"Poonawalla Fincorp Limited
Q2 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Poonawalla Fincorp Limited Q2 FY2022 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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!

Kunal Shah: Thank you and good day to everyone present on the call. This is Kunal Shah from ICICI Securities. We have with us senior management team of Poonawalla Fincorp including Mr. Vijay Deshwal - Group Chief Executive Officer, Mr. Sanjay Miranka - Group Chief Financial Officer, Mr. Manish Jaiswal – MD and CEO, Poonawalla Housing Finance, Mr. Rajive Kumaraswami - MD & CEO - Magma HDI and Mr. Mahender Bagrodia - Head Collections to discuss their Q2 and H1 FY2022 earnings as well as business strategy going forward, so over to you Sir!

Vijay Deshwal: Thank you Kunal and good morning, everyone. I welcome you all and thank you for joining the investor call of Poonawalla Fincorp Limited. As you are aware, this was the first full quarter for the new management team here and we are excited to share the updates on our journey so far. We look forward to building a long-term and sustainable relationship with the capital market community, analysts and all our shareholders. We will break this up into two parts. First I will talk about the progress we have made so far in our business transformation journey highlighting some key developments since the last quarter and then I will hand it over to our group CFO, Sanjay, who will discuss the financial results for the quarter in more detail.

Let me begin with what we achieved during the quarter in terms of our business and our progress on the transformation journey. In terms of products in our last call we highlighted our focus lending segments being consumers and small businesses. Within this segment, we have further realigned our business mix towards highly scalable products targeting formal credit-tested borrowers with increasing play on salaried and professional individuals. Previously we talked about product segments we intend to operate in. We have continued to focus on pre-owned cars, affordable housing, and business loans. During the quarter we also rolled out SME LAP, personal loans, and loans to professionals. We are also at an advanced stage of launching our products, which are medical equipment loan, small ticket LAP, co-lending, and few Fintech partnerships.

As highlighted previously our product offerings will be a healthy mix of secured and unsecured giving us superior risk adjusted return. In our previous call, I talked about five operating levers that will enable us to achieve the desired growth and risk adjusted return on capital. Let me share where we are on each one of these and how they have started manifesting for us. The first two levers are brand and equity capital coupled with our cost of funds. Backing of a strong globally renowned group along with sizable capital to support our growth ambition at least for the next five years has already contributed to significant repricing of our existing debt and raising fresh debt at very fine rates of interest. The process started in Q1 as you are aware and gained traction during Q2. The parentage and capital adequacy along with a seasoned management team and revised business focus acted as major factors for a two-notch rating upgrade received from CARE during the quarter. We now have a long-term rating of AA+ stable. We will endeavour to strengthen our liability mix with banks, debt capital markets, long-term financial institutions including refinance institutions and continue to optimize our cost. The third lever I spoke about was senior leadership team. We have put together a very strong senior management comprising leaders having relevant domain experience of an average above 20 years and are fully capable of delivering the ambitious business plans we have envisaged. During the quarter we further strengthened our leadership team and on boarded our Group Chief Operating Officer, Group Chief Technology Officer, Deputy CEO of our housing finance company, Chief Risk Officer and Head Treasury. All of whom come with significant industry experience having worked at leading financial institutions in the country. With this our leadership setup is largely complete.

The fourth lever of distribution and collections infrastructure, we inherited a very well-established pan India branch infra being complemented with strong digital capabilities. We continued our process of rationalizing our branch setup in alignment with the new product strategy. While we closed or stripped down some 12 locations, we have also identified 13 new locations. For the newly launched SME LAP product we identified 65 locations of which 21 have already gone operational. Business potential and branch level profitability are the key factors that will decide any branch rationalization. The fifth lever we spoke about is our digital strategy, which is adopted on the basis of price, turnaround, convenience, and service where technology and analytics will lead to continuous product innovation, digitization to help direct customer acquisition, improve TAT and provide data for analytics to further serve the customer better.

