



“IndoStar Capital Finance Limited
Q4 FY26 Earnings Conference Call”

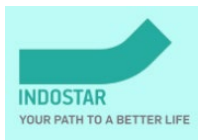
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**MANAGEMENT: MR. RANDHIR SINGH – MANAGING DIRECTOR AND
EXECUTIVE VICE CHAIRMAN – INDOSTAR CAPITAL
FINANCE LIMITED**

**MR. JAYESH JAIN – CHIEF FINANCIAL OFFICER –
INDOSTAR CAPITAL FINANCE LIMITED**

MODERATOR: MR. ARYAN SUMRA – MUFG



Moderator:

Ladies and gentlemen, good day, and welcome to IndoStar Capital Finance Limited Q4 FY26 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 touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aryan Sumra. Thank you, and over to you, Mr. Sumra.

Aryan Sumra:

Thank you. Good afternoon, everyone. I welcome you all to the Q4 and FY26 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:

Good afternoon, everyone, and thank you for joining us today. This is Randhir Singh, Managing Director of IndoStar Capital Finance Limited. I'm pleased to welcome you to our Q4 FY26 Earnings conference call. We truly appreciate your support as we continue to build long-term value.

I hope you had a chance to review our financial results and investor presentation, which are available on our website and on the stock exchanges. Basis your feedback in the past, we have added additional information in the presentation this time. I will begin with a strategic overview of our business and operating performance for the quarter. Following that, our Chief Financial Officer, Mr. Jayesh Jain, will take you through financial performance.

Let me provide a very brief perspective on the macro environment. As per ICRA, India's GDP growth is expected to moderate to around 6.2% in FY '27 from the earlier estimate of 6.5%, primarily due to elevated crude oil prices triggered by the ongoing West Asia conflict. However, the medium-term outlook remains constructive with the IMF forecasting GDP growth at 6.5% for both FY '27 and FY '28.

For IndoStar, FY '26 was truly a defining year of structural transformation. We conducted a granular evaluation of all aspects of our business to sharpen our strategic direction. We made a deliberate pivot transitioning towards a sustainable, high-growth, portfolio quality focused and highly profitable growth framework.

This transformation was systematically executed across three core pillars: Number one, institutionalizing credit underwriting, recognizing early signs of stress in a specific micro segment, we took a proactive and deliberate decision to recalibrate. We strengthened credit underwriting by embedding rigorous data analytics, developed and deployed proprietary and product-specific credit scorecards.

These scorecards utilize extensive internal and market data to sharpen credit filters and implement risk-based pricing. We executed conscious portfolio diversification for resilience across credit cycles. We integrated feedback from our collections team into credit quality refinement.

We established an early warning framework to identify potential stress points well ahead of time. Most importantly, we drove a culture shift across the organization, reinforcing that sustainable AUM growth must always be balanced against robust portfolio quality. These steps resulted in strong improvement in our asset quality.

You would have seen in our investor presentation on Page 22 that our non-starter percentage, defined as zero-plus DPD cases disbursed in the last 6 months is down massively by 68% from 3.29% when we started tightening credit filters to just 1.05% as of March '26. The percentage of our portfolio originated after our recalibration has already touched about 60% of our overall portfolio and is expected to be 75% by September quarter.

Second, our conscious diversification of portfolio has resulted in MHCV disbursements dropping from 57% in FY '24 to 31% in FY '26. Our passenger vehicle disbursement from 8% in FY '24 has now gone up to 23% in FY '26. This diversification will help us navigate cycles better.

You will find details of these diversifications on Page 20 with our stated focus on better credit quality customers, percentage disbursement to customers with 725 plus CIBIL score has increased from 70% to 80% currently. Again, please do see the Page 16 in investor presentation, which has this data, and we'll provide this data going forward as well.

The second core pillar was calibrated growth and capacity building. Implementing these tighter credit filters naturally impacted our near-term volumes. In parallel to these measures and also after seeing the significant improvement in portfolio quality, we took bold and decisive steps to build significant long-term capacity.

And these are number one, we expanded our frontline sales force by 30% in H2 FY '26 to about 1,600 as of 31st March 2026. We continue to invest in manpower resources and as of today, our front-end sales headcount has already touched 1,700. Second, we also start to gradually expand our branch network in selected states.

To prepare for multiyear growth period ahead, we attracted and onboarded high-caliber senior leadership talent across the organization, including Chief Operating Officer for both our businesses, vehicle finance and Micro LAP. You will again find details of our senior management team, including the new joiners in investor presentation from Page 57 to 60.

We also expanded our target market to include adjacent segments like new vehicles and more prime customer segments with appropriate credit filters. These steps resulted in accelerated growth momentum in the second half of FY '26 while maintaining tighter credit norms. This trajectory has carried into the current fiscal with April '26 and expected May '26 disbursements reflecting a robust 40% plus year-on-year growth in disbursements.

