"Indostar Capital Finance Limited Earnings Conference Call"

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

Moderator: Ladies and gentlemen, good day, and a very warm welcome to Indostar Capital Finance Earnings Conference Call, hosted by Motilal Oswal Financial Services Limited. 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 "*" followed by "0" on your touchtone phone. I would now like to hand the conference over to Mr. Piran Engineer from Motilal Oswal Financial Services. Thank you and over to you Piran!

Piran Engineer: Yes. Thank you, Adi, and thank you everyone. Welcome to this call. With us, we have the entire management team of IndoStar Capital Finance led by Mr. R Sridhar, Executive Vice Chairman and CEO. Without further ado, I would like to handover to management for opening comments, post which we can take Q&A. Over to you, Sir.

R Sridhar: Good morning to all of you and thank you for joining the Q3 results call. Let me give an overview first, and then we would be happy to answer your specific questions. So, I consider this quarter to be a very good and strong for IndoStar.

So, let me start with disbursements. The disbursements as you all are aware for this financial year, the first nine months of which five months were under moratorium and there were large NBFCs which have even started disbursements during the moratorium period but as far as IndoStar is concerned, we decided to focus on two things, cost reduction and asset quality. In terms of restarting the disbursements, we felt unless and until, we achieve the 100% collections, we would not commence disbursements.

So we achieved 100% collections during the first month of this quarter, that is October, 2020 and naturally we started our disbursements in November,2020 and December,2020 and also in this quarter, in retail space we have doubled the disbursements compared to what we have achieved in Q2FY21. So, in Q2FY21 we did about Rs. 200 and odd crore and we have done more than Rs. 400 crore in Q3FY21 and we are very confident that the run rate we are achieving in the Q4FY21, we are definitely going to be more than 50% disbursements compared to Q3FY21. So, the disbursements have been a very good for us. We have done everything to increase our retail business in the coming quarters. The indications from the environment, is very positive.

As we all know the lockdown has completely crossed and now unlocking has started and the truck the manufacturers are reporting good sales numbers. If you have observed during the month of January,2020 all the major truck manufacturers have reported more than 20% growth in M&HCV and LCV sales which is a good indicator. The IndoStar's focus is on used commercial vehicles andas we all know, there are few companies present in this space so gaining market share is not going to be a problem.

The fillip we got is the announcement led in the budget by the Finance Minister, a long pending scrappage policy so as we have been articulating for a very long time that the scrappage policy is on pending from the government will open it any time so as we anticipated, from a mandatory ban, now it has been changed to a voluntary and commercial vehicle which has been made 15 years. So more than 15 years, there is a huge population, more than one million vehicles are there and this is going to trigger a huge replacement demand. So from all respects, , I think next five years are going to be fantastic for IndoStar to gain a very huge market share in both new and used vehicles and particularly in the used vehicles where we are going to focus, the waste demand as well as the scrappage demand is going be phenomenal.

So, we have been preparing the organization to take advantage of such a potential, which is unfolding. So what we have been doing is that we have created a top management team, we have brought in Mr. Deep Jaggi, as our Chief Business Officer, in October, 2020 who has a very long experience and impeccable track record in building large commercial vehicles finance business in very reputed organizations like Chola and HDB. He has done a lot of work in the last three months and we have created an infrastructure, and also we have an aspirational expansion plans.

So, the expansion is going to come in three areas and the first one is the geographical expansion. As you all aware, we originally started from South and with the acquisition of India Infoline's commercial vehicles finance business, we gained some foothold in North and West, but considering our aspiration we felt that we need to be an all India network company, and so we are moving towards that goal and for that we have created a hub-and-spoke model. So geographical expansion is going to be one expansion, which we are going to do, and the second expansion is going to be on the product side so apart from commercial vehicles, we are also going to focus on passenger vehicles, farm equipments like tractors, construction equipments. The customer segment also, we are going to expand by not only focusing on two or three vehicle owners, but we are also going to focus on five vehicle owners and with this expansion, our potential is going to increase substantially. So, we look forward to fantastic growth in our assets in the next financial year of FY2022.

