“Indostar Capital Finance Limited Q2 FY2021 Earnings Conference Call”

November 06, 2020

ANALYST:	**MR. PIRAN ENGINEER – MOTILAL OSWAL SECURITIES LIMITED**
MANAGEMENT:	**MR. R. SRIDHAR – EXECUTIVE VICE CHAIRMAN & CHIEF EXECUTIVE OFFICER – INDOSTAR CAPITAL FINANCE LIMITED** **MR. AMOL JOSHI – CHIEF FINANCIAL OFFICER - INDOSTAR CAPITAL FINANCE LIMITED** **MR. DEEP JAGGI – CHIEF BUSINESS OFFICER - INDOSTAR CAPITAL FINANCE LIMITED** **MR. PANKAJ THAPAR – DIRECTOR STRATEGY INDOSTAR CAPITAL FINANCE LIMITED** **MS. JAYA JANARDANAN – COO INDOSTAR CAPITAL FINANCE LIMITED** **MR. DEEPAK BAKLIWAL - HEAD, CORPORATE LENDING - INDOSTAR CAPITAL FINANCE LIMITED** **MR. SALIL BAWA - HEAD, INVESTOR RELATIONS - INDOSTAR CAPITAL FINANCE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2021 Earnings Conference Call of Indostar Capital Finance hosted by Motilal Oswal Financial Services. 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 Piran Engineer from Motilal Oswal Financial Services. Thank you and over to you, Sir!

Piran Engineer: Thanks Margreth. Hi everyone. Thank you for joining us and welcome to the call. With us today, we have the entire management team of Indostar Capital Finance led Mr. R. Sridhar, Executive Vice Chairmen and CEO. Without further review, I would now like to handover the call to management for opening remarks followed by Q&A session. Over to you, Sir!

R. Sridhar: Thank you, Piran. Good morning to all of you and welcome to the call. The Q2 FY2021 had been a stable quarter for us with some exceptional achievements. So, I would like to take this opportunity to list out some of the pasting developments, which have happened during Q2 FY2021. So, all of you are aware that due to the pandemic, the lockdown started from March, 2020 and Reserve Bank of India naturally came out and announced moratorium. The moratorium 1.0 was very stiff as you all know because it was 100% lockdown. There was absolutely no economic activity and our main stay business of MSME, which includes commercial vehicles and SME have not been able to operate, all these have been the features of moratorium 1.0.The collections during those months dipped as many of our borrowers had sought moratorium.

Subsequently, Reserve Bank of India came out and then extended the moratorium for another three months, which had been June, July and August. So, during this period simultaneously there has been an unlocking announced by central government and various state governments except in containment zones, economic activity slowly and gradually started and we could feel that and realize as we have been getting better and better in terms of collection. During these three months, collections have gradually improved and we reached 70% collection in the month of August, 2020 and moratorium did not get extended and RBI came out and announced that they will allow a onetime reschedulement as demanded by the industry.

During this onetime reschedulement period in September,2020 and October,2020, our collections went up steeply so if you look at our collections from March,2020 to October, 2020, it has slowly moved up and in July it was 65%, August it was 70%, September 92% and October it is about 100%. This has given us tremendous confidence and also exhibited the capability of our team, which is engaged in the retail businesses. All these have been achieved with most of our employees working from home and we initiated very aggressive customer connect program, terrific follow-up and customers as and when the economy activity started as you all know, the commercial vehicle is a earn and pay asset. This clearly indicates apart from other economic indicators like GST collections, toll road collections and diesel consumption are indicating a positive turnaround in the commercial vehicle industry. We observed in the market place different NBFCs adopted different strategies for commencement of business. We felt that go at gain market share is one approach, some NBFCs have adopted and they felt that when there is no lender in the market place, it is a good time to go and gain market share, which is one approach. The other approach is a conservative approach, which we have adopted, where you go through the uncertain period, wait for certainty and then start the business.

