



“IndoStar Capital Finance Limited
Earnings Conference Call”

June 18, 2021



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Moderator: Ladies and gentlemen good day and welcome to Q4 FY2021 earnings conference call of IndoStar Capital Finance Limited hosted by Motilal Oswal Financial Services Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchstone phone. Please note that this content is being recorded. I now hand the confidence over to Mr. Alpesh Mehta from Motilal Oswal Financial Services. Thank you and over to you Sir!

Alpesh Mehta: Good morning everyone and welcome to the 4Q FY2021 performance conference call of IndoStar Capital Finance Limited. Today we have with us Mr. R. Sridhar Executive Vice Chairman and CEO, Mr. Amol Joshi, CFO, Mr. Deep Jaggi, Chief Business Officer, Ms. Jaya Janardanan, Chief Operating Officer and Mr. Salil Bawa, Head Investor Relations. Without much ado I hand it over to Mr. Sridhar for his opening comments and post which we will have Q&A. Thanks and over to you Sir.

R. Sridhar: Thanks Alpesh. Good morning to everyone. Before I proceed with my preliminary comments I would like to thank all of you for joining our Q4 FY2021 earnings call. I would also like to wish all of you good health and I am confident that all of you are staying safe.

I would like to start from FY2021 which had been the most challenging year for the sector. As far as IndoStar is concerned, we have taken few landmark decisions, during this year. The first one is, we brought in a global bulge bracket investor Brookfield as our investor in May 2020 during the pandemic. So Brookfield came in with Rs 1,225 crore of primary capital and did an open offer, ended up with around 56% of equity of the company. This has strengthened the capital adequacy of the company keeping it at about 35%, helped us in shoring our liquidity, & strong ALM.

This partnership has strengthened the company and with the arrival of Brookfield we have also taken few very important decisions, the first one is we prepared a five-year aspirational business plan commencing from FY2022 to FY2026 which we have already started implementing. In this five-year aspirational plan we have articulated our aspirations to build the retail business of CV, SME as well as affordable home finance.

While, we have an aspiration to build a large retail business, we have also taken a bold decision to wind down gradually the corporate lending business. All of you are aware that IndoStar started off with the corporate lending business which was real estate and non-real estate. We had about Rs.4,500 crore, of book which was making Rs.400 crore of profit before tax but after IL&FS fiasco the corporates faced lot of problem and the real estate industry became sluggish, so we took a decision to gradually wind down and Rs.4,500 crore has now become Rs.1,900 crore and while we are growing the retail book, we are slowly winding down this and we are confident that



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at present as we are at 22% corporate and 78% retail, by March 2022 we are hoping that the corporate book component in the overall AUM will come down below 10%.

The third important decision we have taken looking into the affordable home finance business which had been a 100% subsidiary of the company, we have generated about Rs.1,000 crore of AUM in this business with good profitability and exceptional asset quality. The management team has managed this business very well and now we have come to a situation where we felt that we should capitalize this subsidiary and then grow this business fast. We are making this affordable housing finance independent and the business head Shreejit Menon, who did an exceptional work has been recently made Deputy CEO and he will spearhead this operation in the next few years and take this company large.

The fourth major decision we have taken is that we have strengthened the CV financing team and we have brought in Mr. Ravi Kumar, Business Head from Cholamandalam who had put in about 20 years in that company. He has recently joined in April as Business Head. We have also brought in another person from Cholamandalam, and Aditya Birla Mr. Arvind Uppal who has just joined few days back as our National Collection Head and all of you are aware, we have made this announcement in the earlier call also. We have also brought in Mr. Deep Jaggi as our Chief Business Officer from HDB Financial Services. So, all these people have fairly long experience of more than two decades in very reputed companies which had a large exposure in the CV financing business. So, the CV financing business in retail, we have a very big aspiration to build a used vehicle financing business which has excellent potential and good profitability. So, we have strengthened this team.

The fifth decision we took was that in this lockdown and work-from-home scenario, everyone has invested lot of time and energy in the digitization initiative plus going forward digitization will become a very critical factor in growth of retail business, for which we have partnered with KPMG to help us in this initiative and we should be going live with this very soon. Yesterday in our board meeting our Chief Operating Officer made a presentation comparing our digitization initiative with other peers and we are satisfied that it would be one of the best in the NBFC industry.

