“IndoStar Capital Finance Limited
Q2 FY27 Earnings Conference Call”
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Moderator: Ladies and gentlemen, good day, and welcome to IndoStar Capital Finance Limited Q2 FY27 Earnings Conference Call. 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 star, then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Ayushi Gupta. Thank you, and over to you, ma'am.

Ayushi Gupta: Thank you. Good afternoon, everyone. I welcome you all to the Q2 and H1 FY27 earnings conference call for IndoStar Capital Finance Limited. To discuss the quarter's performance, we have from the management, Mr. Randhir Singh, Managing Director and Executive Vice Chairman; and Mr. Jayesh Jain, Chief Financial Officer.

Before we proceed with the call, I would like to mention that some of the statements made in today's call may be forward-looking and may involve risks and uncertainties. For more details, kindly refer to the investor presentation and other filings that can be found on the company's website.

Without further ado, I would like to hand over the call to the management for their opening remarks, and then we can open the floor for Q&A. Thank you, and over to you, sir.

Randhir Singh: Thanks, Ayushi. Good afternoon, everyone, and thank you for joining us today. I'm Randhir Singh, Managing Director and Executive Vice Chairman of IndoStar Capital Finance Limited. On behalf of the entire IndoStar team, I extend a warm welcome to all of you on our Q2 and H1 FY27 earnings conference call.

We appreciate your continued support and confidence in our company. I trust you have had an opportunity to review our financial results and investor presentation, which has been uploaded on our website and filed with the stock exchanges.

Before discussing our business performance, let me set the context with the macro indicators most relevant to our business, both those that affect us directly and those that work through our customers and segments.

The Indian economy continues to demonstrate resilience during the quarter despite an uncertain global backdrop characterized by geopolitical developments, elevated commodity prices and volatility across financial markets. Domestic economic activity remained healthy, supported by resilient consumption, sustained infrastructure spending and continued investment activity.

Reflecting the strength of these underlying trends, the Reserve Bank of India revised its FY27 GDP growth forecast upwards to 7.1% from 6.7% earlier. At the same time, inflationary pressure resurfaced during the quarter. CPI inflation increased to 4.82% in August 2026, driven largely by food and fuel prices.

In response, the MPC committee increased the repo rate by 25 basis points to 5.50% and adopted a calibrated tightening stance. While interest rates have moved modestly higher, overall credit demand across the economy remains healthy and broad-based.

The quarter was also characterized by weather-related challenges, uneven monsoon distribution and strengthening El Nino conditions created concerns around agriculture activity and rural demand in certain regions. However, urban demand remained resilient and the festive season contributed positively to consumption trends, trade activity and transportation demand across several markets.

From a credit demand perspective, the operating environment remained constructive. Non-food bank credit grew 18.8% year-on-year in August 2026 and strengthened further to 19.4% by September end, reflecting healthy demand across retail, agriculture industry and service segments. Credit growth to the services sector remained particularly strong at 24.3%, supported by lending to trade, NBFCs and commercial real estate.

Looking specifically at the vehicle finance ecosystem, demand conditions remained supportive during the quarter. Transportation activity continued to benefit from infrastructure execution, replacement demand and healthy logistics activity. Vehicle finance credit within the NBFC sector grew 15.4% year-on-year as of August 2026, reflecting healthy activity levels across transportation linked segments.

Industry outlook also remained encouraging. ICRA expects NBFC vehicle finance portfolios to continue growing at a healthy pace over FY26 and FY27, supported by increasing financing penetration and replacement demand, while lenders continue to focus on improving portfolio quality and risk-adjusted returns. ICRA has also highlighted the growing role of pre-owned vehicle financing with the share of used vehicles in NBFC portfolios expected to exceed 41% by FY27.

Against this backdrop, our focus during the quarter remained firmly centered on accelerating growth while maintaining portfolio quality. As the operating environment continues to evolve, we remain committed to building a stronger and more resilient franchise through disciplined underwriting, prudent risk management and consistent execution.

Over the last several quarters, we have undertaken a number of initiatives to strengthen customer selection, enhance credit assessment and improve portfolio monitoring capabilities. We continue to refine our underwriting framework through proprietary scorecards, product-specific filters and system-driven decision-making processes.

At the same time, we have strengthened our monitoring architecture through enhanced early warning systems, technology-led portfolio surveillance and a continued focus on collection effectiveness. These efforts are directed towards improving the quality of the new originations, enhancing portfolio resilience and creating a stronger foundation for sustained profitability. We are encouraged that the benefit of these actions are increasingly visible across customer quality metrics, portfolio behavior and overall asset quality trends.