So, in our case in Indostar we felt that we should first achieve a 100% collection, which gives us the confidence to restart our businesses. So having achieved the 100% collections in October, 2020, we have restarted all the three retail businesses from November, 2020. So from November, 2020 to March, 2021 we will be focusing to slowly and gradually ramp up our disbursements in all the three retail businesses. So, the first message which I am giving you is the excellent collection performance during the most challenging period.

The second most important is an account of resolution of nonperforming loans. So, as you all know that we have acquired the CV financing business from India Infoline of around Rs. 3500 crore to Rs. 4000 crore in April, 2019. So, along with that asset, we also acquired around Rs. 300 crore of nonperforming loans, which came along with this asset and that had pushed up our gross NPL to 4.5% to 5% and subsequent to this acquisition, the commercial vehicle industry went through a down cycle, the GDP growth was sluggish as well as the pandemic has put a lot of pressure on resolution of this NPL accounts, but we have been able to execute transaction in the month of September,2020 where we have sold around Rs.126 crore of nonperforming loans to an ARC without any impact on the profit and loss account, so this has helped our gross NPL from 4.6% to 4.7% to below 3% it has come. Also in one NPL account, which we had in the real estate, the customer has approached us for onetime settlement and that account will also go out of our books on or before March 31, 2021. So, these two are developments on the NPL front apart from the excellent collection performance, which we have reported.

The third most important thing is on the reduction in the corporate book. We have been time and again mentioning to all of you that we would like to exit the corporate lending business both real estate and non-real-estate and from a peak portfolio of Rs. 6000 crore in the middle of 2018, we have brought it down to below Rs.2500 crore as of September 30, 2020 and this has been brought down by sheer collection and we have not done any transaction of sale any of our portfolio asset and in the Q2 FY2021, we have been able to bring down Rs.452 crore of exposure from one of our large client, so that has helped us to bring down this asset and we are confident that in the next 12 to 15 months, we would take this portfolio to near zero.

So, these are all few important developments, which have taken place during Q2 FY2021. With the partnership of Brookfield, which had invested money into the company with the kind of capital adequacy of nearly 35%, we have enough leg room, very comfortable asset liability and good liquidity pipeline enables us to plan aggressive asset growth in the next five months. During this financial year due to the pandemic and other economic headwinds when we are going through a muted growth, we are also not keeping quiet, while focusing fundamentally and collections reset quality, reduction of NPLs, reduction of corporate lending book, we are also preparing ourselves to take advantage of a potential, which is going to unfold post the pandemic.

So, what we did is, we are focusing on few major initiatives to prepare the company to grow aggressively during the next five years. So, we have focused on digitization, we have brought in a global consultant to help us and we should be ready between March, 2021 and June, 2021 with the digitization initiative, that said with the digitization with the insight we have had during this lockdown where we could achieve lot of things by sitting at home we also feel that our branches need not be big, so we are planning to have smart branches when we are moving from 200 branches to 700, 800, 1000 branches in the next 5 years, all these incremental branches are going to be smart branches. The smart branches are smaller in size combined with digitization these two initiatives are going to enhance the productivity as well as reduce the operating expenses substantially.

The net result of these two initiatives apart from productivity increase and reduction of operating expenses is the breakeven so whenever we are as a small company expanding to a bigger company, we have to open branches, so in our earlier expansion when we opened 200 branches, these branches took nearly 18 to 20 months to breakeven, but now because of digitization and smart branches initiatives, we are going to breakeven these branches in 9 to 10 months, which is typically 50% of the time. So, this is going to increase our penetration in the different geographies, so that is going to help us to grow aggressively in the next five years, so, we are looking at all these strengths. what we are trying to do is apart from smart branches and digitization, we are going to expand our products, our customer segments and we are going to be 100% retail. We will be moving to different geographies for example, we are today not present in east so we will be moving there.