So, these initiatives have helped the company strengthen capital and also put us in a well prepared mode to take advantage of the potential in the retail business to make this company create lot of value to all the stakeholders.

Having said that we have also taken a setback during the 2nd wave due to Covid 19., which was a continuation of the 1st wave of the Covid 19 which started in March 2020 with a moratorium of six months., In addition, from the beginning of this financial year FY2021, in the last fifteen months about seven months have been under lockdown, with at least 50% capacity and with the balance 50% partially going to office with constraints in meeting customers. All this has caused us to setback to the business



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So, we focused on collection and asset quality in the first seven months we have gradually improved our collections, in October 2020 we reached 100% and after that in November we started disbursements and in five months between November and March we actually lent about Rs. 1,000 crore, and in Q4 we have done more than Rs.800 crore which was our pre-COVID level, but unfortunately in April we were faced with the COVID-19 2nd wave so, the disbursements have come down, but I still feel that we should do around Rs.500 crore of disbursements in this quarter.

Naturally, the moratorium, subsequently restructuring and then the 2nd COVID wave have had an impact on the collection performance of the company. Our customers who have always been on earn and pay mode, we have been catering to mostly middle and lower segments customers in both CV as well as in the affordable housing finance space, particularly in CV space, which is cyclical, has had a big impact.

As a company which had acquired a portfolio from another NBFC which had a large component of heavy commercial vehicles, passenger commercial vehicles catering to the fleet owner segment, our asset quality also had an impact. But the board as well as the shareholders and management adopted a very conservative approach in taking aggressive COVID provisions and accelerated technical write-offs in both years, in March 2020 as well as in March 2021,. Today we have ring-fenced our balance sheet with the Rs.400 crore of management overlay.

It has been a very conservative approach, if there is no third wave, I feel that we have adequate provisions to protect the balance sheet and I am also confident that there will be no more write offs or credit cost which may be required.

We have reported from April 2020 to May 2021 the collection performance. Even though the collection performance has been steadily going up and, in many months, we have achieved more than 100%, but these are all total collections. When it comes to billing to billing there have been movements of buckets, there has been flow forward. So, temporarily the 90% plus stage 3 assets and stage 2 assets have gone up and in April and May also our collection performance has been more than 90%, but still there could be some movements. We are addressing on these and as a strategy we are building a separate collection vertical, we have brought in collection head and separate collection vertical.

In the CV business there are companies which have a practice of asking the sourcing team to collect and there are companies which have been successful in creating a separate collection vertical. So, as a person we had worked in these industry for more than three decades, I also feel that it is necessary to build a separate collection vertical to ensure very good asset quality on a sustained basis.



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As we have a very aspirational business plan for the next five years, we felt as a strategy to build a separate collection vertical, so with this separate collection vertical we are confident that we will be able to enhance our asset quality once the pandemic subsides.

In Q2 from July, we will be able to start our normal businesses. We are hoping that the impact of COVID-19 2nd wave is slowly coming down and the things are opening up except few states and few cities. So, we are hoping that post Q1 which will also be very, very difficult and challenging quarter, but from Q2 we will be increasing our disbursements and we have a huge aspiration and you aware about the potential in the used vehicle financing business and profitability.

So, if we have three good quarters and if our total assets go up it would be fantastic for the company to report good numbers and the experience of the company from November to May in which we did a disbursements of more than Rs. 1,000 crore, the quality of that book is fantastic we have 94% of our book is in the current bucket even during the 2nd wave of COVID-19 pandemic.

So, we are very, very confident with the capital and the strategic initiatives which we have done of rolling down our corporate business, growing retail business making the affordable housing independent, digitization, smart branches and conservative provisioning and write off policy, strengthening the balance sheet, IndoStar is in a very strong position as of now to take advantage of the potential will be unfolding once the impact of the 2nd wave of COVID-19 subsides. As I had said earlier if there is no threat of any 3rd wave of COVID-19, we should be on our way to build a very good profitable and high quality NBFC in the country.

The business of SME as well as the new vehicles as we have articulated earlier as a strategy, we will be putting these in the off balance sheet to make more profit. In this regard we have earlier had partnership with ICICI Bank for CV business. We have renewed this partnership with a very, very attractive commercials and even the new vehicle and SME business which is nowhere yielding compared to used vehicles will also become profitable.