Let me now move to our operating performance, beginning with disbursements. During the quarter, retail disbursements stood at INR1,399 crores compared to INR1,235 crores in the previous quarter and INR927 crores in the corresponding period last year. For H1 FY27, retail disbursements stood at INR2,634 crores.

Retail assets under management stood at INR8,459 crores as of September 2026 and now accounts for 97% of our overall AUM. Year-on-year, we grew our overall disbursements by 51%, 47% in vehicle finance business and 174% in M/LAP business. In our Q4 FY26 earnings call, we shared the target of 35% CAGR growth in disbursements over 3 years, and we are tracking well on that target.

We had also mentioned about initiating significant steps for future growth in earlier earnings calls, following his update on the same. Number one, significant increase in ground sales force in vehicle finance business. Our field sales force number has increased from about 1,235 to 1,868 over last 1 year, representing a growth of about 51%. We will continue to invest further in field sales force to take full advantage of our large pan-India branch network.

Second, verticalization of our sales team in vehicle finance. All our 4 national sales managers are on board for CV, PV, FE and CE verticals and are building significant capacities and capabilities in each of these verticals for future growth. Along with NSM, we have also onboarded state-level leaders for each of these verticals and will add further managerial capacity in the next 2 quarters.

Third, in Q4 FY26 earnings call, we had guided for 100 branch additions over the next 3 years. We are making steady progress and number of branches have increased from 454 to 475 in the last 2 quarters.

Fourth, alignment of our channel payouts and proactive refinements in line with the industry trends. Fifth, significant improvement in turnaround time, customer and channel experience due to ongoing improvement in loan journey simplification, document simplification, data sense, science-led scorecards and digitization.

These improvements have led to significant increase in volumes in passenger vehicle segment, which is very tax sensitive. Our disbursements in passenger vehicle segment has grown by almost 75% over last 1 year.

While being growth focused, our priority continues to be on improving the quality of growth. Over the last several quarters, we have consciously focused on sourcing better quality customers, enhancing asset selection and maintaining disciplined underwriting standards across all business segments.

Our credit quality has shown significant improvement since the start of the tightening period beginning Jan 2025. 30-plus delinquency on disbursements done in period from Jan '26 to September '26 as of 30th September '26 is down by 71% compared to delinquency on disbursements done from Jan '24 to September '24 as on 30th September '24.

The improvement in customer quality continues to be reflected across our portfolio. The share of prime customers defined by us as CIBIL scores of 725 and above in our portfolio has improved to 85% in Q2 FY27 from 80% in Q2 FY26. Additionally, the number of borrowers with CIBIL scores of 700 and higher has reached 95% in last quarter's disbursements, reflecting the cumulative impact of tighter customer selection and stronger underwriting standards.

Early delinquency levels have remained stable at around 2.4%, among the lowest levels seen over the last many years. The performance of customers acquired under the strengthened underwriting framework remains significantly better than the historical vintages.

Gross Stage 3 assets in the vehicle finance portfolio improved to 4.4% compared to 4.7% in the previous quarter, while Net Stage 3 assets improved to 2.4% from 2.5%. These trends reinforce our confidence that the actions taken over the last several quarters are helping us build a stronger and more resilient portfolio.

Another encouraging trend is the increasing contribution of the portfolio originated after the tightening of underwriting standards in vehicle finance business. As the share of the newer portfolio continues to increase, we are seeing a clear improvement in overall portfolio behavior.

A significant portion of the residual stress continues to remain concentrated within the older portfolio originated pre-Jan 2025. Our pre-guidance portfolio contribution has reduced from 65% in Q2 FY26 to only 26% in Q2 FY27. This is in line with the guidance we provided in Q4 FY26 earnings call.

We had also guided that the book originated under new underwriting will be 85% of the overall book in Q4 FY27, and we are well on our way to meet that guidance. As this legacy book continues to run down and the new book becomes a larger proportion of the overall portfolio, we expect continued sequential improvement in delinquency metrics, credit costs and significant improvement in profitability over the coming quarters.

Our vehicle finance portfolio also continues to become increasingly diversified across commercial vehicles, passenger vehicles, construction equipment and farm equipment, reducing concentration risk and helping us build a more balanced and granular franchise. Over the last 1 year, our MHCV disbursement share has come down from 31% to 27% and passenger vehicle share has gone up from 23% to 31%.

Let me now turn to our Micro LAP business, which continues to scale steadily and remains one of our key strategic priorities. Disbursements in Q2 FY27 were INR74 crores, up 174% year-on-year. AUM closed the quarter at INR280 crores, up 177% year-on-year. Importantly, this growth continues to come with strong asset quality. 99.6% of the portfolio is current and 90-plus DPD is only 0.18%. While the M/LAP book is not seasoned as yet, we've made a very good start on portfolio quality front.