We have already deployed end-to-end digital process for our products like personal loans, loans to professional and business loans where the entire customer journey from onboarding to disbursement is being handled digitally, which also includes our newly launched SME LAP, which is a completely digital proposition where only the property legal and technical happens in a physical format. We are making rapid progress on digital transformation in all our other products also. We are also making progress on the digital integration of our channel partners so as to provide a seamless customer acquisition and onboarding experience. On the analytics front we have developed tools for sourcing, credit underwriting and risk monitoring. Sourcing tools effectively aid in selection of customer segments and geographies, will generate pre-approved offers and cross-sell opportunities for us. For underwriting we have already adopted and deployed a channel score card for our pre-owned car finance business for better channel management. I am also pleased to share that we have rolled out BRE for the unsecured products and are calibrating the score card for our other products. We expect that all these initiatives are going to bring in cost efficiencies, improved customer experience, make our policies consistent and collections more efficient in turn enabling us to deliver superior risk adjusted returns.

Now last time also I spoke about that credit cost is the most important or the critical variable in lending, the previous quarter saw the impact of second wave of the pandemic hitting various businesses adversely in many pockets. While there were no blanket lockdowns as witnessed during first wave last year the business activity was subdued due to many local restrictions during the second wave of COVID, even as the vaccination started to gather pace. However, signs of recovery from wave two started showing from June 2021. Our collections efficiency has been on an improving trend since the month of June and the trend has continued through Q2. During the quarter we have surpassed our pre-COVID level, and I am pleased to share that we achieved 99.9% collection efficiency for the month of September. Borrower behavior during the wave two has also given us ample insights and has helped reinforce our underwriting policies as well as go about collections in a focused manner. The relentless efforts made by our collections team during the period has borne fruits during Q2, enabling us to bring down our stage two and stage three book both year-on-year as well as quarter-on-quarter. We continue to make significant recovery from the written-off pools and are adequately provided at this stage. In summary, we are well on our path towards achieving our strategic goals with right products, backed by low cost liability supported by digitization, cost realization and lower credit cost, which will ensure that desired risk expected return on the portfolio.

Moving onto key highlights of Q2 performance, our consolidated AUM grew by 6% quarter-on-quarter aided by pick up in disbursements across all active product lines and improving macros. This is despite run off of the discontinued products book. NIM improved by over 104 basis points year-on-year aided by sharp reduction in our cost of borrowing. This coupled with reduction in credit cost for the quarter actually led to a consolidated healthy growth in PBT, which now stands at 126 Crores for the last quarter. To discuss the financial update in greater detail, now I request Sanjay Miranka, our group CFO. Thank you.

Sanjay Miranka: Thanks Vijay. Good morning, everyone. I am pleased to share the update on second quarter financial performance of Poonawalla Fincorp, which has been encouraging to say the least especially in the light of the transition journey for the organization. Our consolidated assets under management grew by 6% quarter-on-quarter to 15275 Crores, with AUM of continued and focused products growing by 7% quarter-on-quarter, which is very encouraging. Quarterly NIM improved by 104 basis points Y-o-Y and 113 basis points quarter-on-quarter to 9.1% aided by significant reduction in cost of funds. The engagements with banks gained traction resulting in aggressive repricing of the existing loans. Also incremental borrowing has been raised at one of the finest rates in the industry. Since our last analyst call till date, we have received fresh term loan sanctions of Rs.2000 Crores at an average rate of 6.2%.