We are also side-by-side strengthening the leadership team. You would have seen in the press release which we did on October 20, 2020, we have brought in Mr. Deep Jaggi as our Chief Business Officer. Mr. Jaggi was earlier with HDB Finance where he was head of asset financing. He had an impeccable track record in building the asset financing business, which consists of new and used vehicles, commercial vehicles, passenger vehicle, construction equipment and tractors. So, these are all the 4 segments Indostar is also planning to grow, so Mr. Jaggi has worked the last 10 years in HDB Finance as an asset finance head and has built a high quality, high profitable platform and before that he was working in Chola. He comes with a rich experience, excellent track record at an appropriate time to Indostar when Indostar was sitting with lot of strengths in terms of large equity partner, equity capital networth, digitization, smart branches and all that, so Mr. Jaggi's onboarding is going to help us in building the asset financing business profitably in the next 5 years.

So, if you look at our Q2 FY2021 account you will find that the commercial vehicle finance business has made more profit than other businesses. This is what we have been telling all of you in the last few years that the growth when it comes, the retail business particularly, the CV financing business where we are planning to be present in high profit used vehicle financing that is going to contribute significantly in the growth of our business and the other point, which I want to leave with you is on the restructuring, during the months of September,2020 and October,2020 where the onetime reschedulement has started, only 0.6% of our customers have sought restructuring. We are evaluating that on a case to case bases and wherever the customer's business has been disrupted, we are sympathetically considering reschedulement, so as anticipated, the reschedulement is not going to be a big number, which indicates clearly that the fundamental retail segments, customer segments and asset segments are strong and the customers are confident that they will be able to pay without resorting to any reschedulement.

So, from November,2020 as we get on to the growth path, we are also looking at the next 5 years commencing from April 2021, where I feel that the impact of COVID would have been substantially subsided, so from that time, the next 5 years we are looking at with lot of confidence and we are excited to build a high quality, high profitable, 100% retail company, which would engage in nation building activity. So, with this preliminary remark, I leave the forum to the participants and myself and the entire top executive team would be happy to answer any of your questions. Thank you very much.

Moderator: Thank you very much. We will not begin the question and answer session. The first question is from the line of Aakkash A. Dattaani from HDFC Securities. Please go ahead.

Aakkash A. Dattaani: Good morning and thank you for taking my questions. My first question is there is a restatement in some metrics particularly the GNPA, so, could you please provide some more colour of that?

R. Sridhar: Amol, can you take it.

Amol Joshi: Sure. In restatement, as you will see Aakkash, is coming in from the previous slide, so on the balance sheet you will find that we have noted that restatement is for loan asset and borrowing, so certain off balance sheet items, which is a part of our securitized pool, which we have taken over we have sort of brought them on balance sheet hence you will find that around Rs.400 crore of assets have got added up on balance sheet and corresponding entries in borrowing as well, that leads to an impact in the GNPA in the range of around 20 to 30 bps and that is what we have called out as restated. It is an accounting adjustments we have done in Q2 FY2021 and obviously restated the previous quarter as well.

Aakkash A. Dattaani: Right, so even if in absolute terms, your GNPAs would appear to have changed, so that is because of same accounting adjustment?

Amol Joshi: It is only because of that accounting adjustment.

Aakkash A. Dattaani: My next question is on your other operating expenses during the quarter, is there a one off in there?

Amol Joshi: Yes, we had the same question in the last quarter as well, so here as well we have called out that the cost income ratio that we are publishing is excluding one off and this one off is again for the investments that we are going into various initiatives that Mr. Sridhar mentioned and that amount will be in the range of around Rs. 10 crore to Rs. 11 crore.

Aakkash A. Dattaani: So, my next question is in terms of plans for the corporate book, you intent to become 100% retail oriented company, so over what time period would you look to run down the corporate book?

R. Sridhar: See, our corporate book has got repayment schedule, but if you look at it, we have a waterfall mechanism in all the contracts, so as and when the developers sell apartments, we will get our money, so irrespective of reschedulement and moratorium, money keeps coming in and our projects are up to Rs.3 crore apartment size, sales have slowly started improving, so we are getting money back from the borrowers, so our estimate is that in the next 12 to 15 months, this would become zero.

Aakkash A. Dattaani: My next question is on the collection efficiency metrics that you have taken, could you sort of break that segment wise?

R. Sridhar: Segment wise, we do not have here, we can give it to you separately.

Aakkash A. Dattaani: Okay, sure. So, I have few more questions, but I possibly rejoin the queue.