These numbers demonstrate management's ability to drive high growth numbers while improving portfolio quality at the same time. Our third pillar was operational efficiency and digitization. To optimize our cost structure, we executed Project Leap with a clear objective of becoming a lean, efficient, agile and highly profitable enterprise.

This structured review examined every operational cost line to root out inefficiencies and enhance productivity. As a result, we identified annualized cost efficiencies of INR51 crores, largely from non-manpower cost, out of which INR27 crores approximately was successfully realized in FY26, with the remaining balance flowing in the current fiscal year.

We will continue to drive a culture of continuous cost optimization, structural operating leverage and efficient capital allocation. Our loan journeys have now become substantially paperless and faster as we implemented e-application, eNACH, e-agreement and credit scorecards.

Our digital adoption has touched 84% for our vehicle finance business and near 100% for our Micro LAP business. These initiatives have reduced our VF lead to disbursement turnaround time by 25% already. We have just received approval for eKYC, which will further move us forward on this digitization journey. This high level of digitization has made us future-ready besides bringing higher level of productivity.

In tandem with our operational reset, we took definitive steps to clean up legacy exposure and strengthen our balance sheet. As of March 31, 2026, we held about INR1,608 crores of security receipts on the balance sheet, stemming from an original asset pool of INR2,086 crores, while we have successfully recovered about INR470 crores, roughly 30% of the original exposure to date, further recoveries may be gradual.

As a decisive step to derisk the balance sheet from potential future volatility arising from this portfolio, we have taken an additional provision of INR326 crores this quarter. This elevates our total provision coverage ratio on this pool to about 63%, reducing the net carrying value to about INR589 crores.

With this incremental provisioning, we are highly confident in realizing this net carrying value. We have provided further commentary on the remaining net carrying value in our investor presentation. We do expect that this provision will remove the SRs from the list of considerations investors have as they evaluate IndoStar.

Coming to our Q4 FY '26 performance. Our total loan portfolio stood at INR8,056 crores, while disbursements for the quarter stood at INR1,306 crores compared to INR1,117 crores in Q3 FY '26. The 17% sequential growth in disbursements reflect improving business momentum across both our segments.

Coming to Micro LAP. The business continues to scale steadily across Andhra Pradesh, Gujarat, Tamil Nadu and Telangana, taking the total branches where MLAP business is live to 108 branches. While there remains a significant opportunity to expand this business across our 454 branches in 24 states, we continue to follow a calibrated growth approach.

The Micro LAP offering is co-located within existing vehicle finance branches, helping improve customer reach, operating leverage and efficiency. We continue to maintain a prudent risk profile in this product as well with an average ticket size of around INR7.5 lakhs, LTV below 40% and average tenure of about 7 years.

During Q4 FY26, the Micro LAP business recorded disbursements of INR52 crores with AUM reaching INR175 crores. Our portfolio has held well since the time we started business about 2 years back with 1 plus DPD portfolio at only 0.3%. In line with our stated approach of gradual rollout, we plan to launch this business in select branches in at least 2 additional states in FY '27, again, utilizing our existing VF branch network.

On the liability side, the company continues to strengthen its borrowing profile and diversify its funding mix. As a result, the incremental cost of funds in Q4 FY26 declined by nearly 60 basis points compared to Q4 FY25, leading to a year-on-year reduction in the overall weighted average cost of borrowings as well.

Overall, the company continues to maintain a strong liquidity position alongside consistent improvement in incremental borrowing costs. We also continue to maintain a strong ALM profile with positive cumulative mismatches across all buckets. Our comprehensive actions in FY26 have helped establish a strong foundation for the next phase of IndoStar's journey.

As we step forward, our objective is to combine strong sustainable disbursement growth with disciplined data-backed underwriting and capitalize on the operating leverage inherent in our established branch footprint. Barring any macroeconomic or system shocks, our 3-year strategic framework through FY '29 is modelled around the following targets:

Disbursements, we want to target 35% CAGR growth in disbursements, aiming for a profit after tax target of INR450 crores to INR500 crores. This trajectory will be structurally supported by the planned addition of about 100 branches over the next 3 years, expected portfolio level productivity gains of 10% to 15%. Driven by our continuous digital and process enhancements, favorable operating results as a result of disciplined cost management, digitization and productivity improvements. To summarize, FY '26 was an intentional year of repair and transformation. We made the conscious decision to moderate short-term disbursements to firmly safeguard asset quality, optimize our cost structure and decisively address legacy risk exposures.

Moving into FY '27, we have built a solid foundation of highly resilient capital base, clean balance sheet, strong credit underwriting framework, specialized and experienced senior team, significant digitization, automation and data analytics capability, reduction in cost of funds and opex and a nationwide network of 450-plus branches primarily located in small towns in 23 states, we are fully primed for acceleration and takeoff.

We are confident of achieving cruising altitude in the coming year and delivering highly profitable growth and compounding stakeholder value. I also want to place on record the support we have received from all of you, our majority shareholders, Brookfield and Everstone and our Board, which has helped us guide our transformation journey.