So, with these preliminary comments I would like to leave the forum for your questions and answers and the total management team is available on the call and we would be happy to answer your specific questions. Thank you very much.

Moderator: Thank you very much. We will now begin the questions and answers session. The first question is from the line of Harsh Patel from Alpha Alternative. Please go ahead.

Harsh Patel: Good morning, Sir. Thank you for the opportunity. My question is related to the housing finance business, the affordable housing finance business. Sir, the top three players are focusing on the retail book. Sir, I wanted to know thoughts on the competition, what area are you targeting as an outskirts, what states are you targeting, the yields on the affordable housing loans and the return on equity on this loan?



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R. Sridhar: We have built a Rs. 1,000 crore, book in the last two and half year – three years, which, as I said is of good profit and very good quality. So, encouraged by the kind of performance which had been done by our team, so now the board is thinking of making it independent, capitalizing and grow fast because of the opportunity. So, you know that the government has made it very clear that they want housing for all. The tire-3, tier-4, tier-5, small cities, small towns there is lot of opportunity for self-construction houses. So, we are focusing on not more than Rs.10 lakh ticket size, mostly self-construction where our team feels that extraordinary potential is there with low competition. With the kind of expansion which the CV business is going to make even though we will be making a separate branch infrastructure for affordable housing because they are independent companies but to start with it will exploit the presence of the CV business and then move to its own independence. This is where we are going to focus where the profitability will also be high and there is a huge potential for growth.

Harsh Patel: Okay, what are the yields on these loans?

R. Sridhar: Today we are getting a blended yield of around 14%. Yield is a component of supply and demand as well as competition. Our team is slightly quality oriented, so I think we should be at 14% and with lower interest rate scenario we should have a comfortable net interest margin in this business.

Harsh Patel: But Sir, do you see any competition from the top three players?

R. Sridhar: Competition will be there in every business, but potential is very high. For example, if you take CV, there is Sundaram Finance, there is Cholamandalam and Sriram Transport. But still, we are coming in we will also make a market and we will take market share. The sector is growing, the segment has a potential so, and there is always space for newcomers. Even in affordable housing finance we will gain market share from existing players as well as in the potential which is unfolding in this space.

Harsh Patel: So, can you share your thoughts on growth, if you are talking about the growth is there, so what kind of growth?

R. Sridhar: Base is low toady, so our growth percentage would be very high.

Harsh Patel: For FY2022?

Ramachandran Sridhar: Yes, But this business is very granular. It is less than Rs.10 lakhs, it is not like a normal home loan business - which even in Mumbai city where a house can be Rs.40 crore – Rs.50 crore, which is not what we are catering to. So, there will be large number of loans but the AUM of even the biggest company in the country would be Rs. 10,000 crore only. So, that is the way, but it is a new business, it will take some more time for people to have bigger AUMs. We are Rs. 1,000 crore, if we go to more than Rs.5,000 crore in the next three - four years it will be fantastic.



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Harsh Patel: My second question is you are talking about strengthening the CV business you are having about and some of the people who have, have joined from great companies in this space. What makes them join your company?

R. Sridhar: Everyone is looking for an aspirational growth in their career. It is not that the companies they have worked is not good. Everyone is looking for an opportunity to grow in their career, so they all have come to create some value. Like Deep has been fantastic leader and there are many people who have followed him from that company and have joined us. So, he has created fantastic regional business heads in North and East region. He has been a leader and he is going to create fantastic value and similarly we have a very good resource Ravi Kumar who has worked 20 years in Cholamandalam in used vehicle financing business. He has joined us because Ravi Kumar wants to be a CEO of an NBFC in the next ten years, so that is what drives. It is not for money. They have an aspiration, for aspirational carrier growth people have come. So, they all feel that this is an institutionally owned and professionally managed company, and I am looked at as a promoter of this company by the new executives who are joining. So, they are all comfortable to come and work in this kind of an institution. We are all going to as a management team supported by the sponsors, create a very good NBFC with high growth, high profit and high quality which will create huge value for the stakeholders.

Harsh Patel: Thank you. That is from my side. Thank you very much.

Moderator: Thank you. The next question is from the line of Jainis Chheda from Dimensional Securities. Please go ahead.

Jainis Chheda: Good morning, Sir. Sir, I had a question regarding the spread that you are making because in your presentation on the slide of consolidated profit and loss statement, the spread mentioned is 0.8%, so I just wanted clarity on the spread that the company is earning?