Moderator: Thank you. The next question is from the line of Kshitij Prasad from Maybank Securities. Please go ahead.

Kshitij Prasad: Sir, my question is on two accounts, one is that how you seeing the trends in the real estate sector now, is it the sales happening or is it the liquidity crisis among developers still there to large extent, and the second question is on the strength in the CV financing, being a securitized business, how you see that happening and what is your strategy currently on that front, we have seen some kind of contraction obviously you have been cautious, but do you see any kind of recovery or what is the ground reality?

R. Sridhar: So, I will take your second question first, so, when it comes to CV financing, as you rightly said, it is a cyclical industry and in the last more than one year, it has been down cycle and along with the sluggish GDP with pandemic, the new vehicle sales have bottomed out, but as you know that we have defined our business as financing used vehicles which are not cyclical because it is not creating fresh capacity like new vehicles. We facilitate transfer of vehicle from one person to another and in the CV industry, they flip owner segment and a migrant labors who have been using Uber or Ola kind of passenger commercial vehicles have been impacted badly. The remaining segments have been doing well and we have been largely present in transportation of essential commodities like agriculture produce and other things, which we consume on a daily basis, which are being transported in the state highways, so there is no sluggishness in this transportation, as we require everything, we consume on a daily basis even during lockdown. We have been getting everything, so that is demonstrated by the gradual improvement in the collection efficiency also. So, what we feel is, even in the best potential, we have got enough opportunity to gain market share even though large companies like Shriram and Chola are present in the segment, they are going to be our main competitors, but without competing with anyone, by defining our own customer segment, we can gain market share with the kind of aspiration we have in this business, we have got enough potential. Apart from that, the scrappage policy, which is likely to be announced, is going to increase the potential for financing because the scrappage policy if it has to be successful, will have to have a very robust replacement financing, so we feel that these are going to be fantastic opportunities for us to grow in the next 5 years. Along with that, we also have geographical expansion like going to different regions as well as in the same regions opening more branches, as I articulated, digitization and smart branches are going to be our focus area apart from that, we are also expanding the product. The product expansion is going to be on passenger vehicle, construction equipment and farm equipments including tractors since the rural market is doing very well, we will be getting into that space and these product expansions, geographical expansions along with the base potential and scrappage policy is going to make our asset financing business a very high profitable, high growth business. When it comes to your question on the real-estate, I would like my colleague, Mr. Deepak Bakliwal to take it.

Deepak Bakliwal: So, the initial trends on sales velocity are encouraging. You would see that a dominant part of our book is Mumbai based where there was a substantial reduction in stamp duty and along with that we saw renewed energy in the sector, which was acquired. In some of our sites, we are seeing pre COVID level sales velocity already being achieved, now whether this has the legs to go to next three quarters and whether it pent up and it will move to the coming quarter is something, which has to be seen, but the initial trends are encouraging.

Kshitij Prasad: Thank you.

Moderator: Thank you. The next question is a follow-up from the line of Aakkash A. Dattaani from HDFC Securities. Please go ahead.

Aakkash A. Dattaani: I have 2 questions that are kind of related, so now the share of the promoter in the company stands at about 93%, am I correct in understanding that this would have to be brought down by a significant amount in the near term?

R. Sridhar: Yes, Correct. Your understanding is correct. There is one year time given by SEBI.

Aakkash A. Dattaani: Correct, so that being said, what are the plans that the company has in mind to go ahead with that and another related question is that you have mentioned in your investor presentation, that you all would possibly be looking at inorganic route as well, so which segment would you find most attractive at this juncture, thank you?

R. Sridhar: See, I can only say that we would like to remain as a listed company, so the compliance as far as the regulation is concerned will be done before the timelines that is one, but how we will do it, that I will not be able to articulate as of today as there are multiple ways the same can be achieved. One of them as you rightly said is, buying asset and merging with the company where we have articulated that we are looking at opportunities, which are there in market place, so we are actively looking at opportunities in the same lines of business, which we are already present and also some of allied businesses. As of now, we are looking at it and whenever something materializes, we will update.