I will now hand the call over to Jayesh to take you through the detailed operational and financial performance metrics. Thank you.

Jayesh Jain:

Thank you, Randhir. Let me start with a quick overview of our performance in Q4 FY '26. Our disbursement for the quarter stood at INR1,306 crores compared to INR1,117 crores in the previous quarter and INR1,080 crores in the same period last year, reflecting a strong 17% quarter-on-quarter and 21% year-on-year growth.

Our disbursement yield for the quarter for vehicle finance stood at 17.2% and Micro LAP business stood at around 21.8%. Going forward, we expect disbursements to continue improving sequentially as we further expand our presence and deepen customer reach. During the quarter, we expanded our footprint to 454 branches across 24 states and union territories, positioning us well to serve a wider customer base.

Our asset under management increased to INR8,056 crores from INR7,692 crores in the previous quarter, reflecting a healthy 5% quarter-on-quarter increase. Our vehicle finance business reached over INR7,500 crores in AUM. The business continued to deliver steady growth with disbursement increasing to INR1,254 crores in Q4 FY '26 from INR1,087 crores in Q3 FY '26.

Registering a very healthy growth of 15% quarter-on-quarter with disbursement yield at 17.2%. This growth was supported by deeper geographic penetration, product diversification and increased digitization in operations. Across disbursements, the concentration in MHCV is being strategically reduced, while the car, farm equipment, construction equipment, and small and light commercial vehicle segment is being actively scaled up.

At the same time, the portfolio mix is becoming more balanced with increasing exposure to lighter and more diversified asset classes. Coming to our Micro LAP business. This business also continues to scale up steadily with disbursement reaching INR52 crores in Q4 FY '26 as compared to INR30 crores in Q3 FY '26, reflecting a strong 73% quarter-on-quarter growth.

The disbursement yield stood at 21.8%. The steady momentum in this segment reflects our disciplined underwriting approach and expanding branch presence, making Micro LAP an important growth area for the company going forward. On the financial front, in Q4, our net interest income was around INR215 crores.

This represents a 20% increase year-on-year and a 3% rise quarter-on-quarter. This growth was driven by an improvement in net interest margin, which expanded from 5.9% in Q4 FY '25 to 8.7% in Q4 FY '26. Loan yields for the quarter were at 16.9%. Operating expenses remained largely stable at INR122 crores.

As mentioned by Randhir, as a decisive step to derisk the balance sheet from potential future volatility arising from this portfolio, we have taken an additional provision of INR326 crores this quarter against our Security Receipts portfolio. With this incremental provisioning, we are highly confident in realizing this net carrying value.

Further, owing to the West Asia crisis, we created a prudent management overlay of INR49 crores against our vehicle finance portfolio. This onetime provisioning resulted in a net loss of

INR424 crores for the quarter. Moving on to annual performance. For FY '26, our net interest income was around INR772 crores.

This represents a 16% increase year-on-year. Net interest margin improved from 5.6% to 7.8% during the year. Loan yield stood at 16.9%, up from 16.5% in the previous year. Operating expenses for the year was INR506 crores compared to INR482 crores in FY '25. Profit after tax for FY '26 was INR130 crores as against INR53 crores in the previous year.

In Q4 FY '26, our collection efficiency remained strong at around 97%, supported by improved underwriting process. In terms of asset quality, gross Stage 3 assets increased to 4.8%, while net Stage 3 assets were at 2.1%. Over the past 2 years, our portfolio quality has improved significantly with CIBIL greater than 725. Customers have grown from 63% in FY '24 to 79% in FY '26 while New to Credit exposure has declined sharply from 13% to just 4%, reflecting our deliberate shift towards the high-quality borrowers and disciplined underwriting. Our balance sheet remains robust with capital adequacy ratio of 36.1%, providing ample headroom for growth.

The debt-to-equity ratio stands at around 1.5x, reflecting a resilient capital structure, and we continue to maintain a positive ALM position across all maturity buckets. The cost of funds has improved to 10.2%, down from 11% last year, while the incremental borrowing cost has reduced to 9% compared to 10% in Q4 FY '25. Looking ahead, our focus remains on driving a high-quality growth, portfolio quality focus and high profitable growth framework with a strong emphasis on operational discipline.

Thank you and we can now open the floor for question and answers.

Moderator:

Thank you. We will now begin the question and answer session. The first question comes from the line of Danesh Mistry with Eternity Investments Management.

Danesh Mistry:

Hi to the top management and thank you Jayesh for your commentary. Congratulations on showing disbursement growth. It's grown pretty well. Congratulations again on your PPOP growth as well as bringing down cost of borrowing in these markets. Sir, I have just one question regarding your this recognition, which is there.

Essentially, if I were to see the annual results, you impaired whatever you had received as exceptional item in the housing finance sale. So does that mean now whilst you have gone and said that are you expecting any more sort of provisioning coming out from this book? That's number one. Number two is that in the SRs, in your commentary, you mentioned that about INR400 crores, INR500 crores worth of construction projects are there. And you mentioned that cash flow has been good. So when do these roll off, sir? That's it.