On quarter-on-quarter basis our average cost of borrowing declined by about 52 basis points, and we expect another significant decline in our cost of borrowing in Q3 as well. On the opex front there was an increase to 4.8% compared to 4.3% of AUM in Q1 on account of capacity building done in line with our growth strategy. The opex is likely to normalize with the growth in business over time. Talking about our ALM and update on liability management we have an extremely comfortable liquidity of over 1700 Crores on book and surplus ALM across all the buckets as on September 30, 2021. Additionally, we have 1750 Crores of undrawn term loan sanctions. The gross stage 3 assets declined sharply by 100 basis points Y-o-Y and 127 basis points quarter-on-quarter to 4.1%. On similar lines the net stage 3 book declined by 122 basis points Y-o-Y and 70 basis points quarter-on-quarter to 2%. The credit cost stood at 1%, which is 240 basis points lower Y-o-Y and 50 basis points lower quarter-on-quarter. The pre-provision operating profit came in at 4.3% vis-à-vis 3.6% in Q1 FY2022 and 4.6% in Q2 FY2021. Our restructured portfolio at 5.9% of the AUM has remained at similar level as compared to June 2021. As regards to collection efficiency it continued to improve month-on-month from 93% in June to 98% in July and surpassed the pre-COVID levels touching 99.9% for September 2021. We have adopted one of the most stringent and conservative provisioning and write-off policy in March 2021. As on September 30, 2021, our provision coverage on stage 3 book stands at over 52%. Moreover, we are carrying a provision cover of 16.5% on our stage 2 book, which is one of the highest in the industry. As on September 30, 2021, we are carrying about 147 Crores of special COVID provisions, which is included in the above numbers. There has also been significant recovery from the write-off pool during the quarter. Our conservative provisioning basis revised policy, steady improvement in the collection efficiency and further expected recovery from write-off pool provides enough cushion and help bring down the credit cost for the rest of the year. We would strive to achieve net NPA of less than 1.5% by the end of financial year. Overall our consolidated PBT in Q2 FY2022 is at 126 Crores against 50 Crores achieved in Q2 FY2021 and 81 Crores in Q1 FY2022 witnessing a significant 151% Y-o-Y growth and 66% quarter-on-quarter growth. The profit after tax has increased to 96 Crores against 38 Crores in Q2 FY2021 and 65 Crores in Q1 FY2022. Our ROA more than doubled to 2.6% on Y-o-Y basis. Thank you and season's greetings, happy Diwali to all of you. Over to you Kunal!

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. Mr. Shah in the meanwhile the queue assembles would you like to go ahead and ask a few questions?

Kunal Shah: Sure, thanks. Firstly the way you have highlighted earlier in terms of the product launches, so we have already launched personal loans, professional and SME LAP for this quarter and even medical equipment, small ticket LAP and co-lending fintech partnerships are in the advanced stages of a rollout, so if you can share the experience in terms of maybe the rollout of this new products its kind of acceptability in the market and incrementally in the disbursements what is the kind of contribution we can see from this products over next 18 to 24 months?

Vijay Deshwal: Thanks Kunal. I think multiple questions in one and I think that is your style, so I start with yes there have been immense learning by the launch of our personal loan, loans to professionals and business loan product in the company and also the SME LAP. The first and foremost was that we decided that we will do everything end-to-end digital in these products and where we upgraded our system, we created the capacity, we setup the systems upfront so that when we launch there are no major issues of course there will be teething issues which we have gone through, but now the systems have stabilized, and we are on the right track to achieve the growth that we have envisaged for ourselves. A similar experience for SME LAP, which I mentioned while it is a collateral heavy product, and I must say that the team over the last three months worked tirelessly to ensure that our first loan itself goes in an end-to-end digital format. There is a limitation in this product that we have to handle a physical collateral where a physical title search and the legal and technical has to be done, which continues to operate in the same parameters, everything else is paperless. In terms of volumes and in terms of scale, I would say that we exited September with organic run rate of about 500 Crores across all the products and we continue to see that by end of this financial year say exit March will be at a run rate of 800 Crores plus with a very healthy mix of secured, unsecured, this year the ratio will be almost 80% towards secured, which over a period of time as the opportunities arise will keep on changing; however, on a steady state also eventually it will be 65:35 in favor of secured and unsecured over the next two to three years.

Kunal Shah: Sure, thanks and when we look this organic growth there is still acquired portfolio, which is there which was almost equivalent to the organically originated AUM, so if we have to look at it over a period no doubt it has come down from Q1, but if we have to look at it over a period what would be the reliance on the acquired portfolio and in terms of the profile of this acquired portfolio over the last two quarters, which has been almost 2600 Crores odd how do we see this profile?

Vijay Deshwal: So Kunal in terms of our ramp up of organic disbursement if you look at the trajectory we did 1295 Crores this quarter, which was only 338 Crores in the last quarter and even if we go the last year same quarter it used to be only 830 Crores, so we have significantly ramped up our organic disbursement engine and which will continue to scale up at a tremendous pace. In the meanwhile we identified certain portfolios from the perspective of opportunity and deployed our surplus liquidity at that time at very, very profitable terms and which is value accretive for us. Going forward, our larger focus will only be on organic growth; however, if there are any opportunities, which offer us a great value accretive and profitable portfolio we will consider it, but directionally you may see and we also plan that we will grow largely organically and we will not have much dependence on acquired pools.