Coming to the collection efficiency and asset quality, we have given clearly in our investor deck, how our collections have progressed in the last nine months. So gradually, during the moratorium, we climbed up and then reached 100% in October, 2020 and our asset quality in terms of nonperforming loans have been stable and I would say it has come down compared to the March 31, 2020. The restructuring loans are less than 5%, which is fantastic and there are some slight bucket movements which we are addressing. With the economy opening up, most of our customers who are carrying the freight activity of essential commodities are not impacted but there are some segments like the heavy commercial vehicles, fleet owners who are carrying industrial goods, passenger commercial vehicles have been impacted so apart from that everything is doing well.

So, we look forward to improve the collection efficiency which would be our focus and there are two important things, which are going to help us strategically one is our partnership with ICICI Bank. We articulated in our earlier calls that we would like to put the new vehicles business in the ICICI bank's balance sheet, so we have renegotiated the commercial terms on which we both have agreed and signed an agreement, so our partnership with ICICI Bank has strengthened and it has been a fantastic strategy initiative we have taken, so with this partnership and combined with the building of our huge infrastructure for the next five years aspirational plan, we at one stroke have removed any uncertainty with regard to liquidity so while we build this aspirational plan, we are also taking two major initiatives.

One is the branch network, so we are focusing on building smart branches, which are going to be lower in size with the reduced operational expenses so that is one which we are planning. With the insight, we have brought during the lockdown by working from home, we felt that large branches are not required and we are also spending a lot of time and energy with digitization initiatives so we have mandated a global consultant and by first quarter, our digitization will be completed and these two things, smart branches and digitization, are going to help us in enhancing the productivity as well as reducing the operating expenses so these are few initiatives, which we are going to strengthen our retail aspirational plan.

While we grow our retail business in the next five years and particularly in the next one year, we are also simultaneously focusing on reducing our corporate lending business. As you all know, we had more than Rs. 5,000 crore about two years back time and consciously, during the challenging time of the last 2 years, we have been able to bring it down to around Rs. 2300 crore - Rs. 2,400 crore by collecting the money from our customers and we are confident that this Rs. 2,300 crore also can go down to less than 10% by March 2022, so our effort continues in reducing the corporate book. So today, the mix of retail at corporate, which is some of 70-30, will come down to 90-10 and that is going to be one major initiative. Also IndoStar has been strengthened by the recent affirmation of AA-rating by CRISIL with a stable asset quality, which has been obtained during the most challenging time of lockdown. It helps us with the Brookfield Investment, where we have a very comfortable net capital adequacy of 35% with a very strong ALM. The liquidity pipeline is also very strong.

We are sitting on a huge liquidity, which will get exhausted with our growth in retail business by June, 2021 but overall the liquidity pipeline has been fantastic. We have been able to generate resources from banks and institutions even during this period and with the kind of response we are making from the banks and the institutions, we do not foresee any problem in liquidity and as far as the cost is concerned, the cost is going down, and we have been accessing incremental borrowings below 9%, and that is pushing down our average cost and with the transmission likely to happen during this quarter, when banks are transporting their reduced cost to us. I do feel that the gap between our average cost of funding as well as our marginal cost of funding will narrow, today, we are slightly above 10%, but it will go down to 9% is what I feel in the next six months.

So with all these things, we do feel that overall, whatever we have been planning, like reduction of corporate book, focusing on the retail business with CV being the engine, the focus on the SME and affordable, intact collection, asset quality, smart branches and digitization to enhance productivity and reducing operating expenses, expansion in geographic product and customer segment is going to make IndoStar an emerging, strong company in the retail business going forward so we have a very aspirational plan for the next five years, and the management team is very confident that we will be able to achieve with the environment supporting also we are very confident that our performance in the next, particularly in the next five quarters, is going to be fantastic so with these initial remarks, I would request specific questions, and me and my colleagues would be very happy to answer.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Radhika N from Mirae Asset. Please go ahead.

Radhika N: Hi, I have 2 questions. If you can just give me a breakup of Stage 1 and Stage 2 assets?

R Sridhar: Amol, can you take this?

Radhika N: Stage 1 and Stage 2 assets.

R Sridhar: Yes. My colleague, Amol, will give you that.

Amol Joshi: Radhika, around 74% of our book is in Stage 1 and the balance other than 2.8% of gross NPAs that we have, the balance is in stage 2.

Radhika N: In stage 1 and 2, sorry, can you just repeat?

Amol Joshi: Yes. So, stage 1 is around 74% of our book.

Radhika N: 74%.

Amol Joshi: Yes, another 24% will be in stage 2. Is that we, by default, keep the restructuring book at Stage 2 as a prudent measure with an equal amount of elevated provisioning done against it.