We continue to focus on self-employed borrowers and small business owners while maintaining conservative underwriting standards. Our average ticket size on M/LAP disbursement has moved up to about INR8.9 lakhs in September from INR6 lakhs a year back, in line with our communication in last quarter about ticket size stabilizing around INR10 lakhs. We continue to consciously work towards increasing the average ticket size in the LAP business, even if that means accepting slightly lower yields.

Over the last few months, we started building an alternate business channel covering connectors and DSAs. And in the last few months, contribution from these channels is in the range of 20% to 25% range. Our weighted average loan-to-value remains around 40%. We are maintaining

disbursement yield of about 20% besides upfront processing fees. The journey in the LAP business remains fully digital with e-application, e-agreement, e-NACH at 100%. Our collection in this business is 100% digital and cash collection is 0.

We continue to expand the franchise in a calibrated manner across selected markets while leveraging our existing distribution infrastructure and operating platform. Our objective remains to build scale gradually while ensuring that portfolio quality remains at the center of every growth decision.

As communicated in previous earnings call, Bihar and Uttar Pradesh did go live in August and September. And additionally, we also go live in West Bengal. We now operate from 154 co-located branches across 9 states and 1 union territory against 71 branches in 2 states 1 year back.

Encouraged by our early portfolio performance, we are now working towards launching our LAP business in Karnataka and Madhya Pradesh over Q3 and Q4. This is in line with our communication in earlier earnings calls that while we have the opportunity to launch a business in all 24 states and union territories we operate in, we will follow a calibrated expansion approach. We plan to consolidate in these states prior to our next phase of expansion.

In our effort to build a future-ready organization, I would like to share an update on data science and AI initiatives. In February 2026, we set up a dedicated data science practice with the ultimate objective of deciding every credit and collection decision basis data along with the extensive usage in other business and support areas.

Our bureau-based scorecard for used car and CV now drives in-principle credit approval and straight-through processing. We have reached STP rate of 74% in used car business and 68% in CV. Portfolio quality has held up well in these products post implementation of scorecard. In other VF products for now, we are using custom-built scorecards for hard rejections instead of approval.

In collections, we now have a model for every stage of delinquency from predicting bounces among customers who are current but have a high chance of bouncing by the due date to propensity to pay in the higher DPD bucket. We have embedded bureau risk triggers into these models, so our customer behavior with other lenders feeds into how we prioritize them.

Each model sought customers into high, medium and low risk so that our collection call center and team knows exactly where to focus. We have also introduced AI bot calling for pre-emptive and bucket customers. The bots are performing on par with our human collar, which gives us a clear opportunity to optimize collection cost. We also built a model that predicts fresh NPAs 6 months ahead with a very high degree of accuracy.

Over the next 2 quarters, we will roll out a self-service AI-enabled BI layer for our business teams, a settlement model to decide whom to settle and at what price and acquisition scorecard for the new car, MLAP, farm equipment and construction equipment business. We will continue to invest in data science team and build capacity for future growth.

In addition to the data and AI-led initiatives, we are reinforcing our collection field force with a separate approximately 400 strong team dedicated to hot buckets. This will enable sharper focus on and better resolution of higher DPD accounts.

Overall, we see encouraging signs of the progress across both of our core businesses. The quality of customer acquisition continues to improve. Portfolio performance remains stable. Asset quality indicators are moving in the right direction and actions undertaken over the last several quarters continue to strengthen the overall resilience of the business.

As we move ahead, our priorities remain unchanged. We will continue to focus on disciplined underwriting, portfolio quality, collection effectiveness and sustainable, profitable high growth while ensuring that risk management remains central to every business decision. Our focus over the last several quarters has not only been on growing the business, but on building a stronger and more sustainable earnings profile.

The improvement in customer quality, lower non-starter ratios, stable early delinquency trends and better performance of the newer vintage gives us the confidence in the long-term profitability potential of the franchise.

Let me now touch upon our progress towards the long-term objectives that we had laid out for the business. Over the last 18 months, a significant amount of effort has gone into strengthening the foundations of the franchise. We have improved customer selection, enhanced underwriting standards, invested in technology-led monitoring capabilities, strengthened collection infrastructure and diversified the portfolio across customer segments and asset categories.

At the same time, we have continued to invest in our distribution capabilities. Our branch network expanded to 475 branches during the quarter, and we remain focused on deepening our presence across existing and new markets. Alongside this, we continue to invest in talent, analytics and operating infrastructure to support sustainable growth over the coming years.

Our vehicle finance business today is materially stronger than it was a couple of years ago. The quality of customer acquisition and portfolio continues to improve. Similarly, in Micro LAP, we continue to build a scalable secured lending franchise while maintaining a strong focus on portfolio quality. We remain encouraged by both the growth trajectory and portfolio performance of the business.