Jayesh Jain:

Thank you, Danesh. And you have a couple of questions. So first thing first, yes, your observation on financial year results in terms of the one-time gain, which we got from sale of our housing finance business and the utilizations toward impairment. Largely, we have done impairment of all stressed assets, which could come. So hopefully, there should not be anything which should come.

We are very, very confident that the future cash flows around SR investment, they represent the net value, which we are carrying around INR589 crores, and we would receive that. Even in terms of the portfolio quality and one-time write-off which we have taken in the Q1, Randhir spoke in his opening remarks, a significant improvement on the quality portfolio improvement.

So there also, we are very, very confident, except for the macroeconomic or some strategic shocks, but largely, everything is under control. In terms of your question on the couple of construction projects, which are the underlying security or underlying asset for our SR, yes, they are progressing well as per plan, and we expect to receive the money. This is a long gestation project and the realization could take around 18 to 35 months or 36 months.

Danesh Mistry: Got it. But it's progressively amortizing and paying off, right?

Jayesh Jain: Yes. So there is an overall pool of INR589 crores. There is a redemption of our portion of SR, which is gradually happening. But more specifically on the couple of projects, which are large construction project, the redemption would happen or start to happen after 12 to 15 months gradually.

Danesh Mistry: Got it. Thank you once again Jayesh for all your answers and best of luck going forward.

Moderator: Thank you. Next question comes from the line of Santosh Shetty with LGC Capital. Please go ahead. Since there is no reply from the line of Mr. Shetty, we will promote next that is from the line of Varun Gajaria with Omkara Capital.

Varun Gajaria: Congratulations on a good set. Sir, just wanted to understand, so this quarter, we've seen a sharp spike in our NPAs quarter-on-quarter. If you could shed some light on that in our Stage 3 assets?

Randhir Singh: Yes. Thanks, Varun. You would see, like we said that as our new underwriting is becoming a larger and larger percentage of our overall book, you would see this number going down significantly over the next few quarters. Like we added additional information in our presentation, you will see the early delinquency and both nonstarters are down massively. You would see this number coming down significantly over the next 1 and 2 quarters. And by September, as I guided, 75% of our book will comprise of the new underwriting, which is showing much, much lower delinquency as we discussed.

Varun Gajaria: What would be our aspirational number here? Because traditionally, we've seen that we've maintained around 3%, 3.5% to 4% plus kind of Stage 3. So if you can just like what might be looking for?

Randhir Singh: Yes, sure. I think we would basically eventually stabilize somewhere between 3.75% to 4%. And if you see this is where most of our peers are who operate in the same segment, you would note we do operate a slightly higher-yielding business, about 17% and that is the target that we have, 3.75% to 4%. That's where we'll stabilize. You'll start seeing gradual decrease in this number as we move forward in this year.

Varun Gajaria: And with this big provision set, are we on track to meet our 2%, 2.5% credit cost guidance from next year?

Randhir Singh: Yes. That is what we are targeting. Again, I will repeat what we have said earlier that we do see significant reduction in the credit cost. And as old book runs out, you would start seeing us stabilizing around 2% to 2.5% credit cost, which is what we're targeting as our yield is about 17% plus. In fact, right now our disbursement yield is closer to 17.25%. So that is the steady state credit cost number that we targeted.

Varun Gajaria: Ok , thank you and all the best.

Moderator: Next question comes from the line of Shreepal Doshi with Equirus.

Shreepal Doshi: My question was on the provisioning buffers that we've created during the quarter to the tune of INR 490 crores. So just wanted to understand that while the last 12 months, we had tightened our underwriting and the newer portfolio that we have created is undoubtedly performing really well. Then what triggered this additional INR490 crores of buffers?

I understand it is for the uncertainties which are around. But still, why particularly this number? Like what is the thought process here in terms of this number, let's say, probability of default or LGD or something that you've looked at. So that's question number one. I'll pick up the second question after like after this first question?

Jayesh Jain: Sure, Shreepal. Thanks for this. And as I mentioned in my speech as well as Randhir also mentioned, the large part of this is on our Security Receipts portfolio, which is around INR326 crores. There was another management overlay of INR49 crores, which has been created for West Asia crisis.

So it's kind of more of an MO in anticipation or if something goes not to our liking or some stress comes in. So that's something which has been done. And a lot of other players have done across the industry, so we also felt it appropriate to provide for it.

While this MO has been created as of now, just to confirm, we aren't seeing any stress or any concern around our portfolio. We will continue to hold for next 12 months or so on our MO for West Asia-related crisis if something goes wrong.

Another thing which happened was the annual ECL model update. So we had updated our annual ECL model and revised our LGD & PDs. And accordingly, there was an extra charge of around roughly INR55 odd crores additional than the normal quarter-on-quarter rates which were coming in. So that's all what it led to. To confirm again, there are no stress signs which we are seeing, which you were trying to understand. It is more to do be prudent and provide for SR and MO. That's all.