R. Sridhar: Used CVs are 17% to 18%, so with the 35% capital we should be a large NIM business. New vehicles will be lower, SMEs will be lower, but these are all off balance sheet. So, our NIMs are going to be very high in the beginning and as and when the capital gets consumed it will come down. So, we are confident with the very benign interest regime and gaps in funding in the used vehicle segment. We should be comfortably at 8% net interest margin in this business.

Jainis Chheda: 8% on steady state basis, right?

R. Sridhar: Yes, that is what I believe.

Jainis Chheda: What will be a cost of opex to AUM on a steady state basis?

R. Sridhar: Operating expenses today is very high because AUM is the problem for us. In last three years one year we have been hit liquidity because of the IL&FS crisis after that one year we have been hit by the pandemic. So, even though we had capital we had everything we could not grow, and we



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have also been reducing our corporate book gradually. So, if you look at in the last two years our assets under management have come down by more Rs. 3,000 crore. So, that is why our ratios are looking little bit skewed but if you will look at our March 2022 where we are confident of adding another Rs. 3,000 crore – Rs. 4,000 crore of book, the ratios will look fantastic.

Jainis Chheda: So, steady state basis what is the opex AUM that you are factoring in on our normal businesses?

R. Sridhar: In a retail business the best company is there at 25% and some companies will be at 30%, so we should be slowly bringing it down in the next three year to five years below 30%.

Jainis Chheda: With regards to your AUM growth what is your ambition to reach like say by 2025?

R. Sridhar: This is a question I have addressed in Sriram Transport also. When the people are asking me when we were Rs. 5,000 crore, I was hesitant to tell a big number, so I said that we will grow three times – four times, 15–20, but I ended up with Rs. 50,000 crore, I am talking about in the earlier company. So, today I am not putting any number, but the potential is so large in both the businesses, we should be growing very fast, and all our problems are behind us. We should be aiming for a large growth of at least seven times to eight times in the next five years from the current base.

Jainis Chheda: Okay, and one last question on the shareholding front, any plans to bring down the promoter holding to below 75%?

R. Sridhar: That is a regulatory requirement which the shareholders are working and that will happen. But what they are going to do is what we are still not aware of.

Jainis Chheda: Thank you so much.

Moderator: Thank you. The next question is from the line of Kunal Khudania from Mirae Asset. Please go ahead.

Kunal Khudania: Good morning, Sir. Sir, my question is specifically on the CV book like the credit costs have been pretty much high, so is most of the pain coming from the book which you have acquired or how that book is specifically behaving as such?

R. Sridhar: You are right. CV had multiple challenges. One is it is an asset which is cyclical and also directly linked to the economy. We had a very sluggish GDP growth, we had a very sluggish industrial production and on top of it the down cycle of CV, sluggish new vehicle sales, sentiment down, fuel prices are up, you can put any number of challenges which the industry has faced apart from the pandemic. So, the acquired book had fleet owners, buses, and heavy commercial vehicles higher component. So, these are all some of the assets including the tippers which are infra related, mining related have been facing the brunt. So, that is where our challenge is and we are addressing it, today there is moratorium, restructuring and we can do multiple things, but we

have kept it under control. Our collection performance has been fantastic. But, as I had earlier said, roll forwards have been there and there is a pressure on NPL and we have been able to keep it under control. I am confident after Q1 when things subside, we should be able to bring back many things and roll backwards stage 3 to stage 2, stage 2 to stage 1, is all in the planning phase, that is why we are strengthening the collection vertical and the other one is the new book which we are adding is of exceptional quality. So, when the denominator goes up by another Rs. 3,000 crore – Rs. 4,000 crore in the next two three quarters with exceptional quality the whole number will look different.

Kunal Khudania: So, Sir out of this Rs.297 crore odd how much will be the write off about and how much will be the provision?

Amol Joshi: Of the Rs.290 crore that you see in the balance sheet, we are carrying a provision of Rs.168 crore against the Rs.290 crore of stage 3 assets that we have. We have increased the provision cover across all our assets considering the people that had taken moratorium earlier plus this second wave hitting us. So, I think from a provision coverage ratio we are comfortably placed against the stage 3 cover that we are carrying.

Kunal Khudania: If I could just ask the last question, if you could comment on the stage 2 numbers across the segments?