Looking ahead, while we remain mindful of the external uncertainties, including inflationary pressures, geopolitical developments and weather-related disruptions, our priorities remain unchanged. We will continue to focus on disciplined execution, prudent risk management and sustainable profit growth.

The progress made across customer quality, asset quality, liability management and business diversification provides us confidence that IndoStar today is operating from a position of far greater strength and resilience. We believe the foundation built over the last several years position us well to participate in the opportunities ahead while continuing to create long-term value for all our stakeholders.

We are satisfied with the progress we are making towards targets shared with you in Q4 FY26 earnings calls, which was 35% CAGR disbursement growth over the next 3 years and PAT of INR450 crores to INR500 crores in FY29.

With that, I will now request Jayesh to take you through the financial performance in greater detail.

Jayesh Jain: Thank you, Randhir. Good afternoon, everyone. Let me now take you through our performance for Q2 and H1 FY27. First and foremost, our assets under management stood at INR8,459 crores as of September 30, 2026. Retail AUM stood at INR8,204 crores and now accounts for 97% of our overall AUM, reflecting the continued progress in building a granular and diversified retail franchisee.

Disbursement for the quarter stood at INR1,399 crores, while H1 FY27 disbursements stood at INR2,634 crores. Even as we remain focused on the growth, our emphasis continues to be on maintaining portfolio quality and improving risk-adjusted return.

In vehicle finance, disbursements stood at INR1,325 crores during the quarter, while AUM stood at INR7,923 crores. We continue to focus on building a more diversified portfolio across commercial vehicles, passenger vehicle, construction equipment and farm equipment while maintaining disciplined underwriting standard and profitability.

Our customer quality metrics continues to improve. The share of prime customer, which is a CIBIL score of 725 and more in our portfolio increased to 85%, while the nonstarter ratio remained low at 1.7%. Early delinquency trend also remained stable at approximately 2.4%, reflecting the benefits of the underwriting measures implemented over the last several quarters.

In Micro LAP, we continue to witness healthy momentum during the quarter. Disbursements stood at INR74 crores, while AUM increased to INR280 crores. We remain encouraged by the growth trajectory of the business and more importantly, by the quality of the portfolio being built. The business continues to be characterized by strong collateral quality, conservative underwriting standards and disciplined customer selection.

The weighted average LTV remains below 40%. Average ticket size has increased to INR8.9 lakhs and 98% of the portfolio continues to be backed by residential collateral. Asset quality within the business remains strong with gross stage 3 asset of only 0.18%, providing confidence regarding the long-term scalability and sustainability of the franchisee.

Moving to the liability side. During the quarter, we continued to strengthen and diversify our borrowing profile. Our weighted average cost of borrowing reduced to 9.7%, while incremental borrowing cost stood at 9.1%. The continued improvement in our borrowing profile reflects increasing lender confidence, diversification of funding relationships and the overall strengthening of the franchise over the last several quarters.

During the quarter, we also did a direct assignment transaction of our VF portfolio amounting to INR132 crores. We ended the quarter with liquidity of INR827 crores and continue to maintain a comfortable ALM position across all maturity buckets. From a capital perspective,

our balance sheet remains well capitalized. Our capital adequacy ratio stood at 36% as of September 30, 2026, providing substantial headroom to support future growth opportunities.

Coming to asset quality for the company as a whole. Asset quality indicators continue to remain strong encouraging during the quarter. Gross Stage 3 for the company improved to 4.5% compared to 4.8% in the previous quarter, while net Stage 3 improved to 2.4% from 2.5%. As discussed earlier, a significant portion of the residual stress continues to remain concentrated within the older portfolio.

At the same time, the performance of the customer acquired under the revised underwriting framework remains significantly better than historical cohorts and continue to provide confidence in the long-term credit outlook of the portfolio. Collection performance remained stable during the quarter, and we continue to see encouraging trends across customer quality, delinquency behavior and portfolio performance.

Coming to the financials. Net total income for the quarter stood at INR242 crores compared to INR190 crores in the corresponding period last year. Pre-provision operating profit stood at INR109 crores during the quarter, reflecting stable operating performance and continued business momentum.

In Q4 FY26, we had created a precautionary management overlay of INR49 crores on vehicle finance book against the potential impact of West Asia crisis and higher fuel prices. Over the last 6 months, the portfolio had absorbed the diesel price increase well. The Stage 2 has stayed content early during Q3 is well below last year and loans written after the price increase are performing better than the earlier quarter.

With the stress not materializing and our recalibrated ECL model adequately covering actual losses, we have released the overlay of INR49 crores in Q2 FY27, while continuing to monitor the situation closely. The overall ECL percentage as a percentage of total book reduced from 5% to 4%. With this, the revised impairment and credit cost for the quarter stood at INR96 crores compared to INR81 crores in the previous quarter. Profit after tax for the quarter stood at INR13 crores compared to INR11 crores in the corresponding period last year.