Radhika N: Right. Okay and just to clarify, so the 2.8% GNPA is the pro forma which you are expecting without the standstill, right?

Amol Joshi: Yes. We are reporting numbers without taking the Supreme Court judgment. With that, the number will be 2.1%.

Radhika N: So, without the standstill, it would have been 2.1%?

Amol Joshi: With the standstill, it will be a lower number, which is 2.1%.

Radhika N: 2.1% and without that, it is 2.8%? okay and, if you can give me the write-off amount, like there has been a decline in the GNPA numbers so what is the reason for it?

Amol Joshi: So you will see the decline only between Q1FY21 and Q2FY21 that was articulated in the Q2FY21 call because of an ARC sales there is no write-off that we have really taken barring a few specific cases which is a business as usual in the retail business, there is no key write-off between Q2FY21 and Q3FY21.

Radhika N: Okay that is from my side. Thank you so much.

Moderator: The next question is from the line of Aakash Dattani from HDFC Securities Limited.

Aakash Dattani: Hi good morning and thanks for taking my question. My first question is, have we taking any interest reversals?

Amol Joshi: Due to what reason are you looking for interest reversals?

Aakash Dattani: To if I look at, say, your interest income, just wanted to confirm, so there is no interest reversal on any potential stress that you see?

Amol Joshi: No, we have not taken any interest reversal on any account.

Aakash Dattani: Okay and is there a one-off in your other income this quarter?

Amol Joshi: Yes, Aakash. We have done a direct assignment in our HFC of Rs. 100 crore and there is a one-off income of Rs. 30 crore booked in the noninterest line.

Aakash Dattani: All right and what kind of, say, AUM growth are we looking at in FY2022 and beyond, would you look at it any differently?

R Sridhar: As I mentioned in my initial speech, since our base is small and the potential and liquidity capital is so high, so in the initial year, at least in FY2022, you can expect the, percentage-wise, good growth, because FY2022 is going to be a launch year for us. Using the lockdown work from home phase, we have done a lot of strategic things, as I had outlined. So with lockdown disappearing, unlocking happening, commercial vehicle cycle changing, all feel good factors are there in the environment so we feel that all our three businesses vehicles, as well as the SME and affordable housing finance in terms of potential is looking up so we are fully geared up to take advantage, so if you look at this year, we would have done about Rs. 1,000 crore of disbursement because majority of the period, we have not done anything and even before March, we should exit more than the pre-COVID levels, so the next year, it could be 3 times to 4 times of FY2021, could be our growth in terms of retail, so in terms of percentage, one, because of very less business in 2021, 2022 will look very big in terms of percentage, but in our case, even in absolute terms, it will be very high.

Aakash Dattani: All right and if I may just ask a few very quick questions on the corporate book. The entire reduction in corporate GNPAs this quarter, is there anything written-off there?

Amol Joshi: Aakash, as we had mentioned earlier, we are working on resolving the single NPA that we had in the corporate book. This is towards the repayments that we have received as part of the arrangement that we have worked out with a real estate developer. There is no write-off in that.

Aakash Dattani: Okay and is there any restructured corporate portfolio?

Amol Joshi: Zero restructuring in the corporate portfolio.

Aakash Dattani: All right that is from my end. Thank you very much, wish you all the best of luck.

Moderator: Thank you. The next question is from the line of Jainis Chheda from Dimensional Securities. Please go ahead.

Jainis Chheda: My question is with regards to slide #21 of your presentation, where in you have given the restructuring snapshot, so in that, you have said that only in vehicle finance, 1.86% of accounts have restructured, but in terms of AUM, it is 4% and similar with SME, 2.6% and the AUM structured is 4.8% so is it like, bigger clients have restructured?

R Sridhar: See in any situation number and amount will vary.

Jainis Chheda: Yes, but the difference is huge, so I just wanted to understand why is such a huge difference?

R Sridhar: See, yes, amount to be different, but there is no reason for it. It is that because of that number and amount will be different.

Jainis Chheda: Yes, I agree that so that is what, are those bigger customers, like the bigger AUM, bigger borrowers, who have been restructured?

R Sridhar: Then what is big, I do not understand.