Anmol Joshi: So, stage 2 nothing much has changed between December and March, we are around 24% - 24.5% of the stage 2 versus the overall book. This clearly includes the restructured part of our portfolio, which by default they have been conservative in terms of provisioning and classifying any restructuring at stage 2 so hence that increased number is visible.

Kunal Khudania: If I heard right in case, we do not have any 3rd wave of COVID-19 there won't be any requirement of or any further sharp increase in the provision or the credit cost, is that right?

Anmol Joshi: You are right.

Kunal Khudania: Okay, great. Thank you.

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

Deepak Poddar: Thank you very much for the opportunity. Just wanted to understand on the credit cost now you mentioned that if there is no 3rd wave, no sharp increase in the provisioning requirement. So, do we expect that this year our credit cost should normalize what we have been doing maybe at pre-COVID levels?

R. Sridhar: As we have told you that we have been conservative in making some technical write off as well as in provisioning. So, we are carrying extra management overlay considering the environment.



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Q1 is a challenging period so, after Q1 if the situation normalizes, things become normal and there is no COVID 3rd wave which again becomes a lockdown scenario I think the provision coverage is enough for us. There will be no new provisions required, except to the extent that the new book created again you will have make some provision beyond that I do not think there will be any fresh credit cost requirement of the existing portfolio.

Deepak Poddar: Okay, understood. Thank you.

Moderator: Thank you. The next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Thank you for taking my questions. At least my view is that unless there is a sharp deterioration in the COVID situation of the country we should see a strong rebound in the economy in the remaining nine months of the current fiscal year and in the next fiscal year as well. I think which is why I feel that my question is more strategic and slightly longer term in nature. This COVID related disruptions aside where you do aspirationally see IndoStar over let us say a three year to five-year horizon, I understand that you did not want to put out any guidance on where we on the AUM side would, but other than these three retails product segments do you plan to enter any new product segments. What is the steady state, let us say NIMs or credit cost set to aspire for and what kind of steady state return ratios like ROA or ROE could this translate into?

R. Sridhar: We have articulated our aspiration to be in the CV financing business in the parent company which we are going to grow big. So, we are also expanding geography, products definitely in that business. Apart from our focus on used CVs, the new CVs we will be doing in partnership with the ICICI Bank. We are also bringing in passenger commercial vehicles plus construction equipment's, then we are going to look at farm equipments like tractor. So, we are adding three more products to this plus there could be many more which will be commercially used assets which we will bring in. In this the potential is so large, you have NBFCs which are largest in the country in this space. So, with the scrappage policy coming in, if it wasn't for the pandemic, it would have already been implemented, but I am confident that once the pandemic subsides this will be implemented by the government. There is going to be a huge replacement demand which is going to come, so there is a big opportunity for growing this used vehicle financing business where there are very few players, so the interest rates are quite attractive and that is where our aspiration is there. I cannot put any number to where we would go from here because the potential is Rs. 1,00,000 crore to Rs. 1,25,000 crore, only because of the replacement demand arising out of scrappage policy plus the normal demand of application change, ownership change which have been happening on a day-to-day basis. So, the potential is in lakhs of crores, so even if we take 20% - 30% of this over the next five years there is enormous opportunity that we have in this business to grow apart from that agriculture, your infrastructure where construction equipment and movement of people where buses or other commercial vehicles, passengers is there, so that is one area we are going to do. Independent company, affordable housing will grow that book similarly, but will not be as big as the commercial vehicle and the SME as well as the



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new vehicles we will do off balance sheet. So, in terms of return ratios we would like to be north of 3% and would like to leverage around five times which is a 20% capital adequacy and with off balance sheet strategy we can do another one time, one and half times leverage. So, if we can achieve 3% ROE over a period, we can be in the band of 15% - 20% in terms of return on equity, that is our aspiration.

Abhijit Tibrewal: That is very helpful and now that we have navigated the IL&FS crisis and the economic or the CV down cycle that you saw just prior to COVID and even in the current COVID mayhem I am sure that there have been some learning's for all of us. How do you plan to further improve your collections framework in which of your let us say three retails product segments, do you feel there is a need to tighten the underwriting and what plans are there to do that?