Aakkash A. Dattaani: That is it from my side. Thank you very much.

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

Saurabh Kabra: Sir, very good afternoon. I need 3 data points, which we need, first is, this collection update, when we say 99% the amount of collection, this would include only the current month collection or overdue as well as prepayments also?

R. Sridhar: See, we are talking about total collection as it has been claimed by the entire industry, everybody is talking about the total collection only, so that is what we are doing, so we can always eliminate and see what is the billing collection, but normally in money lending business the billing collection is always looked at the total collection only.

Saurabh Kabra: So, this would include prepayment also?

R. Sridhar: Some prepayment, some overdue collections will be there.

Saurabh Kabra: And second question, Sir, as you told that we have sold certain NPA portfolio of around Rs,126 crores to ARC, just want to check was this sold for cash or SR?

R. Sridhar: Mr. Amol, would you like to take it.

Amol Joshi: These are all sold against SR, that we have also invested into the SR, which is standard package.

Saurabh Kabra: But, does investing to SR allows the company to remove it from NPA, I just wanted to check?

Amol Joshi: Of course, what it does is that it clearly reduces my loan book and the SRs are treated as investment.

Saurabh Kabra: And last point on the restructuring part, so we have a view on the retail piece, the number is quite good, on the wholesale side, can you throw some light that how much restructuring are we expecting on the wholesale portfolio?

R. Sridhar: See, there will be many cases, which would go for moratorium as well as reschedulement as I had mentioned earlier, but that is not material because our repayment piece on the developer selling apartments, so it has nothing to do with the moratorium or reschedulement, but considering the industry and the headwinds, many people will go for reschedulement there and that is the book, as I had earlier told that we are exiting, which could happen in the next twelve months.

Saurabh Kabra: Thanks a lot. No more questions on my side.

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

Amol Patil: I have couple of questions, one is, your Opex has increased quarter-on-quarter 34%, considering the COVID situation, people are negotiating with their landlords, they are having other means of cost control, I was hoping that the Opex will go down?

R. Sridhar: The Opex actually has come down compared to the expenses, which you have outlined that we have deferred our increments and bonus for the employees, employees have sacrificed. The second one is on the rental premises, all the branch officers including our head office are on the rental, we have renegotiated. The third is all the discretionary spending including travelling during the pandemic has come down, so as against our Rs. 300 crore of operating expenses incurred during FY2020, we are expecting 15% to 20% deduction to Rs. 240 crore to Rs. 250 crore only this year FY2021 on a like-to-like basis that we have achieved, but what you should understand is that there are expenses, which we are incurring for preparing our growth in the future. Like Amol said there are one off cost where we are bringing in consultants to help us in digitization. There are some other initiatives we are doing and similarly there are recruitments we have done for the future everything takes three months. We will be opening some branches, so these are all new additional expenses, which are appearing there, but if you compare the prior year expenses vis-à-vis, the current year expenses, there is 15% to 20% reduction.

Amol Patil: My second question is around the securitization transaction, I would like to know what was the value of loans, which were securitized, its breakup into retail and wholesale and the value of SR, which hold on the balance sheet as of end of Q2 FY2021?

R. Sridhar: Mr. Amol, can you take it.

Amol Joshi: We have sold a gross NPA of Rs. 161 crore, the whole NPA book is relating to CV assets only, predominantly the IIFL acquired portfolio that we had. The net amount of the gross NPA is Rs. 126 crore, and we have sold it at par to the acquiring ARC. We are carrying Rs. 107 crore of SR on the book.

Amol Patil: So, the balance SRs are held by the ARC, right?

Amol Joshi: That is the investor, right.

Amol Patil: Thanks.

Moderator: Thank you. The next question is from the line of Piran Engineer from Motilal Oswal Financial Services. Please go ahead.

Piran Engineer: Thanks for taking my question. Sir, when you mentioned about retail and the collection efficiency have reached 100%, can you give a bifurcation across the three segments?

R. Sridhar: As of now, readily I do not have, but I will share it with you offline.

Piran Engineer: Sir, any indication of how many customers have not paid a single installment?