Shreepal Doshi: Got it. And sorry for that wrong number. It was INR490 million, my bad. So got your standpoint. But with respect to the ECL revision, so there is an additional requirement of INR55 crores. But given that our last 12-month portfolio has been performing well. So if you had to, let's say, split the performance of the overall portfolio into two, how is the requirement, let's say, for the portfolio, which has been trading in the last 12 months? Like is it materially lower than what we were having it earlier? Or if you could give some number-specific color or some analogy there?

Randhir Singh: We'll provide you. So Shreepal, I think the models obviously have a much longer period data, right, the model is typically on 7 years. But like what you also pointed out, we are seeing significantly lower delinquencies, which means surely we would expect a release at some point in time. It's just that in the model, obviously, it takes a much longer period of data than just the last 1 year. But your comment is correct. We are seeing significantly lower delinquency, and it will show up in our provision eventually.

Shreepal Doshi: Got it. Sir, the other questions were broadly on, let's say, a little more on target for the management with respect to growth aspiration, with respect to profitability. So while I understand that the environment remains a little uncertain, but let's say, if you have to slate out a 2-year plan or a 3-year plan from here on, what is it that we as management have in mind or that we are targeting on these two aspects such as loan book mix and the third one would be on the profitability front, maybe on the ROA, ROE side?

Randhir Singh: Yes. Shreepal, maybe I think you may have joined late. I did cover this, but I will repeat. Till FY '29, we have set up 35% CAGR growth in disbursements, obviously, which is of very high growth. And the reason for that ambition is we are seeing very strong portfolio quality after the new underwriting.

And you've been attending our calls, you would know we took that in Jan '25, right? So as we have seen massive portfolio quality improvement, we have decided to take definitive bold and decisive steps to pursue growth and are targeting 35% CAGR growth in disbursements over the next 3 years.

We are also targeting FY '29 profitability of about INR450 crores to INR500 crores. And a lot of this obviously would be supported by the investments that we've made in the manpower, in the network, in the IT systems in the last year and this year. We do have, as you know, significant operating leverage because we already have a branch network. So the existing branch network itself can deliver a significant amount of growth.

Shreepal Doshi: Got it. That is helpful. And this 35% disbursement CAGR, so where should we be in terms of loan book size, maybe by FY '29, where should we be in terms of the loan book size?

Randhir Singh: You can put the number in excel, but I think you should be able to see something like INR16,000 crores to INR17,000 crores easily.

Shreepal Doshi: Got it, sir. Sorry, please go ahead.

Randhir Singh: No, I have completed. So please feel free to ask your question.

Shreepal Doshi: And sir, with respect to the loan book mix, so while we have restructured or, let's say, looked at that very closely in the last 12 months and have decided like the segments that we're doing today now, incrementally, would we look at any other segment or would we want to focus these two segments only?

Randhir Singh: Yes. So Shreepal, we are focusing on these two segments, let's say, in the near term for up to 3 years for sure, for a simple reason that both these have a very large target market. So, we will be

pursuing these two segments, focusing on these and doing these well itself is sufficient for us because you can see many of our peers in these segments have really reached very significant size, which basically demonstrates the total market available for someone like us. So these are the two segments we will focus for the next 3 years.

As you know, as a retail NBFC with a very large network and growing network, we obviously have the ability over the longer term to launch many other retail products like many of our peers have done. That network is there, launching any incremental product from these branches does not lead to capex, right? So that option is available to us, but purely just as a focus for the management, for the next 3 years, we just want to focus on these two because they itself are fairly large segments.

Shreepal Doshi:

Got it, sir. And sir, just one last question that I want to cover, which is with respect to the current trend. So while you clearly highlighted that you're not seeing any stress whatsoever at ground level as well as the business momentum is pretty intact. But given like there would be repercussions now coming in because it's only the last 3 weeks that we've seen the fuel prices actually going up.

So how do you see that impacting not only us, but let's say, the kind of profiles that we do or vehicle finances broadly do, be it SRTO or the larger fleet operators. So how do you see that impacting broader industry? And how are we trying to defend ourselves and be an outperformer there?

Randhir Singh:

Yes. So Shreepal, I think like we said that right now, we have not seen any impact at all, right? But I think it's fair to expect some or not at all, only time will tell. But really from our side, what we are very, very clear on that in case we see any signs of deterioration or stress, we would choose portfolio quality over growth.

And we have all the necessary tools to do it, like we discussed that we did almost a 6-month project on analyzing data, building a scorecard. We do have a fair sense of which are the cohorts which can get impacted. And if that were to happen, we will tighten our policies and choose portfolio quality over growth in the short term. And we do expect that like you've seen in the past, things do settle down in 1 or 2 quarters.

Shreepal Doshi:

Got it . This was very helpful and good luck for the next quarter.

Moderator:

Next question comes from the line of Ajay Shah with MK Ventures.