Deep Jaggi: Good morning. There are going to be two-way approach. What we have done is we have changed our product mix primarily, generally with the down cycle what happens is, there is a major impact which comes on the heavy commercial new, so we have cut down our exposure in the heavy commercial new. As mentioned by Mr. Sridhar, we will be expanding our product basket, we will be going towards the high yield products which are used cars, used tractors then light commercial vehicles along with the used heavy commercial vehicles. So, there has to be a strategic shift which we have planned and accordingly we have made changes in our credit underwriting policies which is in line to increase our focus into these particular segments that is our approach. I hope I can answer your question?

Abhijit Tibrewal: Yes, Sir and the last question that I had was, you talked about some of the digital initiatives that you are taking, and you are also working with KPMG there, if you can elaborate some of these digital initiatives that you are taking to further strengthen your collections infrastructure?

Jaya Janardanan: Thank you. So, when we speak about the KPMG partnership, they are actually helping us to digitize the entire origination piece from the customer to the disbursements. So, the entire piece then flows from a manual process to a digital flow, and this is being done both for the affordable housing as well as for the CV business. So, the project is underway, and we go live on the housing piece in the month of August, and we go live on the CV business in the month of November. So, it reduces our turnaround time drastically from the current time taken. Two days is what we are looking at in both the spheres and that overall will help us to enable the increase in the numbers that we are looking at. Thank you. I hope that clears the question?

Abhijit Tibrewal: Yes. Thank you very much and wish the very best for the coming fiscal year. Thank you.

Moderator: Thank you. The next question is from the line of Amol Patil from IDFC First Bank. Please go ahead.

Amol Patil: My first question is April and May collection efficiency is quite high. I can see it at 140%-120% despite second round of lockdown. So, I would like to know how this is achieved, what was the strategy which was adopted by the company?



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- R. Sridhar:** When the going gets tough the tough get going, Amol, so we have learnt from the 1st wave of COVID-19 is different from the 2nd wave. This is not a billing-to-billing collection. It is billing to total collection. So, this consists of even overdues and all that which has been collected. That is why it is showing more than 100%.
- Amol Patil:** Yes, but industry standard is below 100% that is the reason I asked this question?
- R. Sridhar:** Ours is also below 100% if you look at billing-to-billing collections, it will be 80% - 85%. So, how others have reported, what they reported I do not know, but this is total collection and billing-to-billing will be definitely below 90%.
- Amol Patil:** Okay, and I see high cash and cash equivalents maintained by the company, so what is the optimum size that you are looking forward for FY2022 on can and cash equivalent side?
- Amol Joshi:** Amol, thank you for the question. We internally clearly have benchmark which we maintain 15% of networth will always be carried in cash and highly liquid instrument, for this particular purpose considering we have an AA minus we are in constant touch with our trading agencies and get inputs from as to what makes them comfortable, and we are all aware that we are very aspirational for our growth, and we want to eventually look at a credit rating upgrade. So, with that background we work with them very closely to ensure that we have adequately liquidated all point of time. So, eventually this will settle in, in a range of around Rs. 1,100 crore to Rs. 1,200 crore over a period.
- Amol Patil:** Great. One more question, CV business is still not breakeven, so what is the AUM size if other things being equal, we can say that CV business will breakeven?
- R. Sridhar:** The break even today what you see is because of the credit cost. Normally, if you see the breakeven in the earlier scenario where the branch cost was higher, it took about 18 months for us to breakeven a new branch. But now after Deep Jaggi, has come he has brought in a new concept of smart branch and along with the digitization initiative we are going to bring small size, very low-cost branches – with digitization it is possible and we will bring down the breakeven from 18 months to, 8 - 9 months. So, that helps us in increasing the penetration and building the branch infrastructure quickly. Today our business shows a loss because of the provisions which we have taken.
- Amol Patil:** There is some disbursement in Q3 FY2021 for corporate loans. Can you give some explanation on this?
- Amol Joshi:** Amol, as you are aware that while we are winding down the book there are certain sanction limits which are still undisbursed and we want to support our customers because we stand by the credit decisions we have taken earlier, so it will be only those tickle down effect where we are disbursing only towards committed line.