Jainis Chheda: In terms of…

R Sridhar: See Rs. 5 lakhs could be big, Rs. 10 lakhs could be big, see when you are doing a commercial vehicle finance from small commercial vehicle to heavy commercial vehicle the amount will vary. So it is a mix, it is not that only small, it is not only big, it is a mix, but it is divided by the PoS of the amount restructured divided by the total, so that is why it is small. I do not think it is only because of big accounts, some big accounts could be there.

Jainis Chheda: Okay thank you.

Moderator: Thank you. The next question is from the line of Prasheel Shah from CapGrow Capital. Please go ahead.

Prasheel Shah: Hi, so my first question is regarding the NIM pressure that we are seeing so the spread, if you look at the spread, it has gone down by 170 basis points year-on-year. So, I understand some of this will be because of the excess liquidity that you are carrying, so could you just give an indication of how much pressure would be there because of this excess liquidity?

R Sridhar: Yes. See, we have been carrying excess liquidity due to the environment, as well as because we raised capital so another Rs.1225 crore at cap, so we are conscious about that fact, but we are also conscious about our expansion plan, so as we are looking to grow our book in a big way in the next five quarters, leading to March 2022, this will become normalized. We will be carrying a minimum balance, which is required as per regulations as well as for the comfort of the rating agencies so you will find that going forward, the impact of excess liquidity on our net interest margin will completely disappear. That is one. Second is, strategically, we are going to present in used vehicle financing as far as our balance sheet is concerned, so the other two businesses, which would be lower yielding it is new vehicle, we are going partner with ICICI and put it there and the SME, another slightly lower yielding asset, we will be sourcing and then that is also we will find a way to the bank's balance sheet so you will find that the net interest margin would be comfortable, and we are in a full growth year, like a FY2022, which we are anticipating, this should be comfortable. So, we should be in the range of around 7% to 8% and initially, because we have a huge capital of 35%, our net interest margins would be very, very high, initially but as and when we start using the capital, it will come and settle down around 8%, and that is where it would be, but in the year, FY 2021, this could be impact and in the first quarter, we are confident that the excess liquidity impact will go.

Prasheel Shah: Okay and so like you mentioned that we are flushed with capital. So, in the next few years, what is the best way we can make use of this capital adequacy that we have? Are we looking at any inorganic opportunities? Or is it just plain organic, which you were mentioning in your expansion plan?

R Sridhar: See, we are looking to use that capital andwe have raised it with an intent that we feel there is a huge potential to grow these businesses andthat is why Brookfield has partnered with us. So Brookfield had multiple options to partner with anyone, but they chose IndoStar because they felt that there is a high growth possibilities here with the proven management team. So what we are trying to do is we are focusing primarily on organic growth and that itself is going to be very high as I outlined earlier that is because our base is low in terms of percentage, as well as quantum, so it is going to be very high. At the same time, because of this pandemic and with the liquidity constraints, new regulation regime, which is coming in from RBI all these things are putting pressure on many moving NBFCs and housing finance companies, so there are multiple inorganic opportunities in portfolio as well as in the company so we are looking at it, and we are open to take these opportunities. If it is rectified, that would absorb our capital completely even if it is not, the growth will consume the capital very quickly.

Prasheel Shah: And just coming to your branches, new smart branches that you are opening, so in the previous con call, you had mentioned that the new branches are much smaller and they breakeven in about nine months and here it was about eighteen months, so it is exactly half, so just wanted to get a sense of what exactly are these branches. Are they just smaller, which is why you were able to breakeven much quicker? And what exactly are these digitization efforts which you are taking, just wanted to get a sense of how will that benefit us in the coming years in terms of cost-to-income and efficiency?

R Sridhar: Yes see, the incremental branches are going to be smart branches, so yes, we have had 700 - 800 square feet branches earlier, because of the insights we have learned from work from home in the last 78 months, we have realized that there is no need for creating a big office, so we are going to create moderately furnished, low cost, small-sized branches with the digitization, which is underway and will be ready by first quarter, the combination of these smart branches as well as digitalization is going to enhance the productivity. So, the moment the productivity is enhanced as well as, your yield is going to be focused on used vehicles. The breakeven, as you rightly mentioned is going to be around nine months so that is going to push down your cost-to-income substantially. So, one side, we increase the income, the other side, we reduced the operating expenses and finally the margin improves, so that is outstanding.

Prasheel Shah: And just a data keeping question, what is the COVID overlay as of now, the COVID provisions that you have over and above the standard asset provisions.

