"IndoStar Capital Finance Limited
Q3 FY2019 Earnings Conference Call"
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Moderator: Good days, ladies and gentlemen and a very warm welcome to the IndoStar Capital Finance Limited Results Conference Call, hosted by Motilal Oswal Securities Limited. As a reminder, all participant lines will be in the listen-only mode. 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. I now hand the conference over to Mr. Alpesh Mehta from Motilal Oswal Securities Limited. Thank you and over to you Alpesh!

Alpesh Mehta: Thanks Ali. Good evening everyone. On behalf of Motilal Oswal Financial Services, I welcome you all to this 3Q and 9M FY2019 earnings call of IndoStar Capital Finance Limited. Today we have with us Mr. R. Sridhar, Executive Vice Chairman and CEO, Mr. Pankaj Thapar, CFO, Mr. Shailesh Shirali, Head of Corporate Lending and Mr. Prashant Joshi, Chief Operating and Risk Officer. Now without much ado, I hand over the call to the management for the opening comments and then we can have a question-and-answer session. Thank you and over to you Sir!

R. Sridhar: Good evening to all of you. I would like to structure this interaction with all of you in two parts. First, we would like to discuss the acquisition, which we have announced today, and at the end of your queries relating to the acquisition, we will move on to the second part which is Q3 results.

This acquisition of India Infoline's CV financing business, which we have announced today, is complementary to IndoStar's CV financing business. As you all know, we decided to foray into retail after having started IndoStar in 2011 as a corporate lending business. We started up with SME and then we have moved to affordable home finance and when I joined in April 2017, we decided to enter CV financing business.

In 2018 January, we started setting up the CV financing business where in the last one year, we have recruited 1000 people, opened 160 branches and generated about Rs 1000 Crores of assets under management. AUM mix is predominantly in favour of used vehicles which is at 70% and the balance in new vehicles with a blended yield of 16%, prior to the ILFS crisis. The yield has since moved up to 17%.

As the setup of retail business involves huge operational expenditure, we wanted to stagger branch infrastructure and people recruitment in phases. And whatever we have done in 2018 has been in phase I. We had thought that we will go ahead with the second phase of branch expansion in 2020.

This deal came in to our consideration a few months back, when India Infoline decided to focus on its core competence, which is gold loan, wealth management, SME and affordable home finance and they felt for various reasons that they would not like to scale the CV finance business any further and would like to exit.

Considering the portfolio mix, which comprises of both new and used vehicles, processes which are more or less similar to what we follow in IndoStar, people who have experience in CV financing business coming from various reputed companies and the branch infrastructure (which is similar to our size) but in different locations from our distribution footprint, we thought that the whole portfolio, branch distribution and people are complementary to the franchise that we have built and it is a good fit. These factors influenced us to consider the deal favourably and we have decided to acquire and signed an agreement yesterday and today we have announced it in the public domain.

The assets of around Rs 4000 crores (being acquired) has two parts viz. On-balance sheet portion, which is roughly around 2400-odd Crores and off-balance sheet loans which is ~Rs 1500 crores. Our liability (consideration for the deal) on this transaction is only limited to the On-balance sheet assets (which is around 2400 Crores) which we need to pay to IIFL on closure of the deal.

We have comfortable liquidity and adequate capital strength in our Balance Sheet and these strengths prompted us to consider looking at the acquisition opportunity. Further, we are also happy to announce that we have made arrangements for discharging the consideration against the deal without touching our current liquidity cushion which is around Rs1400-1500 crores.

With this overview, I would like to invite your questions, which we would be happy to answer.

Moderator: Thank you. We will now begin the question and answer session. We will take the first question from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: I had a question on the results, but I will ask about the acquisition also. Sir can you tell us the impact on our ratios; what happens to capital adequacy, post the acquisition and in terms of your own organic growth plans as you had mentioned in the previous call that you expected phase II to come in sometime later (two years down the line). Further, you expected a lot of operating leverage on the existing expansion that we have done in the CV business and ramp up the business per branch to Rs 250 -300 Crores, so that you can actually have the operating leverage. How do you see that playing out? Will you be slowing down on disbursements in the existing business to integrate this and then what is the growth rate of the business that you are acquiring? Are they aligned in terms of their operations, as you are carrying out operations at IndoStar? How are things on that front?

