growth as per ICRA reports stood 18 to 20%. We have been growing at 29% CAGR for last four years and we believe that on the Poonawalla platform we should be able to maintain our numbers from next four to five years standpoint therefore, our vision to double our AUM in less than three years is something which we believe is achievable and that has been demonstrated over last sixteen quarters of performance.

Pankaj Agarwal: Okay, fair enough. Thank you very much.

Moderator: Thank you. We will tale our next question from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: Sir, this is a follow up to the previous question on affordable housing, what are the customer segments that you are concentrating in terms of salaried versus non-salaried, what is the typical yield to maturity that you see, are they first banking kind of customers with lot of cash kind of transaction because on the NBFC side focusing a lot on digital or are would they be more NACH and bankable customers. If you could give us a little more clarity on your HFC that will be nice?

Management: So, 60% of our customers are self-employed, we will be moving towards 50% self employed and 50% salaried. Our customers are typically low-income group customers where the average household income of these customers could be from Rs.30,000 per month to Rs.60,000 per month, these customers typically are comfortable paying installment of Rs.10000 to Rs.15000 per month. All our customers are NACH, 100% customers we onboard now are NACH, and they are digital remittances. Coming to your question on digital, we have gone live on two important platforms LSQ and Finnone in the month of April. Our endeavor is to now host rule engines, BRE and configure mass acquisition channels and therefore the play of digital partnership and collaboration in housing is something which is underway which will further add to our opex efficiency.

Vivek Ramakrishnan: Okay, thank you.

Moderator: Thank you. We will take our next question from the line of Sagar Jethwani from PhillipCapital. Please go ahead.

Sagar Jethwani: Thanks for the opportunity. Sir, how you are leveraging technology towards making underwriting process more stringent and any comments on that and also at the same time you aim to grow fast. What would be the underwriting policy typically towards secured loans, how would you maintain

700, sitting in the unsecured loans any comments on that, how would you maintain it stringent and at the same time going fast?

Management: Thanks for the question. The way we look at its technology is being leveraged across the functions; underwriting happens to be the most important function as in entire process management starts from there for us. The way we have been looking at leveraging technology for underwriting is number one, we are the best in class origination system which has a BRE into it, we have also on boarded the best in class BRE from outside we use the Experian Powercurve for our BRE purpose. Apart from that when we look at managing the risk, I think what is more important is to manage my entire ecosystem and leverage the information available in the ecosystem, so we are well connected through our API infrastructure across various sources of information which can actually kind of make the underwriting much richer. We also work very closely on the bureau data to figure out what are the kind of customers that we are on boarding month-on-month, just to give you a flavor of unsecured underwriting 90% of the customers that we onboard are more than 700 plus credit scores which ensures that we are not actually going into the first time credit, we are actually going to credit tested customers there is a huge opportunity which lies there itself from an NBFC segment perspective. Also, looking at it from a risk management perspective from other sources, we are looking at making the fraud risk minimize when we are doing any such underwriting, we go to the source of the information directly to be taken out so that we really do not have any fraud or manipulation which is possible in any of the documents. While we look at serving the MSMEs we actually focus on the formal segment of it which is already working on GST and hence the GST implementation ensures that we are taking care of all the risk, it is more prudent than just of paper-based underwriting that we follow. With those things in mind I think we are well positioned to ensure that the risk is not actually going up in our portfolio apart from that we also look at it from an early warning signal perspective and as I outlined in my opening speech as well, on the early warning indicators we are at least 2X better than what we were originating earlier that gives us a flavor of what we are doing right now.

Management: Just to add on this we are doing write off at 90 plus for all the unsecured products, there are very few NBFCs who do follow such stringent write off. Thank you.

Sagar Jethwani: One more sub question to take, how that early warning signs work on that. Can you please through some light on it?

Management: Early warning signs work on two-three different things, one is what you are looking at your own book performance of saying in how the customer is on your loan that you have given, the secondly typically if you look at it from an off book perspective in case he has taken a loan from any other financer then you actually do a validation check against being how the performance is on others book and if there are any triggers there then it is a cause of worry of us and we put it separately and look at it and monitor it on an ongoing basis. The third which we are looking at is typically on the basis of the macro-economic conditions which exist from the market, and we continuously evaluate it against that. So, we do a mix of all these three to ensure that the early warning indicators keep the system healthy, and we have the hygiene in place when we are underwriting for the new cases.

Sagar Jethwani: Thanks for the brief answer and all the best.

Moderator: Thank you. We will take our next question from the line of Sandeep Agarwal from Naredi investments. Please go ahead.

Sandeep Agarwal: Sir, my question is what percentage you disbursed digitially in Q4 and what is our target for the financial year 2023?

Management: I will break it up into two parts, one is when you are looking at products which are end-to-end digital. Our entire personal loan business, our entire loan to professional business is a digital business end-to-end, when we look at our business loan business, we have entire end-to-end process available and hence it is depending on the way customer approaches us we will actually given him service accordingly. Today, almost 70% of the business that we do on the unsecured side in end-to-end digital business. We have now moved on the pre-owned cars also on a digital journey, the entire partnership business that we are talking of will happen digitally and continues to happen right now as well. In terms of our LAP product there is a collateral involved you really cannot have an end-to-end digital but from an origination and an on boarding perspective we have a completely end-to-end. The endeavor is to move to the new product segment that you would have seen which we are looking at - MCA, supply chain, these are products which are apt for a digital ecosystem play and that is where we want to focus our energies on.

Sandeep Agarwal: Okay, sir my next question is what is our average yield on gross AUM of housing finance?

Management: So, your question is what the disbursal yield in housing finance?

Sandeep Agarwal: Yes, what is our yield?

Management: It is around 13%.

Sandeep Agarwal: 13% for housing finance?

Management: Yes, on the book we have 70% home loan, 30% affordable lap, the average of that is 13%.

Sandeep Agarwal: Okay, thank you.

Moderator: Thank you.

Ladies and gentlemen, that was the last question.

I now hand the conference back to the management for closing comments.

Over to you, sir!

Abhay Bhutada: Thank you so much everyone and I am very happy to share these numbers with you. Poonawalla Fincorp reported a consolidated PAT of Rs.375 Crores in first year post our acquisition. Our AUM is up 17%, net NPA down, NIM increases to 8.9%. Now we are focusing on technology, building risk culture and our housing subsidiary where in there is a huge opportunity in affordable housing. Most of the products we are focusing on digital on boarding, digital collection, digital disbursement. Entire process is end-to-end digital for all the unsecured. Overall, I am happy to share that, now we have moved to the real growth journey and here on you will see that. We are excited to enter this new financial year with momentum by our side. Consolidation was there for us for FY 2022 and we have made considerable progress in line with our Consolidate, Grow and Lead strategy.

We are well poised to grow as the execution excellence of consolidation phase propels us now into the growth orbit. As we grow the focus will continue to be on building a sustainable business on pillars of technology, digital first approach, customer centricity, risk management and the alternate distribution channel of digital, direct and partnership.

Thank you so much everyone for attending this conference call of Poonawalla Fincorp Limited.

Moderator: Thank you members of the management.

Ladies and gentlemen, on behalf of Ambit Capital that concludes this conference.

Thank you for joining us and you may now disconnect your lines.