For H1 FY27, net total income stood at INR465 crores, while profit after tax stood at INR25 crores. While reported profitability continues to reflect the legacy portfolio and provisioning requirement, the underlying operating performance remains healthy.

As the contribution of the newer book continues to increase and the legacy portfolio runs down further, we expect the benefit to be reflected in the lower credit cost and improved profitability over the time.

Overall, the balance sheet today is significantly stronger than it was a few years ago. Improving customer quality, stable portfolio performance, a stronger liability franchisee, healthy liquidity and robust capital adequacy positions us well for the next phase of the growth.

With that, we would be happy to take your questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question comes from the line of Piran Engineer from CLSA.

Piran Engineer: Congrats on the quarter. So my first question is on lending yields. So our disbursement yields in vehicles are stable and in LAP, it has come down as we are going to larger ticket LAP. But when I look at our overall loan yields, they've gone up from 16.5% to 17.6%. So what really explains this? Or are we including the DA assignment income in this yield number?

Jayesh Jain: This would include DA assignment income as well. So to that extent, there will be adjustment if you are comparing with the previous period.

Piran Engineer: Okay. Okay. Understood. And sir, then also on NIM, when you calculate NIM of 8.9%, that excludes it. Is that correct?

Jayesh Jain: The net interest margin, 8.9%

Piran Engineer: Yes. So I'm asking, the DA income is included in the NIM?

Jayesh Jain: Yes. So yes, if you are referring to Slide 40 of the Investor Relations presentation, which has a net total income of INR215 and 8.9%, vis-a-vis 9.8% on other. So yes, this includes the DA income as well.

Piran Engineer: Sir, then if the lending yields have gone up 100 bps and cost of funds has gone down by 20 bps, why is our NIM up by only 10 bps?

Jayesh Jain: Can you help a little more numbers? What are you alluding to?

Moderator: Sir, you're not audible.

Piran Engineer: Is it better now?

Randhir Singh: Yes. There was a problem, now we can hear you.

Piran Engineer: So my question is the NIM has increased by only 10 bps Q-o-Q, whereas the loan yields have gone up by 100 bps Q-o-Q. So what explains the difference?

Jayesh Jain: Sorry, the 100 bps, where are you getting this number from, 100 bps?

Piran Engineer: So yes, one second. Let me open the PPT in preview.

Jayesh Jain: Yes. If you can help with

Piran Engineer: So if you go to Slide 14, your Q1 FY27 yield was 16.5%. It's written there. And today, it is 17.6%. So that's what I'm referring to 110 bps.

Jayesh Jain: See, when you look at this number, these are actually origination yields. If you are looking at the 17.6%, maybe I will request you to look at Slide number 40 and 41, which will give you a little more better perspective because these are on the origination, 17%.

Piran Engineer: That's on origination?

Jayesh Jain: Yes, yes. That's on origination. Effectively on the P&L, if you are looking at it, I would request you to go to Slide number 40.

Piran Engineer: Just one second, okay.

Jayesh Jain: So on Slide number 40, if you see the left-hand side top, revenue from operations, which is 15.5%. This includes my DA income as well, so if you have to compare it with the previous quarter, the DA income will have a role to play there, 15.1% to 15.5%, right? And if you compare with the previous 3 quarters, there has been significant improvement in the overall NPA parameters and the reversal which used to happen. So that is where effective realization is better over last 2 quarters.

Piran Engineer: Understood. Okay, okay. Now it is pretty clear. I think, okay, it will be useful if you mentioned the disbursement yields in the PPT because it gets misleading then. My second question is on asset quality. So our ECL Stage 3 today is at 46%. And so we brought it down over the last few quarters. Where does this settle in?

Jayesh Jain: Piran, over the last couple of quarters or in second last quarter also, we had written off certain loans and those loans were actually carrying 100% provision. So as a result, it is more of a mathematical adjustment on the overall PCR reduction.

Piran Engineer: Okay. Understood. And just lastly, on the vehicle book. So we've had this strategy of growing more in the better yielding segments, and we've been cutting share of M&HCV and our strategy has played out well. But eventually, where do we see the share of M&HCV loans settling at?

Randhir Singh: So, like I said, what we are most comfortable with is not have concentration in any other product, right? So there was a time where M&HCV was even higher than 50%, right. So I think what we are comfortable overall, so essentially now we have 5 verticals, right. One is MLAP, CV, FE, PV and Construction Equipment, I think it's fair to say that you would expect us to not cross 35% to 40% in any other segment. That's where you will see us operating, basically avoid concentration in any of the segment that we operate, and that's really a conscious call that we've taken.