R. Sridhar: As you know, we have a 30% plus capital adequacy, which will come down by few percentage points and we should be around 25% plus after this portfolio is taken in our balance sheet. The existing business is 160 branches which is close to breakeven. At the time of listing, we had stated that our branches could take about 15 to 18 months for breakeven. Our CV business is on track and if you look at this current quarter, we have small operating loss of around 5-6 Crores. So in the next quarter or in Q1FY20 all these branches should breakeven. Further, the disbursements from the existing infrastructure keeps growing to provide superior operational leverage, which you have mentioned thanks to productivity increase which should become visible in FY20.

The business which we are acquiring as I briefed earlier has limited overlap in geography and the people come with a similar experience of lending to new and used vehicles. (though in the IIFL portfolio the mix is 60% new and 40% old). Once we complete integration of people and branches, new loans will be originated in accordance with our credit policy and our targeted business mix.

Agastya Dave: Sir can you also share some of the operating ratios if you are actually indeed sharing them publicly of the acquisition like cost-to-income, ROA, ROE, I do not know whether you are actually doing it, because I cannot find it anywhere but if you are comfortable so please?

R. Sridhar: It is too early for us to disclose as we have not yet closed this transaction.

Agastya Dave: Yes, sure Sir. Thank you very much I will come back when the results questions start. Thank you Sir.

Moderator: Thank you. The next question is from the line of Manikya Saiteja an Individual Investor. Please go ahead.

Manikya Saiteja: I just wanted to ask a couple of questions regarding this acquisition. So is there any equity consideration for this particular acquisition.

R. Sridhar: No. It is completely cash funded.

Manikya Saiteja: I mean is there any equity outgo or only the liability transfer is happening here.

R. Sridhar: There is no equity payment. We are only paying for the On-Balance sheet portfolio. We are not taking over any liabilities of IIFL.

Manikya Saiteja: And what about the branches, we are acquiring the branches in the same right so is there any equity consideration for that particular component?

R. Sridhar: No, not at all.

Pankaj Thapar: We are paying for this acquisition only in cash there is no equity being issued.

Manikya Saiteja: I got it. And what about the securitized book, what is the kind of cash flows that we can expect from this securitized book that you are acquiring?

R. Sridhar: See the economics of on and off are more or less same, but in securitized book the cost would be still lower. The economics would be slightly better than the On-balance sheet portion that we have acquired. We will have responsibility to collect loans over a period of time and discharge the same to the banks. The profitability in the form of Excess interest spread accrues to us.

Manikya Saiteja: Can you tentatively give, the kind of spread that we can expect from this book?

R. Sridhar: See the portfolio yield is near to 15%, so it should be around 5% to 6% spread.

Manikya Saiteja: But as it is an off Balance sheet kind of arrangement, so the kind of spread that we are receiving in the future it will be close to some 1% or 2% right, so I am talking about that spread that we can expect?

Pankaj Thapar: We will be getting the full economics of the securitized transaction not a collecting, paying agency fee or small proportional.

R. Sridhar: The difference between portfolio yield and the cost of bank funding (Excess interest spread) will accrue to us.

Manikya Saiteja: The third one is regarding this Rs 2400 Crores that you are mentioning you said that it will not affect the existing lines of credit how is the new lines of credit, how would we arranging the cash for this?

Pankaj Thapar: We have already tied up financing and once the deal is closed we can draw down on and make necessary payments.

Manikya Saiteja: I mean but can you mention any source, are these bank lines are, I just wanted to know the scope of funding for this?

R. Sridhar: No. We can't divulge specific details at this point. We have discussed with few banks and we have the lines ready and there are many banks which are willing to offer us financing. There is no problem for liquidity to meet this liability.

Manikya Saiteja: So these are bank lines of credit?

R. Sridhar: Yes.

Manikya Saiteja: Also I can see that this portfolio has almost 4.4% net NPA. So would not this be deteriorating our existing profile, the portfolio?

Pankaj Thapar: The transaction is structured in a manner that we would not expect credit losses to hit us.

Manikya Saiteja: I did not get it, so is the provisioning already being done on their books and we are getting the clean book?

Pankaj Thapar: Essentially that, but like I said is, it is a structure and that will be the essential impact.