Ajay Shah:

Randhir, I have seen you as generally a person who believes in under promise and over deliver. First time I think I've seen in the last 3, 4 quarters call that you have here your confidence, your statements, everything has been really up in terms of trajectory has been very, very positive. I also looked at the earnings presentation that you put and my request would be next time onwards, if you can put the presentation slightly in time before the call so that we can do justice to that.

But the team buildup, some of the technology things that you put is all brilliant. So where do you see and while you covered it in your presentation, where does this confidence come from? Is it the team buildup, technology buildup, the cleanup that's happened? What is it that giving

you high confidence of achieving what you have achieved and there's a pretty high benchmark that you've taken upon yourself and the team. So what gives you that confidence of reaching what you've committed?

Randhir Singh:

Thanks, Ajay for the kind words. A few things, Ajay. So one is, apologies for the delay in uploading. Next time, we will do it earlier, so you have enough time. There was a lot to obviously add in this presentation, and that's why we added a lot of new material, but you will get in time next time. So I think Ajay, the confidence comes purely by the data.

So I'll break it into parts. The reason we are confident today because of the data that we have. And if I just break it into two parts, First is on the portfolio quality, right? That is the most important thing that we are focusing on. And as we saw that the new underwriting and now it's really going on since Jan '25, so it's been more than a year, we have seen massive reduction in delinquencies.

And that obviously gave us confidence that with this delinquency, we must aim for higher growth. Second is we've taken a lot of steps in the past 1 year. And while it does take time sometimes because we have a large organization, 450 branches, about 5,000 people, a lot of those actions that we've taken in the past 1 year have started showing up in our growth numbers.

So like I said, as we speak, April disbursement plus expected May disbursement this month, both put together are tracking almost 40% over last year, right? So one is portfolio quality. Second is very clear growth visible in numbers. And more importantly, this growth has come on much tighter filters, not just the credit quality of those customers.

You would have seen the data in our slide on 725 plus, much lower NPC, much lower CIBIL scores, but also significant conscious diversification, right? So we do feel that we are growing with much tighter filters. So that was one. Significant amount of digitization, you said it absolutely right, and these things do make us future-ready, bring in incredible amount of productivity gain.

We already knocked about 4 days of TAT in just last 6 months. So that is the kind of productivity improvements you've seen. And we've been able to attract and onboard significant senior talent with very specialized skill set. So this is really, as I been the reason we did not show this earlier because we have taken steps which were WIP, which is not showing in numbers.

The reason I'm able to sort of talk about these strong ambition numbers with confidence is because all of this has started showing up in the numbers, whether it's growth, whether it's cost of funds, whether it's portfolio quality or whether it's digitization or whether it's our ability to attract senior talent. So that is the source of the confidence.

Ajay Shah:

Brilliant. One thing that -- sorry, one last question I'll have. One slide that really drew my attention was the product mix on vehicle finance. And over the last 3 years, I think you put a chart where from CV, it's significantly diverse to cars, farm equipment, CV has come down by half almost from 57% to around 30%. Is this trend likely to continue? Is this a conscious thing? And is this helping us to get into better customers and - create better book?

Randhir Singh:

Yes. So Ajay, the intent here is basically basic credit 101 that a diversified portfolio without concentration would perform better across the cycle, right? So that's been the philosophy. I have to say it's a tough thing to do because this obviously takes time effort. It's obviously sometimes easier to do a large ticket size in M&HCV transaction with INR50 lakh ticket size versus INR7 lakhs, INR8 lakhs.

But I think we wanted to do the right thing even if it is harder. So it's been very, very conscious, and I think we have got to a stage where we do not have concentration of one product. And you will see that going forward as well. In fact, you might see some of our segments like farm equipment where we had a smaller percentage with onboarding of senior talent.

And you would again find Ashish, who is very, very experienced in farm equipment sector, joining us as a National Sales Manager. Same thing in the construction equipment, which has been a lower percentage, but we have Rohan who is again 20-plus years of experience construction equipment, you would see some of those lower segments also increase a little bit.

But eventually, that is what we do is by design, it's not that one has a preference of one product over other, but just by design, we do not want concentration in our portfolio because if we have diversification, we think that we will manage cycles much better. So it's a hard thing to do, but right thing to do, and that's what we are focused on.

Ajay Shah:

Brilliant, Randhir. All the best. Your profit guidance of INR500 crores is music to all the investors ears. So all the best and keep up the good work.

Moderator:

Next question comes from the line of Raghav, Ambit Capital. Please go ahead.

Raghav:

I just have two questions. One, actually when I look at your last 4 quarters of disbursements, which has been done under the tightened underwriting norms, that's about 50% to 60% of the book today. And then on the other hand, your slippages have been on the higher side in this quarter. So does this mean that your slippages are mostly coming from the older book? Is that the way to read this?

Randhir Singh:

That's right, Raghav. Absolutely right. We are seeing much better quality and you could see that in our portfolio mix. You can see in the better quality of customers that we've been onboarding. You can see that in our NS, you can see that absolutely right observation.