Piran Engineer: Okay. That was perfect. Sorry, I was on mute.

Randhir Singh: 40%, if that was your question, right? So we'll not have that kind of concentration of 50%. There was a time when we had even higher than 50%. Avoid the volatility, right, that can hit a particular segment. So basic credit 1-0-1.

Moderator: The next question comes from the line of Monshree Maniyar from MK Ventures.

Sumit: Sumit here. I have question on this provisioning that we have done. So it was good to see that our early delinquency trends for the new book, it has been coming down as guided and as intended. But from a purely from a P&L perspective, the provision continues to be higher. And in this quarter, we've also taken that management overlay.

Just going forward, given the early delinquency trend for the new book, when do you see this provisioning coming down significantly going forward? From which quarter can we expect that? And also, in terms of SR collections, if you can give some color, how is that happening? Because that is again a part of the current P&L?

Jayesh Jain: Yes. So thanks for your question, and thanks for even recognizing and observing that our asset quality trends are improving. And this is given in detail on Slide number 33, right? So I'm sure you would understand and appreciate that while the new origination, which is happening and the new book or the book under the revised tightening norms is as its share is increasing, there is still a pre-January '25 book, which is still there.

So as on 30th September 2026, this is around 24% of our total AUM, which still resides and which is showing a little higher delinquency or a significantly higher delinquency than our current trend, which is there, roughly give and take this fully amounts to around INR1,850-odd crores. Now out of this INR1,850 crores also, the good news is that the 30-plus is only around 27%. So this 30-plus of 27%, which is there, would have some bit of a forward flows, which would eventually come and hit us in terms of some provision.

But the good news is by end of this year, the overall book goes down to around 10% of the AUM. So yes, the provisioning as we observed that on a quarter-on-quarter, it continues to be similar kind of a trend around INR100-odd crores or INR96-odd crores. It should start going down significantly from Q4 onwards for us. So that's the answer to your first question.

The second question, the SR collection, there are 2 parts of the SR, which are there. One is the Retail portfolio, which we had kind of sold off to the ARCs and the Corporate portfolio. On a Corporate portfolio, we had guided that the recoveries would start coming in around 18 to 24 months.

At the beginning of the year, we have guided this in the April 2026. We have been monitoring the progress on the Corporate portfolio, and it is in line, and there have been no changes or no negative surprises, which we see there. So we are we continue to remain hopeful on the collections coming in there and no charges or provisions is required.

On Retail also, the collections are decent and the needful provisions are already made. So again, there also the progress net carrying value, we are very, very confident that we would recover that money in next 12 to 18 months' time.

Sumit: This is very helpful. One question on the AUM growth, our disbursements have been healthy, very healthy on a Y-o-Y basis. But on a sequential basis, our AUM accretion has been hardly INR200 crores. So basically, INR1,400 crores kind of a disbursement and INR200 crores accretion, the rundown has been higher. Is this a normal in line with our expectation and generally second half, you see higher growth? Or there any particular reason for a higher rundown?

Randhir Singh: So there's 2 prime reasons. One is a small amount of DA that we did about INR132 crores. And second, we also written off some of our higher delinquency assets pertaining primarily to the old book. But as our sort of old book continues to run off. In the future, you would see a much

smaller gap between our disbursement growth and AUM growth. So right now, essentially, it was a 12% year on growth. On AUM, while disbursement of course, you see they're growing almost 50% plus. So you would see this converging over a period of time.

Sumit: Okay. Effectively, with this kind of a disbursement growth, we should comfortably do 18%, 20% plus of AUM growth on a net basis. By that time, our provisioning will also be fully sorted out and we'll be back to normal?

Randhir Singh: Yes, Sumit. Absolutely no doubt about that.

Moderator: The next question comes from the line of Varun Gajaria from Boring AMC.

Varun Gajaria: So just wanted to understand after this recent overlays, the adjustments that we've made, what is the normalized kind of credit cost that we can look at from '28 perspective? Because I understand that '27 again, will have higher impairment of you running down that book. So what is the normalized kind of credit cost that you're looking at going ahead?

Randhir Singh: Yes. So Varun, I think we had guided that given very strong underwriting performance in new book, we would expect our normalized credit cost to remain between 2% to 2.5%. And I think our early signals sort of give us a lot of confidence of achieving this much smaller credit cost in FY28 than what we see in FY27. Even in FY27, in the second half, you will see a much lower credit cost. In fact, you'll start seeing that reduction from Q4 quite prominently and thus higher profitability in that sense.

Varun Gajaria: Right, right. So having said that, is considering that macros right now are slightly tricky. I just wanted to understand why would we release the overlay now? Wouldn't we like to be slightly more conservative?