Manikya Saiteja: That is it from my side. Thank you.

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

Dipen Sheth: Thanks for the opportunity to ask. Sir this is indeed a significant development forward and it gives us a leg up immediately in terms of the book size that we are going to build up on the vehicle finance business I can understand the strategy drivers behind why we have done this. So to continue from what I think the previous gentleman was asking you, that bit still remains unanswered and that is something I also wanted to raise as a query and that is that if we are acquiring a set of assets and if we are not acquiring the corresponding liabilities with them and we are going to funded with freshly raised liabilities. So one way of doing it would have been that the existing lenders to IIFL rollover that liability to us. I suppose we are not doing that from the tone of your disclosures so far and we are going to get fresh lending so in any case the debt is going to roll off IIFLs books but their lenders are going to be repaid and we will source fresh lenders to do this. Fine, so that part is answered and I have understood this. And there might well be fresh lenders who could be banks, who could be mutual funds and so on and that is deeply impressive in this market if you are able to get people who are reposing faith in us I think that reconfirms the view that I have had which is that you guys have a different DNA and that you deserve this kind of liquidity right now. So great, however when we acquire these assets are we paying a premium of sort is there some underlying equity value that comes through which we are paying to do this? Will IIFL book a profit on this transaction how does it work?

R. Sridhar: See it is structured in such a manner that there is a modest premium for the branches and people, technology and the transition support. The premium is very modest and which we have bilaterally agreed on.

Dipen Sheth: Thank you Sir.

Moderator: Thank you. The next question is from the line of Nikhil Nayak an Individual Investor. Please go ahead.

Nikhil Nayak: Thanks a lot for the opportunity. Sir can you just throw some color on the real estate market as how has been shaping up in the last three months and what is there any sort of change in behavior that you are finding among the quarter was and has there been any change in the collateral value in the real estate market in the Tier I city vis-à-vis the Tier II cities?

R. Sridhar: We want to restrict this Q&A to acquisition. We will take your question little later. Once we move to the results discussion. Let us finish the acquisition portion first.

Nikhil Nayak: Thanks a lot.

Moderator: Thank you. The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha: Sir on this portfolio acquisition if I had look at you indicated that you will be taking the financing from bank or some other source and giving our cash, our money to the IIFL is that understanding correct Sir?

R. Sridhar: Yes. We have to pay for the portfolio being acquired.

Anand Laddha: Sir if I have to look at our current borrowing cost given the environment so this is the yield of the portfolio is 15% and if I have to look at our borrowing cost incrementally given the environment would it be at a lower side sir compared to our own portfolio?

R. Sridhar: Yes, correct, because our existing portfolio is at 16% this is at 15% not very different but 1% difference.

Anand Laddha: My question was today if you have to borrow in the market the incremental borrowing cost could be around 10% to 11% and your on book borrowing cost would be lower than this. So probably incrementally the spread will be lower on their portfolio.

R. Sridhar: No. We have been able to tie up funding at around 10%.

Anand Laddha: Which is similar to our current borrowing cost?

R. Sridhar: Yes. Our incremental cost is slightly more than 10% but we have been able to get funding for this portfolio too at around 10%.

Anand Laddha: That is it from my side. Thank you Sir.

Moderator: Thank you. The next question is from the line of Rajat Agarwal an Individual Investor. Please go ahead.

Rajat Agarwal: My question is related to the employee strength of IndoStar and the new portfolio. So six months down the line what do you think will be the combined strength, employee strength of the two businesses?

R. Sridhar: The two businesses today itself is 2337 and we do not see any increase beyond this level. (marginal changes may happen). As we are adding 160 branches in the acquisition versus our earlier plan to open around 100 branches during FY2020, we will not be adding further branches or people.

Rajat Agarwal: It was my thought process was that employee strength would be somewhat lower maybe because there would be lot of duplications between the two businesses although you said its complementary but there might be some duplications there?

R. Sridhar: No, we have to look at a few things: - (i) We need to first manage the current portfolio of Rs 4000 Crores wherein we will require people to service 50000 customers and effect collections of ~Rs 200 Crores a month from this portfolio. (ii) We need to integrate the branches and will need a team to cater to incremental business too. Thus, at the moment, we will focus on integration and assess our employee strength in due course. At this point of time it is difficult to tell you.