Kunal Shah: Sure, thanks for the insights. Sir, you can take the questions from the queue.

Moderator: Thank you Mr. Shah. The next question is from the line of Umang Shah from Kotak Mutual Fund. Please go ahead.

Umang Shah: Good morning. Thanks for the opportunity and congratulations to the team for a good quarter. Just continuing with Kunal’s question just wanted to understand a little more in detail about our portfolio strategy, so if you could just give a little medium term sort of perspective, so currently 40% of our loan book is sitting in defocused book, so let us say as this book keeps on running down over the next two years or so how should we look at the overall AUM mix in terms of the products and second what sort of growth are we envisaging in the overall book so considering that the de-focus book will probably run down over next 18 to 24 months?

Vijay Deshwal: Thanks Umang for your question and you are right that our discontinued book is running down at a pace of almost about 1000 Crores every quarter and which will completely be over in the next 30 months odd. As we scale up our new product segments and the new focused business segments you will see that over a period of time say over the next two to three years, our personal loans, loans to professionals and the business loan segment that will contribute close to about 20% of our total portfolio. Our SME LAP, which we have started, and which is a hard secured product, will contribute almost about 25% of our total book. The new products that are on the anvil like machine loans, the consumer loans and the other stuff that will be about 5% to 7% and pre-owned cars will contribute almost about 10% to 15% in the overall portfolio. It will be directionally a secured to unsecured mix as I have mentioned earlier 65 to 35.

Umang Shah: Sure and the balance would be mortgages in the portfolio, right?

Vijay Deshwal: Yes, the balance will be the mortgages; almost 28% to 30% will be affordable housing and affordable LAP.

Umang Shah: Sure and what sort of growth are we envisaging, let us say take two years or three years sort of view?

Vijay Deshwal: I think we have a very ambitious target, which we have stated in our vision statement also of a 30% CAGR so that is what you can take it, this year because our large part of our book is getting discontinued so you might not see that kind of a growth in FY2022, but starting next year you will see that is what we are directionally aiming at.

Umang Shah: Sure, got it, that is fairly clear, and just a clarification again on Kunal's question, so when we are talking about this 30% growth directionally a large part of this incremental growth should come in organically and inorganic probably will be just temporary or opportunistic is that right understanding?

Vijay Deshwal: Absolutely.

Umang Shah: Sure, Sir, last question for mine is in terms of management being build up are there any positions or any businesses where we are looking to add senior personnel, or we are largely done in terms of our hiring plans?

Vijay Deshwal: So if you look at the senior management team, Umang, I think pretty much the entire team is in place, what we are looking at strengthening is the middle management and also looking at augmenting the talent and also reskilling and retraining at the zonal and at the branch level, so that will be our focus, that is how we will take it forward.

Umang Shah: Understood, and sorry, just one question, which I would like to squeeze in Vijay, on your Fintech tie-ups just wanted to understand if you could give some colour what sort of loans are we trying to originate via these Fintech platforms and are we like ultra short term BNPL sort of loans or any specific product categories that we are trying to tap?

Vijay Deshwal: Umang what we have discussed as a management team and what we have committed to our Board also that ecosystem opportunity mining and partnerships will be one of the themes in our growth. Now partnerships could be with the fintechs which are operating in secured asset classes, fintechs which are operating in unsecured asset classes, these could be medium tenure, these could be very short tenure also. Some of the partnerships where we have already on-boarded are the likes of Cars24 and OLA where we have already started in the last one week in terms of originating the assets. We are also looking at similar strong counterparties, which help us keep the acquisition cost as low as possible and the portfolio, which is to our liking, which clears our credit engine and that is how we are looking at building. So it will be one of the pipes of building the business, so that is how we are looking at it.

Umang Shah: Understood, thank you so much, that is quite helpful and wishes you all the best for future performance.

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

Shreepal Doshi: Sir, good morning. Thank you for giving me the opportunity. Sir, my question is just an extension of what Umang asked, so we are focusing on digital sourcing so if you could further highlight what are the other platforms because some of the products that we launched during the quarter would need completely differentiated platforms, such as for personal loan we have a completely different tie-up than SME LAP, so what are these avenues if you can further give some colour and for medical equipment, for small ticket LAP what are the further additional avenue that we are trying to tie-ups with?