Randhir Singh: So Varun basically, when we see the portfolio performance, it was very clear that there was almost no impact. In fact, when we've taken overlays, the crisis obviously in some way had started. But as we saw our portfolio performance, we actually continue to see month-on-month significant improvement, and that was the reason. That was the comfort that we had that we are absolutely on the right track.

And like I described earlier in my opening remarks, when we see our delinquencies, whether it's in 30-plus or 60-plus, 90-plus, whatever we have done this year from Jan to September on all 1 plus, 30 plus, 60, our delinquencies are down almost 70%. So that's a massive, massive sort of the reduction. So we were comfortable releasing that.

Varun Gajaria: Okay. And on rate hike, how do you see weathering that going forward?

Randhir Singh: So what I think we obviously will be impacted. But what we will eventually do and that's really what we're hearing from many of our peers, who we keep in touch their own earning calls. I think pretty much most of our peers do plan to pass it on to the borrower and that's what we will do as well. So as our cost goes up, I think, pretty much all other NBFCs plan to pass it on, and we will be no different.

Moderator: The next question comes from the line of Danesh Mistry from Eternity Investment Management.

Danesh Mistry: First of all, congratulations on a good set of numbers. You're delivering as you had spoken about over the last few quarters, and congratulations on a lower cost of funds as well. I mean I had to ask this question, but I think somebody else asked it.

So if you were to see in Q4 FY26, 40% of your Vehicle Finance book was the pre-tightening AUM. That was about INR3,000 crores. And today, Q2 FY27, as Jayesh mentioned, it's about INR1,850 crores. So the INR1,150 crores, that's there, and that's kind of contributing to your difference between your disbursement and your repayments, are you encouraging repayments? Or is it all just write-offs?

Randhir Singh: So it's essentially, like I said, it's essentially write-offs, right, of higher delinquency, higher DPD assets and which is why it has some of our very high disbursement growth has not resulted to that much of AUM growth. And like I answered the previous question, you will see that difference reducing significantly.

Danesh Mistry: Yes. And so what you're saying is that as you continue to disburse the newer and newer book, that's why the percentage will fall? Or will you continue to take more and more write-offs?

Randhir Singh: Yes. So I think basically now the amount of write-offs that we need to take is also reducing. And which is the point we were making in an earlier question that in the Q3 infact I think in Q4, those numbers will go down significantly. And you would start seeing basically, right? So you will start seeing very good accretion because we had a good 51% growth year-on-year in the last quarter. And I think it's fair to say that we have begun very well in October. So the momentum looks quite good, our guidance of 35% CAGR. So I think we are in a good space there.

Danesh Mistry: Got it. Got it. And the second question is that in terms of your borrowing profile, just to understand how much would be fixed and how much would be not fixed?

Jayesh Jain: Danesh, we have around close to INR3,900 crores of borrowings which are either floating or due for maturity in less than one year, right? In fact, less than one year is around INR1,300 crores to INR1,400-odd crores. Rest is all floating. That is there and of that also, just to give you a little bit more details, INR1,000-odd crores is linked to the repo, or a T-bill or a 1- or 3-month MCLR. So essentially with this RBI rate hike and then propose rate hike. This is the pool which probably would get repriced higher, right?

Having said that, there's another INR1,300 crores of borrowing which exists and which is like borrowed probably 18, 20 months back, which is falling due for repayment in coming 3 to 6 months' time and which are actually had the rate of interest in excess of 10.5% or so. So what happens is effectively, it kind of nullifies the impact because these all will be repriced significantly lower than what probably they have borrowed at and there might be some bit of increase because of a rate hike.

Danesh Mistry: Got it. Got it. So essentially, it's safe to assume that your weighted average cost of borrowing would still come down in the end?

Jayesh Jain: Yes. Overall, on the book, will come down.

Moderator: The next question comes from the line of Soumya Raghuvanshi from Nirva Securities.

Soumya Raghuvanshi: Sir, the share of loans above INR10 lakh has increased significantly in the Micro LAP disbursement mix. How is the company balancing higher ticket sizes with credit risk and portfolio quality?

Randhir Singh: Soumya, your voice was not very clear, but if I understand, we are sort of doing larger sized loans as well. But our ATS on disbursements is about INR9.6 lakhs. So it's not that we have a very high percentage of, let's say, loans, which are in INR25 lakhs, INR30 lakhs. That's not the case. Our book continues to be very, very granular.

Soumya Raghuvanshi: Okay sir, all right, all right.