Rajat Agarwal: Thank you Sir.

Moderator: Thank you. The next question is from the line of Nikhil Walecha from Sundaram Mutual Fund. Please go ahead.

Nikhil Walecha: Sir if I just look at the net NPA of this CV business it is closer to 4.4% and the coverage ratio is closer to 50% so you said that you will be getting a fully clean book of this vehicle business so will IIFL provide 100% and then sir for these assets is the remaining 50% provisioning would not be done at all?

R. Sridhar: I cannot speak for IIFL on this topic.

Pankaj Thapar: From our perspective as I previously explained there is a structure where effectively we would not have any credit cost.

Nikhil Walecha: Any further GNPA if it comes for any further provision if it has to be made it would be done by the IIFL and not by us?

Pankaj Thapar: No there are certain commercial arrangements that we have reached. Within those boundaries there should be no credit cost to us. We are confident that it should stay well within those boundaries.

Nikhil Walecha: If I look at the opex to asset which is, so I believe there would be some increase in the opex to assets after this deal goes off then how much increase in the opex to asset are we expect or alternatively what could be the profitability of the vehicle finance that we are looking at after this merger?

R. Sridhar: See there is an operating expenses incurred by this business while it was in IIFL so when we took over we are taking over the cost related to the branches plus its people, there are lot of centralized cost, which this business had been incurring that would definitely come down in our case, so whatever it has been incurring we will be incurring lesser than that it would not be more.

Nikhil Walecha: Will you also be doing the housing business from the same vehicle finance branches as we have been focusing on housing?

R. Sridhar: Definitely there is an opportunity. We are currently offering affordable home financing from 46 out of our current 160 branches. Over time, we will evaluate expansion and based on potential in relevant micro markets, we will continue to co-locate our affordable housing distribution over the expanded distribution.

Nikhil Walecha: I believe we already have 160 branches and in some of the locations there will be overlap of branches so I believe there will be rationalization on that front as well?

R. Sridhar: Definitely we will have a look at it. In terms of size, if you have to have two branches in same place we will rationalize and bring it under one roof. But that depends on the space available, the volume of business.

Pankaj Thapar: It is not that in one geography there is only one branch. Even today we have multiple branches in several locations. That is a question of the potential of the market.

Nikhil Walecha: Lastly is there any other inorganic acquisition in mind like in affordable housing space?

R. Sridhar: See we have the capital and we have the opportunity to look at this kind of opportunities if it comes we are open.

Nikhil Walecha: Thanks. That is it from my side.

Moderator: Thank you. The next question is from the line of Manjot Singh from JP Morgan. Please go ahead.

Manjot Singh: Sir I had a question regarding the geographical mix of the 160 branches, which are being acquired. So what I understand is that the current 160 branches that we have is mostly based in the south. So what is the geographical mix of the new branches being acquired?

R. Sridhar: The distribution of IIFL has a higher skew in North, West and Central States. For example, Maharashtra, Gujarat, Madhya Pradesh, Chhattisgarh, Rajasthan, Delhi, Uttar Pradesh, Uttarakhand, Himachal Pradesh, these are all the places they have large number of branches and where we are also present but we have only few branches so that is why it is complementary. And in the south we have 53 branches in Tamil Nadu where India Infoline has got only 5 branches, Andhra and Telangana we have less they have more, Kerala they do not have anything we have. So when you put A+B to together there is very minimal overlap.

Manjot Singh: Thank you.

Pankaj Thapar: Alpesh, can I request we take just one more question on the acquisition then we can talk about the results.

Moderator: Sure Sir. We will take the next question from Aalok Shah from Centrum Broking. Please go ahead.

Aalok Shah: Congrats on great set of number and this question is not do to with acquisition. I am sorry it might be repetitive, but I was just trying to understand how are we looking at trends in the SME portfolio from an incremental disbursement perspective. And the second question is on the CV side while things were a kind of muted in October and November the pickup that we see in the time that was significantly strong. So how are we looking at disbursement trends in these two segments, your thoughts please?

R. Sridhar: Aalok we noted this question, what we will do is once we are, once the CFO briefs about the results we will come back and answer these two questions.