Raghav:

So the follow-up question is that when I look at these slippages as a percentage of the book that there with a 1-year lag or 2-year lag, the flow rates are pretty high. How do you get confidence on controlling the credit cost in '27 or '28 just because the older book is pretty stressed and that's still going to be 25%, 30% of your book over the medium term?

Randhir Singh:

Yes. So Raghav, as we are mentioning that one good part of our business is that it's not a long tenor loans business in vehicle finance. And that's why the old book is actually also running quite fast. And remember, the old book is also predate Jan '25. So as it is, right, on most of those cohorts, right, now there is a limit to the delinquency because many of these customers now are 2 years plus kind of seasoning done on those cohorts.

If I see our various old cohorts that we track very, very closely in the last 12 months, we're seeing an improvement in all buckets month-on-month, right? So that is the trend is very, very clear, whether it's current 2x or 31 to 60 or 61 to 90, whichever buckets we see, the trend is coming down.

We are also seeing, in fact, reduction in bounce rates as well. And that again continues as we're getting better quality customers. I think we're essentially talking about time till September. And you would see by that time, most of our book would be new book, 75% plus. In fact, if we go faster, it's possible definitely it might exceed 75%. So I would not see that as impacting us a lot because we'll be talking about next 2 quarters and we'll have 75% plus of the new book, which is performing exceedingly well.

Raghav:

Okay. That's very helpful. My second question is on your Micro LAP business. So the yields there are somewhere around 22%. And then when I look at another very large player, they are also at about 22%, but your ticket size is around INR7.5 lakhs, which is almost double of that other players.

So I'm just trying to understand the sense that we have is that as ticket sizes go up, the yields come down, but that's not the case with you because your ticket size is double while your yields are similar. So what gives you the ability to charge relatively higher yields despite having a higher ticket size? Just want to get some sense there?

Randhir Singh:

Sure, Raghav. So a good observation, and you would have seen that our ticket size has gone up slightly, and that has been designed. In fact, while we call it Micro LAP, we were never in a segment which just ages into, let's say, microfinance. So we were always very clear that we want to pursue good quality customers within this segment.

Our assessment is that over a long period of time, in a ticket size of INR7.5 lakh to about, let's say, INR10 lakhs to INR12 lakhs range, it is possible to get yields around 20%. So I think it is possible. Some players have done that. And I think it is also fair to say that what we're also seeing sometimes the pricing is not sort of uniform across lenders.

Some lenders would, especially on the bank side, do give better loan rates, probably given their own cost of funds. But as we see, we do not see an issue in about 20% yield up to about, let's say, INR10 lakhs kind of ticket size. I think we are able to get that. And even even in our book, if I see loans which are greater than INR15 lakhs, we still have about 19% IRR.

So if you look at it, all things considered, we would be able to maintain 20% for at least next 12, 18 to 24 months. I do not see a challenge. And like I said, we will be gradual in our approach. We will grow this business, but in a gradual manner across states, not launching in 23 states while we obviously have the opportunity to do so given our focus on portfolio quality. And in this business, delinquencies do show up after 24 months, and that is the reason for our gradual calibrated approach.

Moderator:

Next question comes from the line of Devesh Kayal with Boring AMC.

Devesh Kayal: Just want to understand what will be the amount of interest reversal in Q4 and Q3? Interest reversal and NPA?

Jayesh Jain: Sorry, come again, please?

Devesh Kayal: Just want to know what would be the interest reversal and NPA amount in Q4 and Q3 because our interest income on loans has been kind of flat over the past few quarters despite the disbursement growth and loan growth?

Jayesh Jain: I don't say it's handy. Let me come back on maybe we can connect separately. It has to be marginal. I don't think it would have any significant difference considering the fact that NPAs are largely around similar kind of a zone. So it should not be a very big difference.

Devesh Kayal: Understood. And sir, we have managed opex very well till now. So as the disbursement grows 35%, 40% going forward. So how do we see opex growth going forward?

Randhir Singh: I think like you mentioned, we do have significant operating leverage. For this growth, at least for this year, we do not really see any meaningful increase. So it's fair to say that we are obviously growing our revenue and disbursements and AUM will obviously grow at a much higher clip than opex.

The trend that you are seeing of a very moderate opex increase in the last 1 year, that trend will continue. We've been very, very thoughtful on opex. Like we said, we have gone line by line on all our items, and we have already saved significant operating cost without compromising our growth ambition. So we are obviously resetting costs, but making sure that these are wasteful expenditures and not something that should impact our growth. So you will see the same trajectory of a very low increase continuing.

Devesh Kayal: Sir, after the ECL model refresh, so, this quarter, we had overlay I guess, included in Stage 2 provisioning. So going forward, how do we see the Stage 2 provision because historically, it's been around 3%. So after this model refresh, do we see it at the similar level, higher, lower, and how do we see?

Jayesh Jain: Devesh, it would remain largely at a similar level. There won't be many changes that would be there.