Vijay Deshwal: There will be multiple acquisition engines, Shreepal, with digital acquisition of course we have started through our presence on LinkedIn, Instagram, Facebook and Google Web Search and we generated a reasonable number of customers with a total loan value of roughly around 50 Crores as of now, but that is a very initial stage of pilot that we have done. We are looking at online channel partners also, which I mentioned briefly about the pre-owned car business, similar acquisition engines for our personal loans also we are tying up with some of the impeccable names in the industry. At the same time, our physical infrastructure, which is very strong, will continue to provide us channel partnerships as well as direct sourcing. The major digital play in terms of intervention will come on the complete end-to-end journey right from the login to disbursement. I think that is how we are looking at each one of the products. Digital acquisition will be one of the themes; however, digital transformation will be an ongoing theme across all the products.

Shreepal Doshi: Got it. Sir, what will be our business as usual Opex on AUM, because if we look at now the business mix would be changing completely, so what is that we are looking at from Opex upon AUM perspective over FY2022-FY2023?

Vijay Deshwal: Right now, as we mentioned earlier we are at about 4.8% in terms of our opex to AUM, as the scale goes up you can fairly assume that over a period of time we would want to travel towards the direction of 3.5% at a steady state, but it will take some time because we are in a capacity building mode, we are also ramping up our businesses, we are investing in technology, so over the next two to three years you will see a steady state 3.5% kind of opex to AUM.

Shreepal Doshi: Got it. Sir, on the restructured book if you can give some colour as to from what segment how much would we have restructured from the overall 900 Crores restructuring that we have done?

Sanjay Miranka: The restructured book as percentage of AUM has remained at 5.9%, which was our June number as well. The total book in June in absolute numbers was 854 Crores, which has gone to 899 Crores, now this increase has been across both entities, so it would be on pre-owned car segment and then it would be on affordable loan, but numbers are very small as you see, and again in terms of the behavior of the restructured book, I think that is very important point, so if you look at the restructured book, 74% is stage 1 from the behaviour perspective, so the quality of book even in the restructured segment is extremely healthy.

Vijay Deshwal: Just to add to what Sanjay mentioned, 74% is stage 1, 58% of the borrowers remain absolutely current and we are carrying highest provisions of almost 18% on the OTR pool, so we are in a good shape there.

Shreepal Doshi: Got it, but from the segment perspective from this 899 Crores, what would be the restructuring split like what would it be coming, if you can give maybe percentage terms colour or say from housing how much have been restructured?

Manish Jaiswal: Just to give you an update, in housing we have total restructured assets, as I would put in the 60 plus bucket of 2.2% and in 1 to 60 we have been proactive because there is no point making the customers who earn and pay chasing them for 20 years to pay two EMI, so I call it as a soft restructuring that is about 5%, overall we have seen a fairly good collection in our OTR pool in the housing segment, in OTR 1, which is about 140 Crores we are seeing 88.5% collection efficiency, in OTR 2 we are more than 100%, which means not only the current months dues also past dues have been recovered, so I would presume that we have ridden over the wave and the traction looks positive, very shortly we should drop the term OTR and may be give it a quarter to get there.

Shreepal Doshi: Got it, so is it fair to assume that the actual slippage from this restructured book, if you can give some ranges what could that number be?

Vijay Deshwal: We would not want to predict things right now, all we can say is that this has been done as a very prudent measure only to provide a temporary liquidity cushion to our borrowers, what you can safely assume is when we said 74% stage 1 and 58% of the borrowers are current and we are carrying 18% provision on the OTR pool, so you can make your own safe estimates that we are not worried about the OTR.

Shreepal Doshi: Got it. Thank you so much for answering the questions and best of the luck for the next quarters.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from White Oak Capital. Please go ahead.

Anand Bhavnani: Thank you for the opportunity. To continue on the OTR piece, September 30th was the last date, so there will be some pipeline of OTRs, which is yet to be done can you give us some sense of how much it is?

Sanjay Miranka: We do not expect any significant OTR; however, again it is very difficult to predict the environment, but otherwise we are pretty comfortable.

Anand Bhavnani: So, there is not much in the pipeline left to move the needle from 5.9% significantly?

Sanjay Miranka: Yes.