Aalok Shah: Sure, thank you.

Moderator: Thank you.

Pankaj Thapar: Alpesh, I would like to take the opportunity to talk about our Q3 numbers and then at the end of that happy to take questions around the numbers or if there are still any further questions on the acquisition we will be happy to take those too.

In terms of the highlights I think there are really four key elements to the performance that we have accomplished, one is that our retailisation strategy is being executed exactly on plan where our retail AUM has grown almost 2.7 times versus last year and now is 42% of the total that is obviously without counting for the impact of this acquisition which when it closes we will shift us to being a majority retail asset company.

The second is that capitalization levels remain high, giving us very significant headroom for growth with a capital adequacy of 30% right now, which we just mentioned should only dip to about 25% after the acquisition is closed, which would give us significant headroom for the growth that we expect to see from our existing infra as well as the acquisition that we are looking at in FY2020 and onwards.

The third was in regards to cost and profitability. As we mentioned previously when we see the results of scaling up of operation you will see cost-to-income decline on a secular basis and you would have noted that from Q1 to Q2 to Q3 the cost-to-income ratio has kept declining and we would expect to see that continuing and potentially get a further boost once the acquisition is closed.

ROA and ROE have also improved to 3.2% and 9.8% in this quarter. The SME business as we mentioned was already profitable at the beginning of the year and that has continued. The vehicle finance business is just about 6 Crores negative at a PBT level and we remain hopeful that within the next quarter but definitely by Q1 of FY2020 the vehicle finance business should also turn profitable.

We have good traction in terms of achieving our profitability targets. We have mentioned previously that it takes our vehicle finance branches 12 to 15 months to breakeven and the numbers that are before you would have demonstrated that we are well on our way to that journey.

Asset quality remains very strong with GNPA and NPA numbers remaining unchanged from the last quarter at 0.9% and 0.6% and lastly in terms of liquidity we have been cautious in this quarter. We already had a comfortable liquidity position at the beginning of the quarter but given the continuing uncertainty we decided to calibrate growth in couple of businesses and also took on some extra cash to give the larger market comfort around the fact of a) availability of funding to us and b) insurance against unforeseen events. Funding has been available but it has been a little more expensive. However, we have opted to incur some extra interest cost on account of the higher liquidity that we have chosen to hold during this quarter.

That is it in terms of the headlines. We would be happy to take any questions that you have.

Moderator: Sure. Ladies and gentlemen we will now begin the question and answer session for Q3 FY2019 Earnings. The first question from Pratik Pura an Individual Investor. Please go ahead.

Pratik Pura: Sir my first question is on disbursement. So this quarter our disbursements have been very muted compared to last year same quarter, so your views on that?

Pankaj Thapar: As we mentioned, we have deliberately chosen a strategy of being conservative, so we have chosen to be conservative in terms of growth in those segments because if you remember at the beginning of this quarter there were extreme concerns around liquidity and continued availability of liquidity and we did not wish to be aggressive in continuing to lend at a time when there was extreme uncertainty in the market and we chose then to calibrate. However, in vehicle finance as you would have noticed which is our key growth driver, we have continued to grow strongly. The second is for a while now we were working on this acquisition and we wanted to also keep some headroom in terms of picking up this asset and incorporating it on our balance sheet.

Pratik Pura: So Sir what is our stand now on the growth do we continue with the conservative stand or do we look to expand now aggressively?

R. Sridhar: No. We have always been responsible in terms of growth, as profitability and quality are our focus. Whatever we have projected in terms of growth, with this acquisition we are two years ahead of our planning cycle. Once this acquisition will be completed it will provide a good thrust for IndoStar in FY20.

Prashant Joshi: Yes, I will also answer the question here related to SME disbursals and CV disbursals, I think which Aalok from Centrum had asked. So, SME disbursals were a bit muted in this quarter. When there were liquidity constraints, we had focused more on the higher yielding businesses. First priority was vehicle finance followed by housing, but as liquidity eases out I think even SME business will start going back to its normal level and with support from co-lending arrangements and similar arrangements. As far as vehicle finance business is concerned, if you look at October, November were muted but in December we have given the numbers in the presentation as well were about Rs 173 Crores so roughly Rs 150 Crores is the fair number to take in terms of the disbursals of vehicle finance business.