Devesh Kayal: That's it from my side, all the best.

Moderator: Next question comes from the line of Vibha with FairConnect.

Vibha: My question was on the profit outlook of INR450 crores to INR500 crores. Is it for FY '27 or FY '29?

Randhir Singh: Vibha, it is for FY '29. We talked about 3 year target and this is target that we have set up for ourselves.

Vibha: So that means actually 3 years from today?

- Randhir Singh:** Yes.
- Vibha:** But do you think that this is an ROE of maybe 12% or lower than that, assuming that till next year and FY '27 and FY '28, you must be positive?
- Randhir Singh:** You are in line, your math is broadly in the same.
- Vibha:** But do you think we need to have a look at the strategy to bolster it because compared to the peer group, it seems very, very low threshold actually?
- Randhir Singh:** Yes. So, Vibha. So obviously, we have looked at our peer group. There are a few things, right? One is, obviously, it's also a function of how much leverage we have, right? So you can see there are listed players, there are unlisted players, we have all the data and it has been really a function of the leverage. That's one.
- And second is we do will keep pursuing growth, right, because the market is so large. And many of our peers have shown that they can keep growing over a very extended period of time. And that leads to a fairly large compounding effect, and that is going to be actually our target as well.
- We do feel we have a very strong foundation. We have very large network. We have strong shareholders and their support. We have strong rating. And I think directionally, we do want to pursue growth over a long period of time because as we've seen, we've got the underwriting right, we got the digitization right, we have been able to attract and board very senior specialized teams from fairly large companies and experience.
- So that is what we would continue to grow and that requires obviously investment, which we continue to do. And that is the ROE that number that should be there at the end of 3 years. And at the end of 3 years, of course, you will see we will continue to grow even after that because of a large network that we only build in.
- Vibha:** Okay. And this assumes broadly 2% credit cost guidance that you have given, right?
- Randhir Singh:** Sorry, Vibha just to complete, I do want to make a point that if you see many of our peers with this branch network have achieved AUM size of about 3x our size. So there is significant operating leverage. We do think that with 450 - 500 branches when we compare ourselves with some of our peers, they have achieved fairly large AUM on the current network itself. So there is huge scope to grow for us.
- Vibha:** Yes. Sir just clarifying this assumes 2% credit cost and also the overall cost of funding coming down to what Jayesh was mentioning in line with your incremental cost of funds and no additional stress. This is in a way, the best case scenario.
- Randhir Singh:** So I mean I would just put it like this, the numbers that we mentioned, we are already there on 9%, right? So the way we see it is that, we can't be our own judge on what is the best case or worst case, but we just see it very simply that we've been able to borrow at about 9% for many quarters now.

And that has led to quarter-on-quarter improvement in our overall credit cost that there is a slide in the presentation. So it is basically what we are telling you is what we have already delivered, the interest cost we are saying that the 9% we maintained and things may change and let's also remember, it can also improve. For example, for a AA minus company, there is a case of borrowing even at a slightly better rate than this, along with the potential rating upgrade that may come with operational performance improvement that we can potentially get.

So it's difficult to say for me whether it's a base case, worst case. But if I look at the entire thing, of course, it can go up, but it can also come down as well with operating performance improvement. So that was one component. On the portfolio quality, given the yield that we are targeting, like I mentioned earlier, our normalized credit cost for this segment would be between 2% to 2.25%.

So again, something that now we have seen over almost 60,000 loans that we disbursed since Jan '25. So for a fairly large amount of data, it's possible that things may turn out to be totally different for the worst or for better. But what we are really giving you is this is a fairly large amount of data, right? So this data is almost on 60,000-plus kind of. So it gives us confidence that it's not basis INR100 crores, INR500 crores, a large amount of data. So that's where we come from, Vibha.

Vibha:

So just to put this in another words, so if there is an upside on reduction in cost of funds, this ROE may improve. But credit cost already someone asked the aspirational credit cost, that's been built into this numbers. But if there is an additional stress, which typically happens in financing cycle, you can't predict everything. So these numbers may not even be achieved. It doesn't assume any stress. It assumes the best case scenario on credit cost, maybe there is some margin of cost of funding if that were to decline. Would that be correct?

Randhir Singh:

I mean I will leave it to for you to draw your own conclusion, right? But even like I said, that the way we have built it, right, there are players who also have less than 2.25% credit cost, right? So you can see vehicle finance here. There are people who also operate at 1.5%. So again, it is subject to interpretation, but I would leave that with you.

What we see is that 2% to 2.25% normalized credit cost and there is a full spectrum available in the vehicle finance, all of the data is available in earning calls of our peers, you would see people also operating at 1.25%. So we can also say, have you been too conservative in giving 2% to 2.25%, somebody can ask us that, right? So I would leave that interpretation view, but this is how we see it.

Vibha:

Thank you vey much and all the best.

Moderator:

That was the last question for today. On behalf of IndoStar Capital Finance Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines