



“IndoStar Capital Finance Limited  
Q3 FY2020 Earnings Conference Call”

February 07, 2020



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**Moderator:** Ladies and gentlemen good day and welcome to the IndoStar Capital Finance Q3 FY2020 Earnings Conference Call, hosted by Motilal Oswal Financial Services. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "\*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to IndoStar management. Thank you and over to you all.

**R. Sridhar:** Good afternoon, I am Sridhar from IndoStar Capital Finance and I welcome you to this Q3FY20 earnings call. So, let me first give you an overview of the recent transaction, which we have announced on the equity infusion from Brookfield. As all of you are aware Brookfield is a marquee global private equity investor the second largest in the world with \$510 billion assets under management and they have investments of \$18 billion in India. There are various firsts about this deal for Brookfield, we are their first Private Equity deals in India, we are also their first NBFC investment and a first investment for them in a listed entity in addition to it being a first investment for them where they are entering into a partnership. So, this equity infusion is around Rs 1225 crore into the company and out of the Rs 1225 crore around Rs 875 crore will be in equity and another Rs 350 crore will be in compulsorily convertible preference shares. Apart from these two, they will also buy a small quantum from the existing shareholder and these two transactions will trigger an open offer. Post all this, Brookfield is likely to have a minimum of 40% equity shares which makes them the single largest shareholder in the company. This transaction comes at a very opportune time for IndoStar when the industry has faced stiff challenges in the last 15 months post IL&FS problem, which led to lot of liquidity shortage for the NBFC industry resulting in slowdown on asset side. The capital infusion is going to help IndoStar look at growth from the next financial year once this transaction is culminated in the next few months. Brookfield has completed a due diligence process and signed binding agreements and we expect the necessary regulatory approvals to come in the next few months to close this transaction.

The networth of the company will increase by Rs 1225 crore taking it to around Rs 4200 crore. This helps us increase our business up to 3 times without any further requirement of capital. With a global investor like Brookfield partnering Everstone as a co-promoter adds significant credibility to IndoStar in the marketplace. Ever since this announcement has been made last week, banks have been reaching out to us and they are showing willingness to consider enhancement / new credit limits to us once this transaction is completed. We hope that around Rs 2,500 crore of debt funding will come on the back of this transaction. So, we are very confident that this partnership will solve the problems of capital and liquidity for IndoStar and will help us to look at growing our retail business swiftly.



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In the last 15 months, when we were facing a lot of liquidity challenges, we have had some positive events as well. The first being, the acquisition of CV financing business of India Infoline on 31st March 2019 with a deferred credit of about 12 months. We have since, completely paid the entire consideration to India Infoline by end of January 2020 and we do not have any more dues to be paid to them. That portfolio is doing reasonably well. We have also reduced our corporate lending portfolio, both real estate as well as non-real estate which was around Rs 6000 crore during the time of the IL&FS issue, now has come down to around Rs 3000 crore. With Rs 3000 crore of repayments and prepayments, we have clearly demonstrated the quality of assets of our corporate lending business and this has helped generate liquidity in a very tight market. Furthermore, we have used those funds to manage our liabilities and grow our retail business. The third good event, which has happened to us is the partnership with ICICI bank for developing lending franchise for commercial vehicle finance. This started in the month of July and until now we have done around Rs 500 crores of business which is on the balance sheet of ICICI bank. So, this relationship with ICICI bank for CV Finance business is likely to strengthen further as we will be doing more business for ICICI bank in the days to come.

In the last 15 months during this liquidity crisis we have managed our liabilities in this fashion and still grown our retail book. Going forward, once this transaction of Brookfield culminates, we will focus on building the retail business aggressively led by the commercial vehicle finance. Our CV finance AUMs are at Rs 4500 crore of assets under management, which has gone up around 11 times compared to June 18. The retail business has moved up by around 3 times and retail business makes up 70% of AUM with corporate lending business at 30%. We are on track to have a mix of 75% retail and 25% corporate. So, with these initial remarks I leave the forum for your questions. I along with my colleagues would be very happy to answer your queries.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Umang Shah from Edelweiss. Please go ahead.

**Umang Shah:** Hi sir. Congratulations on this deal that is going to happen. I want to understand what is the status on the NPA account in corporate lending? Further, is there a need to increase our provision on corporate lending?

**R. Sridhar:** We have provided Rs 15 crore in Q1 against one real estate customer which has already slipped into NPL in Q1, that is the only stage 3 asset in Corporate lending.

**Umang Shah:** Okay. So, in a corporate lending if I look at the book overall book it has reduced

**R. Sridhar:** It has come down from around Rs 6000 crore to now Rs 3000 crore.



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- Shailesh Shirali:** Roughly of the Rs 3000 crore repayments that we have had, about Rs 600 crore –Rs 700 crore will be normal scheduled repayments and balance will be prepayment and refinancing by other lenders.
- Umang Shah:** Okay alright, got it and Sir going ahead in our retail book, even this quarter retail book if I compare with FY2019 vehicle finance was somewhere close to Rs 3000 crore of loan book, this quarter it is somewhere close to Rs 3200 crore. What is the strategy that we are following that will keep on growing from here?
- R. Sridhar:** Capital it is not an issue for IndoStar. We already have a 25% capital adequacy; with the Brookfield investment - debt funding too should come through. We are now chalking out a plan for growth in retail business, which will be led by commercial vehicle finance. As you know in commercial vehicle financing, we are in the mid customer segment where the customers own 2 or 3 vehicles and we are likely to be a leader in the next few years. We are focusing mostly on the used vehicle segment. At present, of our current loan book 70% is used and 30% is new, and we will focus on increasing our yield and penetration in the used vehicle segment. Additionally, as per the government announcement, the scrappage policy will be implemented soon, it is going to create a huge opportunity for funding used vehicle so we are strategically at an advantageous position where with capital and debt we will be able to exploit and increase our business substantially. It is a high potential segment where we feel that we are positioned appropriately to take advantage and build huge volumes in the next 3-5 year.
- Umang Shah:** Okay, alright and Sir just one more last question. You mentioned something about partnership with ICICI bank. Are you trying to find out clients and ICICI bank finances it and you get the fee income out it or how does this work out?
- R. Sridhar:** What you said is correct; this is a partnership with the same customer segment and same credit policy that we follow for our on-balance sheet origination. Since there is a liquidity shortage in the marketplace, we got into this relationship where we source the customers and do everything as per ICICI's documentation and once our credit manager approves the loan application, we give it to ICICI bank. Once their credit manager also approves the loan application, they make the disbursement to the customers. This funding comes to us at 10.4%, which is the cost of funds tagged for this arrangement, the balance between the lending yield and the cost of funds comes to us as spread
- Umang Shah:** Okay got it. Thank you so much.
- Moderator** Thank you. The next question is from the line of Akash Dattani from HDFC Securities. Please go ahead.



- Akash Dattani:** On slide #12 of your presentation, there is a liquidity profile table where there is a line that says loan repayment inflows, so there are four quarter for FY2021 and if I look at 3Q FY2021 the figure is Rs 6300 crore, now in your previous presentation it was Rs 7262 crore, so what is the reason for and if I would have to compare it with the first quarter presentation the amount falls further.
- Amol Joshi:** At all points of time there will be a certain outstanding book which gets split into a loan repayment ALM schedule. Now during the quarter there will be a fresh loan given and some repayments, plus we will do direct assignments and receive prepayments, all this leads to a loan book at the period end and gets factored into this ALM schedule. So, all these points will lead to a number which will keep changing and it will never be a static number which will be going on quarter on quarter
- Akash Dattani:** Of course, yes.
- Akash Dattani:** Correct, so if I just look at this 3Q FY2021 number, there has been a considerable decline versus what was shown in 1Q, just for example so would you attribute this to say you are foreseeing delayed payment in certain accounts or something of that sort.
- Amol Joshi:** If you are looking at Q3FY20-21, the change would be due to various factors, you have seen the reduction in our corporate book, if there was something scheduled to come which is a big-ticket item and has been prepaid, it will lead to a change in the earlier reported numbers. You know the business well, all my corporate repayments are bulky repayment so they have an impact on quarter inflow, so if any of that would have come as a prepayment or maybe would have come and done a part payment all that will be factored into the current ALM presentation.
- Akash Dattani:** Okay and per the budget announcement regarding the eligibility under Sarfaesi, does that impact IndoStar in anyway?
- Prashant Joshi:** We had the Sarfaesi cover up to Rs 1 crore ticket size now that should go down to up to Rs 50 lakhs. We have a reasonable portfolio below Rs 1 crore so it should help us.
- Akash Dattani:** Okay that is it from my end. Thank you very much.
- Moderator** Thank you. The next question is from the line of Rajiv Agarwal from DoorDarshi Advisors. Please go ahead.
- Rajiv Agarwal:** My first question is I see provisions made in the quarter of Rs 110 crore, but if I look at your NPAs, the NPA have only gone up by Rs 40 crore. Should I assume that there were write off in Q3?



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- Amol Joshi:** Rajiv this is Amol here, so what will happen is that in the P&L the Rs 110 crore number that you see is a combination of provisions made and write offs as you rightly pointed out. If you refer to slide 16 which plots out the product wise gross NPA and net NPAs, part of that provision cover is coming through that line plus you are right, as we have also called out in our corporate lending P&L page that we have done two large write off in Q3. Both provisioning and write off have contributed to Rs 111 crore.
- Rajiv Agarwal:** So, I just wanted to know how much is the write- off total in the quarter?
- Amol Joshi:** Rs 59 crore for Corporate lending book
- Rajiv Agarwal:** Got it and given the write off you have taken in the media and fitness company is there any additional provisions still to be taken for these two accounts?
- Amol Joshi:** We do have exposures for those two accounts and as and when the situation warrants, we will revisit our stance on provisioning.
- Rajiv Agarwal:** There might be more that might come. You have not like full provided as of, now right?
- Amol Joshi:** Right.
- Rajiv Agarwal:** Now I want to understand little bit of the CV portfolio in the commercial vehicle portfolio. It seems like the IIFL portion is doing well. ECL available is around Rs 137 crore against the IIFL portfolio. How much of that is likely to be utilized in future?
- Amol Joshi:** The original number of the provision cover was Rs 202 crores when we bought the portfolio and the number of Rs 137 crore that you referred which is on slide 16 is the current provision available of that pool that we took on. Now if you remember we had said that Rs 202 crore covers around 8.9% of the IIFL portfolio. Currently Rs 137 crore represents cover of 8% of the total portfolio.
- Rajiv Agarwal:** When would you know if this enough like how does it work, as you realize the losses if the cost is lower than Rs 137 crore, is the money is going to stay with IndoStar or goes to IIFL can you just explain how that works?
- Amol Joshi:** Rajiv we have bought over that portfolio so there is no link with IIFL any longer. It is the portfolio which IndoStar manages and over the course of the portfolio lifecycle if my overall write-off is lower than this Rs 137 crore I will eventually see a write back.
- Rajiv Agarwal:** Got it okay and then on the CV portfolio that we have originated in IndoStar it seems like there has been a deterioration in the asset quality so can you talk through what exactly is going on there because the NPA excluding IIFL has jumped in this quarter.



- R. Sridhar:** Yes, our portfolio is doing well but there is a slowdown in the CV segments and geographies like Rajasthan, Gujarat, Delhi and Telangana. There are some heavy commercial vehicles which we have funded where I think there are some issues, that is why there is slight deterioration, but these are short term cycles. The NPL recognized does not imply an actual credit loss. These are events of postponement of payments, please note that these accounts are fully secured by underlying assets, the CV finance business involves funding assets that earn and pay. As the freight market is sluggish there are some delays in repayment, but all these will come back once the market reverses so we are not very much worried. I have seen many cycles like this. Our collections are good with some slippages here and there but compared to the total portfolio it is not very significant. We are addressing both issues and we are confident that these will be eventually collected.
- Rajiv Agarwal:** Got it and what would you say is the normalized cost for a CV business that we are originating credit cost.
- R. Sridhar:** See we are doing business at around 16% to 16.5%, so in a good market condition, we should be having 75 to 80 basis credit loss and in a very challenging period like this it could go to 150 to 160 basis point. So, looking at just risk adjusted returns between 14% to 15% is good.
- Rajiv Agarwal:** That is great. Can you explain what segment of the used CV we are focusing on? What is the vintage of the vehicle that we finance?
- R. Sridhar:** On vintage, we are focusing on 5-12-year-old vehicles. From a customer targeting standpoint, we are addressing needs of operators with 2-3 vehicles.
- Rajiv Agarwal:** I see, so it is very similar to Shriram Transport?
- R. Sridhar:** The customers segment being addressed at IndoStar is different. We are financing operators with 2-3 vehicles and Shriram Transport specializes in financing first time user and there is a yield difference of about 6%.
- Rajiv Agarwal:** Okay, but I think Shriram transport has a similar yield and the similar vintage, but they are just one owner that a single owner versus you are saying they have 2-3 vehicles is that right.
- R. Sridhar:** It is not a single owner, you will be calling a single lorry operator, the first time someone buys a truck, so you will have only one. We do not fund that segment; we are not competing in any manner.
- Rajiv Agarwal:** And then one last question is on Brookfield while they have come in and they are a big strategic investor I just wanted to understand your thought process around the price at which it came so they obviously came below book and how did the management think about the price and if you can just talk through that?



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- R. Sridhar:** See, normally any investment, equity transaction and all that is not related to the book value, it will always be related to the SEBI formula of price discovery and the market price., So this is a negotiated price but as far as the company is concerned what we look at it is not the price at which the investor comes but the partnership with a marquee big investor. A global investor like Brookfield, increases our credibility in the markets, helps us in strengthening our liability profile and gives us an opportunity to build a strong business in the next 3-5 years instead of looking at the current price at which investment is made that is how I look at it.
- Rajiv Agarwal:** Got it.
- R. Sridhar:** It is very advantageous for IndoStar at this point of time to get an investor like Brookfield coming and reaffirming faith in our current business model, the platform which we have built and backing the management team. That gives us a lot of satisfaction in this current market situation where there are challenges from liability as well as asset side. The confidence which Brookfield has shown in our management team will go a long way in building a fantastic franchisee in the next 3-5 years.
- Rajiv Agarwal:** Just one related question on the funding side. If the funding challenges continue in terms the Indian market would Brookfield be amenable to also funding, you using debt?
- R. Sridhar:** Rs 2000 crore – Rs 3000 crore of funding is in the pipeline once the transaction is completed, I do not think there is any need for Brookfield to lend to us, there will be banking channels and institutions that will fund us because of the kind of equity which is coming in. Once the transaction is completed, we would become one of the only NBFC in the country with very high capital and very low leverage, so that would attract lot of debt from Indian lenders.
- Rajiv Agarwal:** Okay great thanks a lot.
- Moderator** Thank you. The next question is from the line of Sidhart Purohit from SMC Global. Please go ahead.
- Sidhart Purohit:** Hi Sir two questions. One on the deal that really appreciated due to the fact that marquee player Brookfield is coming on board but as you rightly mentioned certain price at different point, but my question is that there is sizable amount of fund that is coming on right now, how comfortable we are right now in deploying that organically or we also look at some inorganic opportunity by reviewing this money that is first question. Second is that last couple of years we are seeing your ROE remaining depressed vis-a-vis other NBFCs. Any thought on how that will pan out over the next 2 years?
- R. Sridhar:** Let me answer your first question. With the capital raised we will be growing our organic book. As we reduce our corporate book, we are side by side by increasing our retail book substantially, so in the last 3 years we have changed the mix from 80% corporate and 20% retail to 70% retail





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and 30% corporate, substantial mix change has happened in the last 2 years. Retailisation will continue and this will be very aggressive, and we hope to achieve higher growth in the next 3-5 years. In potential sectors like vehicle finance, SME and affordable home finance, we have built around 250 branches, good management, sales team, processes and technology through which we have created a platform and with the capital coming in we would be building these businesses in the next few years. Nonetheless, we would also be keen to look at the inorganic opportunities like what we did about a year back where we bought CV financing business from India Infoline. If there are opportunities which align with our retail strategy, we would not hesitate to look at it, so inorganic is also one of our strategies we will look at. The second question on ROE. As a management team today, we are looking at our ROA. While the focus on ROE will come later as and when we start consuming our capital. In today's current market scenario, it is necessary to strengthen our balance sheet by bringing more capital which would attract debt and that is what is going to happen when the Brookfield investment comes into the company. We are already able to see support from small lenders who are going to help us in building our liability profile in a big way. Once the capital gets consumed, we will see in the next 3 years starting from FY2021 there will be progress in the ROA. So, ROA is what we would focus currently which we feel that we should be at around 2.5% to 3% that is what we would ensure. ROE will come automatically in the next few years.

**Sidhart Purohit:** Okay Sir just one more question. You have already elaborated in the credit cost part but I would just like to know what is the potential for reducing our operating cost being an NBFC probably will still have some leeway of reducing that when I look at your cost income ratio, so what would be targeted cost income ratio eventually may be two to three years down the line?

**R. Sridhar:** Yes, we would be working on improving operating efficiency. We have said during our IPO last year that we would move Cost Income ratio eventually to 25%. Unfortunately, even though our expenses are reducing simultaneously our income has also reduced over the last year. Once when income starts growing automatically this will come down. Eventually we would like to be at around 25% in the next few years.

**Sidhart Purohit:** Okay Sir thank you that is from my side.

**Moderator** Thank you. The next question is from the line of Pritesh Vora from Enam Holding. Please go ahead.

**Pritesh Vora:** Sir how do we see the leverage over 2-3 years or 4-5 years, what are the triggers which will lever our book over the next couple of years?

**R. Sridhar:** Today, post this infusion we would be less than 2 times the leverage that gives us lot of scope to build our business. We will strengthen our liability profile in times to come. You can safely assume that for a company like IndoStar we should be able to leverage around 5 times on Balance Sheet and then you have some scope to do another one time through the off balance



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sheet. Through the kind of partnership which we have ICICI bank where instead of 15% we are only providing 8% these are all ROE accretive so you can safely assume minimum 5x and around 6x times leverage over a period of time as our capital gets consumed.

**Pritesh Vora:** So, by when do you think you will be able to leverage 5x?

**R. Sridhar:** We cannot put a timeline on this today. It will take time. However, with the available equity capital around Rs 4200 crore, we can certainly leverage up to Rs 25000 crore – Rs 30000 crore over the next few years.

**Pritesh Vora:** You said you are targeting 2-3 vehicle owner, right so in order to consume capital, would you target other customer segments say 1 truck owner or any other segment multiple truck owner?

**R. Sridhar:** Nothing prevents us from doing it, but there will be yield difference. Suppose I go up the customer segment, the yield comes down, when I come down the customer segment, yield goes up, but the risk also increases, so we have strategically positioned ourselves as lenders to 2-3 vehicle owners where there is not much of competition. In the next 3-5 years, we will become market leader, as you must be a market leader in some segment for you to scale up business substantially. That is our strategy so we would like to be in the mid segment but as you rightly said there could be some percentage of loans which would be in the fleet owner segment as well as in the first-time user segment, but that would be insignificant.

**Pritesh Vora:** And how do you see Sir your other SME and affordable housing growing because this quarter we have seen moderate growth in that?

**R. Sridhar:** Today's growth is not a reflection of steady state growth. These are tough times; we have consciously reduced our disbursement as this is not the time to be brave and underwrite aggressively. Market conditions are bad across most business segments and hence we are consciously tweaking our credit policies and depending upon the liquidity available we are finalizing our disbursement. Both in the SME and affordable home finance businesses we have a very experienced management team and both these businesses are already making profit. The advantage for IndoStar is its network of around 250 branches which are available to the SME and affordable home finance businesses. The SME and affordable home finance businesses can scale up at any point of time. We want to scale up of our businesses without diluting quality or profitability. We are not going to distribute money to purely get growth. We would be growing very responsibly.

**Pritesh Vora:** All right sir. Wish you all the best. Thank you very much.

**Moderator** Thank you. We take the next question from the line of Rajkumar from RK Investment. Please go ahead.



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- Rajkumar:** Hi Sir, thank you for the opportunity. I joined the call a little late, so firstly why there is a write off in the Essel Group despite being the secured exposures and my second question is what is the regular exposure in both these exposures and what is further provisions will be required and any further write off required?
- R. Sridhar:** See in these two cases, which are in the public domain for some time. We have taken an affirmative decision to write-off both these cases, we have done provisions in Q2 itself and we have done write off in Q3. So as far as we are concerned, this write off and earlier provisions which we have made is enough. At present, we have taken corrective action for whatever stress was visible. If there is any further stress in the corporate as well retail book, we would take decision appropriately to provide or to write off but as of now I think we are fully provided.
- Rajkumar:** Sir but why there is a need for write off required in these exposures?
- R. Sridhar:** For example, it is a loan against shares transaction and in the media company the shares have been sold. After sale of shares, any deficit will need to be written off.
- Rajkumar:** What is the quantum of provision / write-off?
- R. Sridhar:** In two quarters Q2 and Q3, we have written off around Rs 56 crore and in the other company we have written off in the two quarters about Rs 63 crore.
- Rajkumar:** Okay sure thank you Sir.
- Moderator** Thank you. The next question is from the line of Boris Dsouza from ICICI Lombard. Please go ahead.
- Boris Dsouza:** Hi Sir. Thank you for the opportunity. Just wanted to understand that there is considerable decrease in the number of branches especially in the CV segment. Can you just throw some light on that?
- R. Sridhar:** Yes, we had 161 branches in March 2019 and when we bought India Infoline, they also had exact number of 161 branches. So, we had 322 branches in total but after that we were integrating in the last 10 months there were branches of IndoStar and India Infoline as well at same locations. Hence, we have moved the India Infoline branches to our office. In some locations where volumes were less where we do not require India Infoline branch, we have shut down because India Infoline had gold loan branches everywhere, there they were doing commercial vehicle finance business so we are integrating and finally I think we would have around 250 branches.
- Boris Dsouza:** Okay sir that answers my question.



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- Moderator** Thank you. The next question is from the line of Laxman Shah from Capgrow Capital. Please go ahead.
- Laxman Shah:** I had a question regarding the stage 2, this quarter we had said that there was no account other than the fitness and media account, so the fact still stands today as well?
- R. Sridhar:** No, we are saying the same thing again. Same fitness and media company only, the write off have happened.
- Laxman Shah:** I am asking if there is any other account in stage 2, other than these two accounts?
- R. Sridhar:** No not at all.
- Laxman Shah:** Nothing has been there and Talwalkars so in the previous quarter you had said that Rs 60 crore of exposure remains and this quarter you have taken another Rs 59 crore write-off so do we still at some exposure in Talwalkars or it is all write off?
- Amol Joshi:** You are right, what we have said in Q2 is that we will act on the remaining portion which has led to this write off; Regarding 'Talwalkars', there is still some exposure in our books.
- Laxman Shah:** Okay and last question regarding the real estate account which slipped in first quarter about Rs 150 crore so if I remember correctly, we said that you were confident about recovering that entire amount in this financial year so what is the status on that. Do we still expect recovery or what is it now?
- Amol Joshi:** The collateral value is enough to cover the loan, we had offers from developers for both joint development and for outright purchase; but you know how the market conditions are hence developers who wanted to buy these assets are taking time to tie up the finances for this. It may not happen in this financial year, but I think we will be recovering this amount from the sale of assets in the medium term.
- Laxman Shah:** Okay thank you.
- Moderator** Thank you. The next question is from the line of Umang Shah from Edelweiss. Please go ahead.
- Umang Shah:** Thank you for again giving the opportunity. I had questions regarding the CV finance business; NPA movements in the CV finance appear to be very volatile; can you explain why are you seeing such sharp jumps?
- R. Sridhar:** We have 3 kinds of portfolios in our book now. One is what we have organically sourced. Then the IIFL book we bought, and in the last six months we have also been generating assets for ICICI bank so there are 3. In all these segments the performance of the portfolio is fantastic. In

the case of IIFL there was a spike in Q1 and then we brought it down in Q2 and subsequently the increase is marginal but that is because of the market condition, but overall the book is performing well subject to pressure in the marketplace, the freight rate, the sluggish trucking operations leading to some kind of cyclical pressures which is a short-term. All these are deferment of repayments and it is not bad debt, we can always collect it little later, so whenever there is pressure on the freight earning, the buckets will keep jumping, so there could be some increase in the NPL, but eventually it gets collected. We have to understand that this business is particularly 'earn and pay model' so if truckers earnings pick up, past dues are settled and when there is pressure on earnings, deferments happen. These events happen and in our case as I outlined earlier in some states where some exposure of IIFL is there in heavy commercial vehicles, there is some pressure that is why it has gone up otherwise the overall portfolio behavior is fantastic and we would like to grow the book again from April once the transaction is finished.

**Umang Shah:** Alright but Sir if I look at our organic GNPA numbers also that is somewhere close to 3.4% for this quarter only for the organic part excluding IIFL that is a substantial growth from 1.3% last quarter so is this again because of the economic condition?

**R. Sridhar:** Only that nothing else.

**Umang Shah:** So, post April we are looking at things getting better in disbursements and recoveries would be higher?

**R. Sridhar:** Disbursement is there. Recovery is always good, but some jump here and there will be there because of the market pressures, but eventually all these get collected. Finally, we have to see what the eventual loss is. The final credit loss is one which we need to look at so that could be between 80 basis point to 160 basis point.

**Umang Shah:** Okay. Thank you so much.

**Moderator** Thank you. We take the last question from the line of Dinesh Kulkarni, an Individual Investor. Please go ahead.

**Dinesh Kulkarni:** Hello sir. Thanks for taking my question. My question is this value of Rs.290 the deal that is done with Brookfield but when we see the IPO came at the price of 560 when the price to book value was close to 1.9x and now the deal is at less than 1x. How do you justify that creates value for minority shareholders that is my question?

**Amol Joshi:** Hi Dinesh. Thank you for the question. This is Amol here. What we need to look at is the circumstances under which the investment is being done. I think it is a big boost for our business model and for the management team as well. Second is when we do the deal, I think the focus is on improving the business and trying to get ready for the future in terms of our retailisation



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strategy and having enough power within us to ensure that we propel forward. What this deal will do to us is with that Rs 1225 crore that will come into the organization it is also backed by around Rs 2000 crore plus of banking lines which helps us propel lending.

**Dinesh Kulkarni:** My question is specifically is with respect to the price to book value, IPO was at 1.9x price to adjusted book value and the deal is at around 0.9x right?

**Prashant Joshi:** The entire NBFC sector barring a few actually got rerated in the last 15-18 months so while you price a transaction at a point in time number one and number two now that this transaction has happened while it is still below book, however if you look at overall book value, there is very insignificant dilution in the overall book value post this transaction gets completed, and as we get leverage and are able to grow in fact we do expect and hope that the multiple factors should grow from here on.

**Dinesh Kulkarni:** Okay so Sir my question related to the same is when do you think the cycle would turn, so what is your estimate based on industry, your experience on that?

**R. Sridhar:** It is all cyclical. Liquidity as compared to the first 6 months, has substantially improved. Now the capital also has come. We are looking at revival in economic growth which I do feel is a few quarters away. Once an upcycle comes about, we will be able to use our capital to grow the businesses substantially. We are all excited and bullish to build one of the best franchises in the country.

**Dinesh Kulkarni:** That is nice to hear. Just one more last question from me. I just wanted to know like the BSVI norms which will start kicking from April 2020, I want to know if that specific norms or anything like that, have they impacted the CV financing either the used or the new ones?

**R. Sridhar:** This is a norm, which is going to be introduced where the price of the new vehicle is going to increase substantially. When the price of the new vehicle increases, there will be an increase in the old vehicle price also, so it is not going to displace vehicles, which are already there in the system. The government norm is that the new vehicles which are manufactured and sold after April 1st should have that kind of a norm that is it, so it is not going to affect the existing fleet in the country for at least next 3-5 years?

**Dinesh Kulkarni:** So, you expect that it would impact more on the new vehicle financing rather than the old one?

**R. Sridhar:** Yes. The price is going to be high, but anyone who wants to buy will get only that BSVI because no other vehicle will be available.

**Dinesh Kulkarni:** What business segments are you targeting to grow once incremental debt funding comes through?



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**R. Sridhar:** We will be focusing on all the three segments including corporate lending, but the business as such we will decide how much they would like to lend depending upon the market opportunity, potential, profitability, quality concerns and all so we would allocate capital to each business, but I do foresee that this would be led by CV financing, the other businesses would follow and take their share accordingly.

**Dinesh Kulkarni:** Okay. Thank you. Thanks for taking my questions and all the best.

**Moderator:** Thank you. Ladies and gentlemen that was last question for today. I would now like to hand the conference back to management for their closing remarks. Over to you all.

**R. Sridhar:** So, we have had an exciting 15 months where we had liquidity crisis and asset issues but also as I outlined, we bought a business, we had partnership with ICICI and now the investment by Brookfield, as I outlined the next 3-5 years are going to be an exciting period for IndoStar and its management. We would be doing our best to build a highly profitable, high growth and high-quality business and capitalize on the equity infusion, which has relied on our platform as well as in the management team. So, we thank all of you for your support and look forward to interacting with you in the next few years. Thank you very much.

**Moderator:** Thank you. On behalf of Motilal Oswal Financial Services, we conclude today's conference. Thank you all for joining and you may now disconnect your lines.