Pratik Pura: In terms of leverage levels what leverage levels are we comfortable with like going up to because I understand you also would agree that currently our leverage levels are very conservative for a NBFC company?

R. Sridhar: We are at a leverage of 2x at present. With this portfolio coming, in we maybe going to around 2.5- 2.7x, which would continue to provide adequate headroom for growth. Right now, it is too early for us to talk about whether we would leverage five times or six times because we are below three now so maybe in another one year or a bit, we should reach a leverage of 4x.

Pratik Pura: Thank you. That is all from me.

Moderator: Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Sir one thing that I do not understand is the provisioning and the credit cost in the existing business in the quarter the numbers come out and I somehow think that and listening something here. So if we exclude the acquisition and say look at the base business and if I were to ask you that for FY2020 and 2021 what kind of credit cost will you be taking and how much would be the standard asset provisioning and how much would be the write-offs what would be your estimate as of now. What is the good number to pencil in given our base business?

R. Sridhar: One is that all of these numbers are under Ind-AS so there is no concept of standard asset provision; Provisions are linked to stages.

Agastya Dave: Yes correct.

R. Sridhar: In terms of credit cost we expect the SME credit cost provisions to come down (as we have explained in previous quarters) as the SME business is continuing to work through on some assets that relate to the very early stages of our business where the cost we did not have the benefit of SARFAESI till late last year. (just about September is when we received our SARFAESI notification we have already started to work through some of these older problem cases and are seeing some resolutions there). We really do not see any significant change from our current levels.

Agastya Dave: Sir why I asked this question with respect to standard asset provisioning was that pre Ind-AS it is very easy to say that okay if the company is fairly good in credit underwriting you can assume a particular number as your provision based on the standard asset provisioning. Here that number is not there because I believe what is the new regulation is that maximum of the two either the previous standard asset provisions or the stage I, stage II and stage III. So that is why I am asking for a particular number here. So for the initial few years if you can guide so that we are still hardwire to the old accounting rule so it is very difficult to understand the business in that way. So what would be the minimum number? So it is suppose you get absolutely no headwinds, execution is seamless there are no like no quirks in the business what kind of provision numbers are loss numbers where you would be very happy. You will say that okay this is my provision number and I did very well. So what is that level Sir?

Pankaj Thapar: It is a slightly long technical answer but the headline of which is there are accounting rules, which require you to account for credit losses on the basis of stage I, stage II, stage III classification, which is a multiple of the numbers for the portfolio under these three stages the company's estimation of probability of default and the company's estimation of loss given default. Now those could change from quarter-to-quarter because Ind-AS requires you to make an estimation of various factors. So it is not as stable a regime as you would have expected under the RBI where it was just a number 0.4% on standard assets and it does not matter whether the government is winning the election whether there are drought whether there is stress in the agricultural sector and so on. Under an Ind-AS regime you necessarily have to take account of some of these factors. That said, we would not expect to see a significant change in NPA level from where we are right now which is gross NPA of 0.9% and net NPA in the 0.6% range. We would not expect to see very significant change. To the extent that we see an improvement in SME that impact should come through; however, SME is not a very large part of our business but at the stage there is nothing, which indicates to us that there is trouble headed our way.

Agastya Dave: And post the acquisition just to clarify while you have answered this earlier, but suppose everything goes wrong in the IIFL portfolio. Still you will have no credit losses flowing through to your balance sheet and your P&L just to confirm again?

R. Sridhar: We have announced the deal today, there is no reason to be over pessimistic.

Agastya Dave: Sir it is not the negative question I am just trying to understand the floor.

R. Sridhar: If you ask me if everything goes wrong then how do we give you an answer.

Pankaj Thapar: Then I wouldn't be buying a business. Then I would be buying Government of India Treasury bills, not a business.

Agastya Dave: No Sir my intention was completely different it was not a negative thing. I will take it offline Sir

Agastya Dave: Sir just one question whatever securitization we did for the nine months what was the yield?

R. Sridhar: We just did one transaction and that has happened recently and net effective yield on that was 9.7% so effectively you can take that as a borrowing cost on that yield.

Agastya Dave: Perfect Sir. Thank you very much and good luck for next quarter. Thank you.

Moderator: Thank you. The next question is from the line of Jignesh Shial from Emkay Global. Please go ahead.

Jignesh Shial: I just had couple of questions. First of all on this IIFL acquisition are you planning to do pardon my ignorance, because I logged in a little late, but are you planning to do some more inorganic sort of a growth or going forward or it will be more of an organic coming in or you guys are still looking forward for any opportunity exists because I am seeing the consolidation happening in this phase in this particular industry so are you willing to buy some more portfolios or we have to wait for a while now?

R. Sridhar: We are focusing on our organic growth that is where we are focused fully but as and when such opportunities come you evaluate, you look at it if it makes sense to us in our long-term objective then we go into it, it is not that every opportunity would be fitting our scheme of thing, so as you rightly said we will focus on organic as and when the inorganic opportunity presents, we are open to looking at it.

Jignesh Shial: Second question is on the liability franchise side so like most of the guys are now trying to diversify the overall liability franchise. Even today Sriram indicated to us that they are trying to make 20% of the total liabilities to retail NCDs as well as deposits. So what is your thought over the liability franchise and makes a spillover at least a year or two years down the line. How you guys are planning? How the liability franchise of IndoStar will look like?

R. Sridhar: Today we are sticking to the traditional sources of fund, banks mutual fund and we will look at all other avenues as and when we start growing and we becoming big. At this point of time, retail liabilities is not in our reach and also, we will have to see going by whatever is happening in the market place the regulatory changes which are likely to come in the next three to six months. So we will look at retail NCDs and all that in FY2021 not in the near future.

Jignesh Shial: Lastly what will be the book mix by FY2028 what will be the target for your wholesale, vehicle financing and your SME what proportion you are planning to do it?

R. Sridhar: We have started off with full corporate lending business and slowly diversified in to retail and today December 31, before this acquisition the retail was 42% wholesale would be 58%. So once this acquisition is factored it we will become 62% retail and 38% would be wholesale segment. I am confident that by March 31, 2020, share of retail should be more than 3/4th.

Jignesh Shial: Lastly any slowdown you being an expert, are witnessing on the vehicle financing side because numbers overall in the new vehicle finance slowdown is visible but Chola is still reporting a very strong set of numbers what is your outlook what is your experience till now and how we are looking for FY2020 will it be another great year or how will it be. That is it from me.

R. Sridhar: No, I am optimistic even if it is flat, there are enough trucks that are being sold and that is enough for few companies which are present. IndoStar's focus is going to be more on used vehicle and only 25%, 30% of our business will be new. So, we are not much dependent on the new vehicle sales, but no doubt we will be present in that segment also. But our focus mostly will be in the used vehicle, which does not have any cyclicality.

Jignesh Shial: Just adding one more question you think LCV would be doing better than the M&HCV that is something that we should expect just your experience on it.

R. Sridhar: See all vehicles have got their utility and applications. Sometimes one segments grows at the exclusion of the other. Unfortunately, we are all looking at numbers and growth, whereas tonnage is not taken in to account which is a flaw in our opinion.

Jignesh Shial: Perfect, that sounds good Sir. All the best Sir, all the best for the next quarter and year. Thanks Sir.

Moderator: Thank you. The next question is from the line of Vinayak Kulkarni an Individual Investor. Please go ahead.

Vinayak Kulkarni: At a strategic level in the long run what will be the higher priority business in the long run? Will it will be SME finance, or vehicle finance, or housing finance?

R. Sridhar: Yes, our objective was earlier to have all the four lines of business growing and corporate lending and vehicle finance will be 70% to 75% of our total book, and the balance 25% to 30% will be affordable housing and SME. This is what we articulated during our public issue and we should be on track. Occasionally it may go up and down but this would be the way we would grow.

Vinayak Kulkarni: Thank you that is it from me.

Moderator: Thank you. The next question is from the line of Ronit Ramesh an Individual Investor. Please go ahead.

Ronit Ramesh: I have only one question in our corporate lending book do we have any significant exposure in LAS?

Shailesh Shirali: Yes, we have only one exposure where we have an exposure to ESSEL group promoters - Zee shares. This is about 200 Crores and we are adequately covered with Zee shares so even if the proposed stake sale happens at today's market price, we will be okay, we are fully covered.

Ronit Ramesh: But what is the limit, which we all be in a loss below any cover.

Ronit Ramesh: The price where Indostar may lose money?

Shailesh Shirali: I think we will lose money below 300 and the loan is current as of now was serviced in January also.

Ronit Ramesh: There is no exposure towards any steel company?

Shailesh Shirali: No.

Ronit Ramesh: Thanks a lot.

Moderator: Thank you. The next question is from the line of Rajat Agarwal an Individual Investor. Please go ahead.

Rajat Agarwal: Sir I had a few questions on the liquidity provision, which has been shared as part of the presentation. So the breakup cash and equivalents you have given undrawn funding lines for 675 Crores so what are these? Is this an actual asset or are these the credit limits sanctioned by banks but not drawn down?

Pankaj Thapar: Yes, we have sanctions but not drawn down.

Rajat Agarwal: Okay so these are not actual assets then in that sense.

Pankaj Thapar: No. We are comfortable with the level of cash liquidity that we hold because if I draw down money, then I suffer a negative carry so we have to continuously balance those things.

Rajat Agarwal: Right, just for my understanding. And the second is liquid debt NS of 780 Crores now pardon of my curiosity but where people are trying to get out of these liquid debt funds we have substantial cash and I am hoping there is no exposure to all the bad names which have been going around in the market?

Pankaj Thapar: All of our money is in overnight funds where the bulk of the holding is either very short dated commercial papers or government bonds.

Rajat Agarwal: Lastly the cash and bank balance of 695 Crores so is it like cash in the current accounts?

Pankaj Thapar: That is right. Term deposits are separately mentioned. Float balances are high at this point in time as it will be at every quarter because bankers typically ask for accommodation, so we keep float balances with them at that point.

Rajat Agarwal: Understood Sir. Thank you.

Moderator: Thank you. We have just got a question from Akash Oza from Chartered Capital. Please go ahead.

Akash Oza: Sir I am on the slide #4 and I just want to understand the reduction in the people cost so is there any specific reason behind the decrease in the pay cost.

R. Sridhar: No. One thing is we have not added resources during this quarter and there were some attrition.

Akash Oza: Because the number is too big.

Pankaj Thapar: That is on the business side. The second is during this quarter, the board had adopted a dividend distribution policy and also paid an interim dividend. As a result of that our ESOP costs needed to be revised, so what you are seeing here is the cumulative impact of the ESOP cost reduction coming through in this number.

Akash Oza: Thank you Sir.

Moderator: Thank you. We have the last question in queue from the line of Vaibhav Kacholia from VK Capital. Please go ahead.

Vaibhav Kacholia: Thanks for the opportunity. Sir I wanted to know in the housing finance business what is our incremental cost of funds and yields on advances?

Pankaj Thapar: The incremental cost of funds is similar to what we have indicated for the NBFC. It is pretty much in the same zone and incremental yields at which we are doing incremental business right now is 13.5%.

Vaibhav Kacholia: Sir we are not getting any lines from NHB and priority sector lending from banks.

Prashant Joshi: We could not apply to NHB because of the time we started. We have just completed 12 months in September so it is towards the end of the quarter we have applied to NHB and hoping to see some progress on that front. Also as far as PSL lines or assignment or securitization whatever is concerned the portfolio needs to season a little more before we get there.

Vaibhav Kacholia: In terms of even getting priority sector lines from banks.

Prashant Joshi: As you know priority sector lines from banks directly gets counted as priority sector only to the extent of the loans that you have less than 10 lakhs. Some of those lines actually are under active discussion and they should come through in the next two, three months.

Vaibhav Kacholia: Sir how much reduction in cost of funds do you expect due to NHB refinancing?

Prashant Joshi: One should expect PSL/NHB lines to be about 50 to 75 basis points lower.

Vaibhav Kacholia: Thank you so much Sir.

Moderator: Thank you. That was the last question in queue. I now hand the conference over to the management for their closing comments.

R. Sridhar: In a very tough quarter where we had liquidity tightening, I think IndoStar has done very well and also in this quarter we have announced the acquisition so I am looking forward to exciting financial year 2020. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Motilal Oswal Securities Limited that concludes this call for today. You may now disconnect your lines. Thank you.