Randhir Singh: As far as the single loan, which is, let's say, higher than about INR25 lakhs. We might increase INR25 lakhs to INR30 lakhs or max INR35 lakhs in the near term. But pretty much everything done so far has been below INR25 lakhs. So there are a few loans, of course, which may be INR20 lakhs to INR25 lakhs. But primarily, our median continues to be about the INR9.5 lakhs to INR10 lakhs, which is what we guided with a stated objective of slowly and slowly increase the ticket size.

Soumya Raghuvanshi: Okay. Okay. Sir, all right. So this company has expanded its branch network to around 475 branches, if I'm not wrong, across 24 states. How much of the future AUM growth is expected to come around from existing branches versus new branches addition?

Randhir Singh: Yes. So primarily, what we have guided was about 100 branches in the next 3 years, right? This is what we had given in the earlier earnings calls. And which primarily, if you look at big picture, what we're really seeing is, about 7% to 10% increase in our branch network, and that's it. So we're not looking at a very high growth rate in number of branches.

Soumya Raghuvanshi: Okay sir, all right. Sir just the last question from my end. With vehicle finance accounting for approximately 98% of the customer portfolio and Micro LAP accounting for remaining 2%. How quickly does management expect Micro LAP to become a more meaningful contributor?

Randhir Singh: Yes. So obviously, we have a calibrated approach towards building this business. A lot will depend upon, our experience in the portfolio quality, which so far has been very, very positive. What we have set our internal target is get to somewhere between 10% to 15% in the next 3 years, right?

And obviously, at this rate, basis as we roll out, as we see our productivity numbers, as we see our portfolio numbers. But 10% to 15% is something that we want to surely target. And our growth has been there. So we've been growing very well in this business, almost 150% plus, and we will continue to grow at a high rate.

We do have a large opportunity because we are in 23 states, 450 branches. So there is a lot of opportunity for us to grow this business without incurring any capex because these are all co-located branches.

Moderator: The next question comes from the line of Pahal Sharma from DD Capital.

Pahal Sharma: I just want to ask one question that ROAA currently stands at 0.5%, right? So what is the medium-term target for ROAA? And what are the key levers that will drive an improvement?

Randhir Singh: Sure. So Pahal, if you look at it, one of the key lever for us is a reduction in the credit cost, where we feel very good looking at our portfolio trends. So we do want to target 2% ROAA from H2 FY28 because by that time, most of our old book would have run off. So that's the number that management is targeting.

Moderator: The next question comes from the line of Shreepal Doshi from Equirus Securities.

Shreepal Doshi: My question was on the tech related upgradation that we've done in the past couple of years, time period since the time you guys have taken over. So currently, how do you see the turnaround time because that's a key essence in this segment or the segment that we operate in? So how do you see the TAT to what level has it come down to? And what is our target in terms of TAT product-wise?

And secondly, in terms of the outcome on the rejection rate or also on the asset quality in terms of the cases that we are onboarding. What changes have you seen there in terms of, let's say, the quality of portfolio being created since the time we have enrolled or since the time we have rolled out the new BRE.

Randhir Singh: So maybe I'll take one by one. So first on your portfolio quality question and the customer onboarding. See essentially, what we have, obviously, our scorecard obviously has a very high weightage of obviously credit lines, right, in the bureau report. So essentially, what has started happening just to share some numbers, right? 725, which is generally considered prime by most lenders. Our 725 and higher CIBIL score, percentage used to be only 62% in Q2 FY24, right? And then as you know, we started tightening from Jan 2025 onwards. And this quarter, that number has gone up from 62% to almost 85%, okay?

Similarly, if you see Q2 CIBIL bureau above 700, which again is considered very good. That number has almost 95%. Equally, along with that, we've also consciously reduced our new-to-credit customers, right? So new-to-credit customer in the old book, you see we got 14%. That number over the last 2 years and post tightening has come down to just about 4%.

So all our filters, obviously have resulted in much better customer profile overall. And even within your certain sub-segments, for example, let's say M&HCV, you would the profile within that M&HCV has also started improving. So instead of having large customers in HCV segment, you will see more customers in retail 1 to 5 segments, more customers 6 to 9, and more customers in 10 plus.

So across the entire spectrum, the quality of customer profile has gone up, has obviously has become much better as expected. Does that answer your question on the portfolio quality and customer onboarding, Shreepal? I think we lost Shreepal.

Moderator: Participant line seems to be disconnected. Ladies and gentlemen, we will take this as the last question for today. I now hand over to Ms. Ayushi Gupta for closing comments. Over to you, ma'am.

Ayushi Gupta: Thank you. I would like to thank the management for taking the time out for this conference call today and also thank all the management participants. If you have any queries, please feel free to contact us, we are MUFG Intime India Private Limited, Investor Relations Advisors for IndoStar Capital Finance Limited. Thank you.

Randhir Singh: Thank you.

Moderator: Thank you. On behalf of IndoStar Capital Finance Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.