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- Amol Patil:** NIMs are falling. I mean Q4 NIMs have come down although I see that for companies like IndoStar the borrowing rates have gone down substantially so, any explanation on that?
- Amol Joshi:** Typically Q4 which is where full year audit takes place also leads to certain adjustments and some of the interest reversals which we had taken are in Q4. So, you will find that the overall EBIT on loans itself versus Q3 you will find out, so that is more of an accounting. All the new book that we are building are according to yields as per the product which are not compromised at all.
- Amol Patil:** So, any reductions on the interest rates on product side overall?
- Amol Joshi:** No, and Sridhar will elaborate the new book that we are building there is a specific yield target as well because it is going to be highly focused, used CV book that we are building which has far higher yields than the other pieces of CV business.
- Amol Patil:** Okay, last question, asset quality had improved in Q2, Q3 last year and then we had another round of lockdown. So, do we expect similar kind of bounce back in next two quarters coming?
- R. Sridhar:** Definitely, Q1 is a challenge but we would like to maintain, we are putting lot of effort to maintain at March level and then in Q2, Q3 and Q4 we will make lot of effort, if the environment is conducive, we should be rolling backwards from stage 3 to stage 2, stage 2 to stage 1, a significant portion of our portfolio.
- Amol Patil:** Thanks a lot, gentlemen. That is what my questions were.
- Moderator:** Thank you. The next question is from the line of Dipanjan Ghosh from Kotak Securities. Please go ahead.
- Dipanjan Ghosh:** Good morning, Sir. So, three questions from side, one is could you provide the number for write offs during the quarter and annual? The second will be what is the type of overall provision that you are holding on the book including stage 1, stage 2, stage 3 and the third is if you can shade some colour on the type of accounts or products you have restructured in the vehicle and SME, please?
- Amol Joshi:** Dipanjan, thank you for those questions. In terms of write offs you are aware that we are working very actively to ensure that the corporate book's sell down and exit happens peacefully. In that respect we had done a particular deal where we have marked down one asset to buy Rs.58 crore which is what you see in Q4 plus we had done certain technical write offs in the retail book as well, predominantly CV. So, that Rs.76 crore that you see is the CV write off plus around Rs.62 crore in the corporate book of which a part is towards that NPA that we have dissolved in Q4. You will find that we will have zero NPA in the corporate book going forward, so those are the write offs we have done. To answer your question on the provisions that we hold, we have ensured that we have sort of a buffer built for any other eventualities especially in the COVID



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wave 2 and that is what Sridhar alluded to that Q1 is still a challenge and any upcoming COVID 3rd wave if it comes at all. So, overall provision we carry is Rs. 800 crore against the book of Rs. 8,000 crore that is a very healthy 10% percentage that we are carrying. We are carrying Rs. 186 crore against the stage 3 NPA that is a PCR of 54% only, so the balance provision that you see is against the stage 1, stage 2 book.

Dipanjan Ghosh: Sure, and the last question on the type of accounts or products that you have restructured in the vehicle finance and the SME book?

Amol Joshi: Yes. So, you will see that the restructuring in the CV, SME and very negligible portion in the affordable home finance business. So, within CV and SME restructuring, the RBI guidelines are very clear as to what kind of customers qualify. They are to be standard at a certain date and then only we can take them up for restructuring. So, we have worked closely with our customers, and we give them various options which suit that particular customers, those options for restructuring ensures that there is not sacrifice that we must do in terms of the IRR that we eventually get from the customers. We might give them a holiday for a certain period to ensure that the business bounces back, we can give them a stepped up EMIs saying that after eight months it will go back to normal, or we even look at interest rate reduction for a short period of time. So, we ensure that the idea of restructuring is to allow the customer to bounce back, and we will want to grow as this business grows with them. So, that is the kind of restructuring that we undertake.

Dipanjan Ghosh: Thanks for the explanation. I think I was more asking from the point of view the type of let us say within the vehicle finance, will it be more in the hospitality sector, or the CVs, or it may be some other like cars, some other vehicle class. So, in a more from the asset class I was asking, is that possible?

Amol Joshi: Yes, Dipanjan I will give more in a different way. So, you are right, within the CV business the most affected has been the customers who have been part of the tourism industry or having heavy commercial vehicles who will run longer routes across India. So, those two have clearly been impacted we have supported them. We have certain segments which are passenger cars or school buses a small portion, but that segment too needed some support.

Dipanjan Ghosh: Sure, thanks a lot for the answers.

Moderator: Thank you. The next question is from the line of Jainis Chheda from Dimensional Securities. Please go ahead.

Jainis Chheda: What is the PAR 30 – 60 – 90 books on segmental basis and on the overall book basis?

Amol Joshi: Jainis, we have around stage 2 of around 25%, our GNPA as you have seen is only 4.4, so the balance is the stage 1 book. Within that CV is a bit higher of around 32% of stage 2 and then stage 3 is around 8% as we have given in the investor's deck as well, the balance is stage 1. SME we do not see major concern in terms of the staging. Just to highlight again, stage 2 includes any



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restructured book that we do because even if we restructure a stage 1 asset just to ensure that the customers' requirements are met, we by default carry a higher provision and move that asset to stage 2 for better monitoring.

- Jainis Chheda:** On the overall book basis what will be the breakup like 32% is CV stage 2, right?
- Amol Joshi:** Yes, on an overall portfolio that we carry 24.5% is stage 2, 4.4% is stage 3.
- Jainis Chheda:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Rikesh Parikh from Barclays. Please go ahead.
- Rikesh Parikh:** Thanks for the opportunity. Sir, can you throw some light on the kind of credit cost we have taken in the CV finance business, whether it was from our acquired book, or we have taken as a major overall of the book and taken a provision?
- R. Sridhar:** The credit cost is coming from both the books, but it is slightly higher in acquired book because of the composition of the customer and the composition of the vehicles, which is going through a stress in this environment so, there is a provision in our organic book also. So, it is a combination of both.
- Rikesh Parikh:** The second question is Sir going forward how we should be looking at it? assuming that Q1 will be challenging as such we understand, but in terms of credit cost where we can we be guiding as such going forward in overall book and CV finance specific?
- R. Sridhar:** If you look at our asset growth, as I mentioned if there is no 3rd wave and second wave subsides things become normal, In the three quarters if we can put together Rs. 3,000 crore of AUM without any further credit cost, then we should be doing very well in this year, because the ratios will look different, there is no extra cost, we should be making profit. So, every number including your ROA, ROE, your cost to income, GNPL, will look good.
- Rikesh Parikh:** Yes, just broadly can you tell us what could be the cost we can look at as such on a normal scenario basis?
- R. Sridhar:** As Amol said at 4.5% that will come down if we increase the denominator. In percentage it will come down, but as an ad hoc provision in P&L. For a new incremental book which I am building I have to definitely make provision, it will also be in stage 1 and stage 2, so that I must make. Apart from that if there is no stage 3 in the new book overall stage 3 book GNPA optically will come down because the denominator is going up and because the new assets have been put, cost to income will come down, profitability will go up because I am adding income, I am adding assets without any further cost with digitization and smart branches the cost coming down our unit economics should look very good.



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Rikesh Parikh: Sir just last one question, Sir I understand we are having now renewed focus with housing finance, so going forward how do we see the book shaping up in terms of CV, SME, and housing finance?

R. Sridhar: Housing finance is going to be independent company do not mix with IndoStar Capital. Now, IndoStar Home Finance is a separate company, so we will capitalize it, we have appointed a CEO and we will grow that business. It is 100% held by IndoStar but still accounting wise we will be consolidating but operationally it will be independent. So, like your Aadhar and Aavas we will grow this business. In the parent company we have articulated that it will be used CV business, used tractors, used passenger commercial vehicles and construction equipment. New CVs will be in off balance sheet, SME will be mostly off-balance sheet, it's the model we will build. So, we are hoping for an 8% minimum NIM, 3% ROA and eventually if we leverage and use the capital and grow, we should be in the bracket of 15% - 20% and that is our aspiration.

Rikesh Parikh: Thanks. That is it from my side.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question. I now hand the conference over to Mr. R. Sridhar, for closing comments.

R. Sridhar: Thank you to all. Your enthusiastic participation and active interaction with us we are thankful to you. As I had mentioned that we have done the right things at the right time even in the most challenging period of COVID-19 1st and 2nd wave. As I had articulated IndoStar is now well-positioned with capital, liquidity, strong ALM, products and team to create one of the best NBFCs in the country and a lot of value to stakeholders. All our problems and challenges I hope are behind, so we are going to march towards the next five years of aspiration plans with lot of confidence. I along with my colleagues thank you for your active participation and wish you all a very healthy, safe COVID free-situation for you and your family. Thank you very much.

Moderator: Thank you. On behalf of Motilal Oswal Financial Services that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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