Anand Bhavnani: In terms of our intent to kind of grow into consumer and keep about 35% unsecured book if we were to look at the broad competitive dynamics as of today this is like one of the most competitive environments when it comes to consumer loans like never in the history if I were to generalize that never in the history of India have we seen so many existing banks, fintech and NBFC kind of chase consumers because corporate loan is very weak, so consumer by default is seeing a lot of competition and in an environment where there is lot of competition you have pretty aggressive growth targets, so what guardrails are in place and how are you considering that it would not lead to any adverse credit quality outcomes for us given the very potent combination of excessive competition and very ambitious growth targets by us?

Vijay Deshwal: Fantastic question and in fact our own approach is that unless we are very certain of the credit costs that we are going to incur in any business we do not even consider that, so we have done a detailed analysis of the markets of the customer segments that we are going to be in. The confidence we have for this growth comes largely from two to three levers that we have. One is that our entire digital capabilities to handle end-to-end and process end-to-end without incurring a single piece of paper, so that is the biggest lever we have and that is how we have been driving our unsecured business whether it is personal loans or loans to professionals or the business loans. The second thing is we have absolutely strong credit policies, I mentioned that we have rolled out a BRE. We work in this business largely as a STP, we do not entertain much deviations, so this business is completely run on just like a credit by invitation, that is the second lever and the third thing, which gives us a lot of confidence that we will be able to differentiate ourselves in the businesses are on the ground collection machinery through our pan India presence, so wherever we are disbursing we have immaculate, very sharp collection machinery, which has served us well and we continue to sharpen that even more. So these are some of the reasons what provide us the confidence and ability to really scale up this business very, very efficiently.

Sanjay Miranka: And just to add to what Vijay alluded is, see the opportunity is humongous in the market. While there is competition, at the same time there has been space vacated by many players and if you look at our base and on that if you talk about the targeted growth the absolute number is not much and being into four strong verticals and then adding more products, I think that puts us into quite comfortable situation to achieve the aspirations.

Anand Bhavnani: Sure and one last question if I may, in terms of our originations what percentage of our disbursal would be originated internally versus DSA or fintech partners and so on?

Vijay Deshwal: So, in which business any specific business you are talking about?

Anand Bhavnani: The overall, so I presume you said we have 1295 Crores of disbursal in the quarter, so that 1295 if you can give us a broad sense of how much would be originated internally versus to any partner that you would have to pay a fee?

Vijay Deshwal: There are two things happening with us, one is that we are undergoing a complete product and geography transformation, we had a particular model through which we were operating and largely into specific product segments. As we transform, in the initial days, the dependence will be largely on channels and that is how the industry also operates, as we keep on increasing the number of customers, as we keep on acquiring the number of customers, we will focus more and more on direct, which will mean that the customers we acquire, we will have more of cross-sell and upsell into the same set of customers. If I were to broadly give you a number, 70% as of now would be through the channels and about 30% we would have direct sourcing in our overall mix.

Anand Bhavnani: Noted and in terms of collections, what would be the split like, how much would be through our own versus outsourcing channels?

Vijay Deshwal: We have a complete in-house collections machinery that's the best part and therefore are confident for some of the rollouts because we are in a business of risk management and the biggest confidence in the risk management comes from the ability of collecting what we have disbursed, so that is what we are sort of leveraging on.

Anand Bhavnani: Sure, thank you very much and I will come back in the queue.

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

Prashanth Sridhar: Thank you for taking my question Sir. If you could just give us some estimate on how the ROA tree would look maybe one year down the line and maybe a bit longer term - yield, NIMs, opex, credit cost?

Sanjay Miranka: As far as the yield is concerned, I think broadly we are there, because we have to be mindful that we are going to add loan against property as one strong vertical, where obviously we will have a risk adjusted superior ROA; however, the yield would be lesser as compared to other products. In terms of NIM, on steady state maybe we should see slight expansion happening over the next two to three years. In terms of ROA, what we are looking at getting into about 3.5 plus ROA in a steady state scenario, so you can say by three years from here we can actually get into that situation.

Vijay Deshwal: To give more firmness on this the average yield on portfolio on the long term, what we will be aiming at, will be about 13.5% to 14%, with NIM roughly stabilizing at around 8.5% and what Sanjay mentioned that we will aspire to deliver an ROA of 3% to 3.5% in that range.

Prashanth Sridhar: Got it, thanks, that is helpful. Just one other aspect as part of this transformation there would be some one time cost, which would have to incur right in terms of closing down old, branches opening in new places, what do you estimate that one time transformation cost would be?

Vijay Deshwal: So I would answer it in a slightly different way instead of giving exact number of Crores. If you look at our opex, which is say 4.8% of the AUM right now, we see this remaining at this level for a few more quarters and then as we scale up towards say FY2023-FY2024, we look at bringing it down to the numbers that you mentioned, steadily towards 4%, then 3.5%.

Prashanth Sridhar: Sure, that is helpful and just lastly what do we expect the normalized capital adequacy and leverage will look like?

Vijay Deshwal: Today, we are sitting at capital adequacy, which is almost 50%, so what we can say is that we will run our business on a steady state leverage of under 5 and more somewhere around 4 to 4.5 and which would translate into, you can do the calculation of capital adequacy anywhere 20% to 25%.

Sanjay Miranka: Just to add, our entire business segment today is consumer and small business finance and given that kind of asset mix, I think even a leverage of 5x would be extremely comfortable and would also be ROA accretive at the same time.

Prashanth Sridhar: That is very helpful. Thank you so much.

Moderator: Thank you. The next question is from Asutosh Mishra from Ashika Stock Broking. Please go ahead.

Asutosh Mishra: Thank you very much for giving me this opportunity and congratulations for the good set of numbers. Sir, can you put focus on strategy for mortgage & LAP business so where we see two to three years down the line, how you really want to take this business from here?

Vijay Deshwal: If I understood the question correctly there was a little bit of disturbance in the whole thing, you asked that how do we see the scale up of the LAP business from here on, is that right?

Asutosh Mishra: Yes, LAP and mortgage piece of the business what is our strategy for that over the next two to three years?

Vijay Deshwal: So, in terms of a scale up from here we will grow these two businesses because these are true secured businesses for us, which is a SME LAP and affordable housing plus affordable LAP that we do, our mix which is today at somewhere around 31% in the total asset mix, it will move more towards almost 47% to 48% in the next two to three years if that helps.

Asutosh Mishra: And which segment we will be targeting and if you can help us to know what is our current yields on the books?

Vijay Deshwal: Affordable home loans our current yields are in range of 13% to 13.5%, average ticket is in the range of 10 lakhs, and we continue to focus on that. In our LAP business we will have a range of 25 lakhs to going up to 5 Crores, but average ticket size will be anywhere between 75 lakhs to one Crore, we are clearly looking 65 locations, which we have identified pan India with the clear product and customer focus with an average yield of about 11.5% to 12% we will operate in that space.

Asutosh Mishra: In affordable housing, our current portfolio is geographically coming from which geography, the major contribution now?

Vijay Deshwal: I would request Mr. Manish Jaiswal, our MD and CEO for the housing company to take up this.

Manish Jaiswal: In line with our philosophy of being a national scale affordable housing finance company, I think we have been able to significantly diversify from geo standpoint, just to give you some sense of numbers, we operate in the three states of South India, which is Tamil Nadu, Karnataka, Andhra Pradesh, Telangana, this currently is giving us approximately about 40 Crores of business per month, the three states of west, we have almost equal presence, we are getting another 50 Crores of business from these three states, in east we are largely a West Bengal based player, which is giving about 15 Crores of the business and in north we are not present in Himachal, J&K but we are relatively well present in markets of NCR, Punjab, Haryana, UP, UK and parts of Rajasthan, which is giving around 60 Crores business, so we expect to only deepen it from here and we see potential of each of these locations which we have grown over last three years recording a CAGR of 30% that momentum to only organically grow in the markets by deepening and penetrating and we are not wanting to expand to new geography, that approach is by and large is finished because we have almost reached all states where we have to, we will only deepen from here.

Asutosh Mishra: Got it, thank you for your detailed answer, Sir. Another question which I had is the cost of borrowing as you mentioned that currently our cost of borrowing on the whole of the borrowings which is approximately 8.8% and now the incremental cost is 6.2%, and you have guided that next quarter also we are going to see the drop in the cost of borrowing, so where you see this stabilizing around, it would be somewhere between these two numbers anyway down the line?

Sanjay Miranka: I think there are two parts to reduction in cost of borrowing in fact three parts - one is the repricing of our existing debt and more than two third of the repricing has already been consummated. Second part is about fresh loans coming at the finest rate and we called out the amount which we have borrowed and the rates at which we are borrowing incrementally and the third portion is in terms of the change in the mix from being more PSU bank focused we have already started diversifying across PSU, private and foreign banks and then becoming really active on the market side of borrowings. So on the whole I think we should see definitely 50 to 60 basis points of reduction further in Q3 and the number which I am giving you is on the steady state basis everything being noticed, because if interest rates in the environment were to go up, so you cannot predict that, but having said that we see 50 basis point plus reduction in Q3 as well and on the longer term basis it would suffice to say that we would be one of the lowest cost fundraiser in the entire NBFC space.

Asutosh Mishra: Got it. Thank you for detailed answer and all the best for the future.

Moderator: Thank you. The next question is from the line of Vivek Kabra from Yes Bank. Please go ahead.

Vivek Kabra: Good morning everyone. With cost of borrowing going down would you continue to focus on affordable housing finance, or would you enter normal housing loans?

Manish Jaiswal: I would like to reiterate we would want to only get deeper and significant in what we are good at, we do not want to try things where our core competence is deviating, we would like to stick to that, but yes there is a contiguous play in the affordable housing space per se, earlier given our higher cost of fund we were not able to look at salaried profile as we would so therefore our ability to deepen ourselves in the same space is much higher, so we would want to be significantly large in this space and that is our ambition.

Vivek Kabra: Just wanted to understand one thing, what is the target asset mix for the housing finance entity?

Manish Jaiswal: We would be a significant player, we would want to keep 70% as home loan asset and balance will be same affordable LAP to similar customers who have got similar moral suasion and feeling toward the asset, so only the name changes on one side called home loan and on other side called LAP, so customer target market, value props remains exactly same and we would just completely be playing pure to this model.

Vivek Kabra: And just one last question I had what kind of transformation is being done in particularly housing entity?

Manish Jaiswal: The transformation in housing is complete; it is now ramp up which has been happening for the last three years we will continue to do that ramp up.

Vijay Deshwal: Just to add to what Manish said as we are speaking more and more about digital transformation, so we have moved to a central processing kind of approach right now, also we are looking at on the lines of what we have done in SME LAP, end-to-end digital processing of the files, a similar digital transformation we will achieve in our housing finance company also in a very short period of time.

Vivek Kabra: Thank you for your time.

Moderator: Thank you. We will take our last question, which is from the line of Agam Shah. Please go ahead.

Agam Shah: We have a JV named Jaguar Advisory. What is this joint venture?

Vijay Deshwal: It is an insignificant investment you may call it and we can take it, it is a non-operating company so immaterial, apart from it holding shares Magma HDI, there is no operations in this company.

Agam Shah: On the insider trading case any updates on that?

Vijay Deshwal: We would want to clarify that there is nothing against the company in that case and team is totally focused on delivering the business trends, which have been assigned in line with the Boards vision and the individuals are taking up as per the process, so that is what our submission will be, nothing more to comment on it.

Agam Shah: I think in the last conference call we said is that Poonawalla Finance, earlier NBFC we used to run, is that merged with the company?

Vijay Deshwal: We are not going to merge that company with Poonawalla Fincorp, and that company also will not continue into the business of lending or borrowing.

Agam Shah: So, what will happen to the book?

Vijay Deshwal: There is a small book, which is being balance transferred into the Poonawalla Fincorp. Whatever book meets our risk appetite of Poonawalla Fincorp that will get balance transferred, rest will run down over a period of time and thereafter that entity will not enter into any lending business, and it has in fact stopped doing any lending activities.

Agam Shah: Thank you. That is it from my side and all the best.

Moderator: Thank you very much. Ladies and gentlemen that was the last question due to paucity of time. I now hand over the conference to Mr. Shah for closing comments. Over to you!

Kunal Shah: Thanks to the entire senior management team of Poonawalla Fincorp for sharing the insights on their strategic roadmap and execution and thanks all the participants for being on the call. Thank you everyone and have a good day.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of ICICI Securities that concludes today's conference call. Thank you all for joining us. You may now disconnect your lines.