R. Sridhar: That also we will give you.

Piran Engineer: My next question is from the PFO, can you just briefly talk about incremental sources of liquidity?

Amol Joshi: So, you would have seen that since April,2020 we have raised around Rs. 1000 crore plus with that the whole raising has been sub 9% and where we see such thing as we speak of other funding opportunities is between 8.5% to 8.9% that the range we are talking about, but we have been watchful about how much resources we are raising considering we are setting of around 36% of our borrowing are available right now in liquid cash, we have gone a bit slow, you have seen in Q2 FY2021 we have reached only Rs. 300 crore and as we go ahead, as we pick up on disbursement, we will start increasing the funding pipeline, what we surely see as a positive outcome post Brookfield investment is that there is a lot of interest in the banking sector to lend to us considering Brookfield is a co-promoter now, so in terms of funding pipeline available very comfortable on money so far.

Piran Engineer: And I guess this is all from banks or any of the government schemes also that have come in?

Amol Joshi: So, NHB has lent money to us and as we speak this month itself another substantial Rs. 100 crore will come to us through NHB into our subsidiary, but beyond NHB and the earlier raising that we did from SIDBI the other two key agencies, NABARD has been bit slow and we have also not really pushed to do it considering the liquidity position that we have.

Piran Engineer: Sir, two clarifications, I did not hear that correctly, one is the SR that we have got is Rs. 107 Crore, is it?

Amol Joshi: Yes, it is Rs. 107 crore.

Piran Engineer: And about branches breaking even for the smart branches that was 12 to 18 months?

R. Sridhar: Yes, earlier it was 15 to 18 months, now it is 9 to 10 months.

Piran Engineer: Understood. I will get back in the queue. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Darpin Shah from HDFC Securities. Please go ahead.

Darpin Shah: Thanks for the opportunity. Sir, you have mentioned about collection efficiency in the retail business, can you throw some light on the wholesale segment?

Deepak Bakliwal: Barring one account, which is in the gross NPA, there are a couple of accounts, which are in the 30-day bucket, but we can take this offline, I can give you the exact data offline.

Darpin Shah: Amol a question to you, if I look at your presentation, the liquidity bit, which you have mentioned in terms of inflow, there I can see that we will be collecting somewhere around Rs.1000 to Rs. 1050 crore odd in the next four quarters or so, and then we are talking about reducing the corporate book again over the 4 or 5 quarters, how does this match, I am not able to get that?

Amol Joshi: Sure, Darpin, hope you are well. When we put out the strong liquidity position slide, clearly I am not in a position to forecast as to when the corporate book run downs will happen and when inflows will happen, what we have shown here as a principle repayment is the calendarized or the schedule repayment that we expect and we have taken certain assumptions in terms of being conservative that in case of certain asset if the inflow is only 60%, so we have built that into the inflow, so this is what you see is the contractual inflow reduced to a certain extent as to with our view as to how the inflows will happen, so this does not incorporate the rundown that will happen due to prepayment or with us selling down the book, so this is only business visual scenario that we have got it.

Darpin Shah: Fair enough. So, now we already have Rs. 280 crore to Rs. 300 crore kind of provision for COVID?

Amol Joshi: Yes.

Darpin Shah: Do you think we will require more provisions in the next couple of quarters?

Amol Joshi: So, where we see from here, we feel that COVID provision we did in Q4 FY2020 will stay for at least another two quarters, we do not see major reason to top it up with further overlay, what we will do is clearly that as we start see further sell downs within the corporate book or any challenges in the retail book, we will avoid tapping into the COVID provision and we will use it as a last resort, we will try to build up our defenses to the current P&L.

Darpin Shah: Thanks a lot.

Moderator: Thank you. The next question is from the line of Abhishek Murarka from IIFL. Please go ahead.

Abhishek Murarka: Good afternoon everyone and thanks for my taking my question. So, the question is the qualitative around commercial vehicle book as such, and the question is really that on the one side we hear very high collection efficiency numbers in the commercial vehicle portfolio across the industry and on the other there are still reports of CV operators surrendering vehicles or going out of business or leaving the industry, so how do we reconcile these two things, on the one hand very high collection efficiency or utilization, on the other hand people giving up their fleet or running down the size of their fleet?

R. Sridhar: This can be easily reconciled, as I had earlier mentioned to you that this is a total collection, so it is not a billing to billing collection, every company has reported total collection, so to some extent there is further due, some extent there is prepayment and all that will be there, so that is one point. The second point is that there are few segments, which have been impacted like I mentioned to fleet owners segment and migrant labourers who have been the majority users of passenger commercial vehicles like Ola and Uber have been impacted. All other people are not impacted, slowly as they come out of the lockdown, as they start using the vehicle, they start earning and every company is able to collect that is it, so even in this 100%, another 5% to 10% has come out of prepayment and overdue and all, still we have more than 90% that has come from the billing, so that is the good trend, so one side is the existing fleet is able to run vehicles and they are able to pay, but within that companies, which have exposure to fleet owners and this kind of migrant labour will have an impact.

Abhishek Murarka: Sir, and overall scheme of things on this passenger vehicles, Uber and Ola, all of these would be hardly 3% to 5%, but the bigger problem area is really the commercial vehicle fleet owner?

R. Sridhar: Yes, fleet owner is impacted.

Abhishek Murarka: So, there on an industry basis just broadly what would be your guess on what is going to be the ultimate like say delinquency or people going out of business, would it be like 5% of trucks would have to be given up or reprocessed or may be 10% of trucks, what is your sense?

R. Sridhar: Even I do not have a number, but what is happening is that the fleet owners would have got 80 to 100 vehicles, which have been funded by large banks and companies, so I do not want to name them, but they have all given money at sub 10% in single digit to these fleet owners, and more than 100% funding also has been given, so in good days you do that and when the vehicles feel the pressure then what happened is always these people sought moratorium and subsequently they are also seeking reschedulement now and more than that mind you many banks and large NBFCs have given them, the 20% ECGA loss, which had helped in payment of insurance and starting the business. The problem is that enough load is not there in the industrial production, with this big transport, which are happening in the national highway. They are also facing driver shortage, they are also facing the problem of diesel price increase, they are also facing the problem of loading and unloading people not there because all migrants have gone, so multiple challenges these people face, but mainly on account of lack of industrial production, so till it comes up, there will be pressure on these customers, but they will be appropriately rescheduled, so net their installment amount comes down and they are able to manage, so there could be some amount of loss that will come, but since the fleet owners are people who have got this CIBIL and all to be properly keep to credit track record, so there could be some losses, which the banks and NBFCs will have to take, but it is difficult to estimate it at this point of time.

Abhishek Murarka: Last quick follow-up, would you say that this 90% to 95% kind of collection efficiency, which of course includes arrears also, where would the clean numbers be for the industry, would it be around 80% to 85% or may be even lower?

R. Sridhar: Yes, definitely it will be more than 80%.

Abhishek Murarka: So, low 80% to 85% that should be?

R. Sridhar: Yes, definitely. That is a good number in current environment.

Abhishek Murarka: Right, Sir.

Moderator: Thank you. The next question is from the line of Vijay Jacob, an Individual Investor. Please go ahead.

Vijay Jacob: Just could you help understand the fall in NPA in the vehicle finance business in this quarter?

R. Sridhar: We informed that we have made an ARC transaction where we have sold about Rs. 126 crore of NPL at par without any P&L impact that is why it has come down substantially.

Vijay Jacob: Understood and this pertains to your book or the IIFL CV book?

R. Sridhar: It is a combination, but majority IIFL book.

Vijay Jacob: Understood. Thank you.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments. Over to you Sir!

R. Sridhar: Thank you to all of you for joining the Q2 FY2021 call very enthusiastically, as I had articulated that we are in good shape and we are well prepared from both the liability as well as asset side including the senior management, business teams, we are well prepared and excited with an outlook for excellent growth, profitable growth for the next 5 years. We look forward to interact with you update all of you on the developments every quarter and look forward to your support. Thank you very much.

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

Ends