Amol Joshi: Yes, we have around Rs.255 crore of management overlay beyond our model, hence you find our Phase III PCR coverage at 150%.

Prasheel Shah: Okay, and one last question. So, if you look at the competitors in this quarter, they have shown good growth in disbursements in fact, they have reached pre-COVID levels and we have not yet gone out and landed in a similar manner. So, was it a conscious effort or what exactly is happening because what I am also looking at is the number of customers that you have in your CV finance? So they have been falling over the last six quarters, maybe even more, so what exactly is happening over there in terms of disbursement because we have constantly reduced customer count right from Q1 of FY2020 to Q3 of FY2021, so what exactly is happening in there?

R Sridhar: Even though we are in the same business, it is not appropriate to compare IndoStar with the large finance companies, because they are all 40-50 years old. We are a new entrant, but as you said, we are competitors in the same, so there are only three large companies, which have meaningful presence in the commercial vehicle and IndoStar is the fourth one which is entering and definitely, we will gain a lot of market share going forward, but in the last one year, you know that we have not lent many, so there is a runoff, apart from some customers who have sort moratorium, there is a runoff which is reducing our AUM in commercial vehicle. It is a conscious effort because some companies felt that even during lockdown they should go on and lend, it is their lookout, but as far as we are concerned, we felt that once we achieve collection efficiency, then only we should go out and lend and also, we have done a few strategic thingslike digitization initiatives, concept of smart branch, bringing Deep Jaggi as Chief Business Officer, creating a hub-and-spoke model, lot of strategic things we have done to prepare ourselves before the launch. For established companies, all these things were not there, they were just looking at the environment, they had liquidity and did it, but as far as we are concerned, we are an emerging company, we are a new entrant, so we took our own time to strategize and now we are fully prepared. So now you will find from this quarter, we will be competing with the giants in all the areas in commercial vehicle and we will also gain good market share, you will find that number of customers will increase, AUM will also go up, asset quality will improve substantially.

Prasheel Shah: Okay, thank you so much.

Moderator: Thank you. The next question is from the line of Kunal from Mirae Asset. Please go ahead.

Kunal: So Sir, my question is on the Stage-2 assets, like you mentioned, around 22% - 23% of your book is in Stage-2 and I do understand that out of that, around 3% is in the restructuring so which are the segments from which the majority portion of this stage 2 assets is coming?

R Sridhar: Amol, would you like to take?

Amol Joshi: Sure, sure. So, Stage-2 is a pool which keeps moving. So, the endeavor is obviously to pull the customer back from Stage-2 to Stage-1, and 1 or 2 EMIs help us achieve that, so we do not see any pattern in that. Our largest book is CV. Obviously, if I look at the breakup, CV assets will be the largest component, followed by SME.

Kunal: So corporate book also accounts for any Stage-2 assets within this?

Amol Joshi: A very miniscule portion and those in January, 2021 itself, have sort of either got prepaid or pulled back in Stage 1, so nothing particular to mention on the corporate.

Kunal: Okay Sir and my last question would be, Sir, what has been the historical trend on the Stage-2 book and how you are seeing the current book coming out of Stage-2, maybe adhering to Stage-1 kind of thing?

Amol Joshi: So Kunal, what has happened with IndoStar is that our history has been a bit checkered, so if I go product wise, you will see in the CV, we had a great organic book, and then we did an acquisition and during that acquisition, plus COVID, there is no set pattern, which is coming out as to how much percentage would be a Stage-2, beyond that, for SME and HF, credit quality overall has been quite good. HFC book, is quite impeccable quality. On SME, the team has been very successful in managing the Stage-2 growth, even if a role forward has happened, they have managed to pull it back and overall, there is no specific pattern around it. Going forward, what we are very conscious of with a lot of efforts being on collection, and you have seen the collection efficiency numbers, there is a separate vertical that we are going to set up for collections and very confident that overall Stage-2 numbers will be far below the numbers that I told you earlier.

Kunal: Okay. So, you do not see any major slippages coming in from the Stage-2 going forward, right?

Amol Joshi: Yes. So right now, coming out of a pandemic, this is what the numbers are, very confident that there is only upside as we go.

Kunal: Great. Thanks a lot Sir and all the best for the coming quarters.

Amol Joshi: Thank you so much Kunal.

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

Abhijit: Sir, my question is also on Stage-2. What was the Stage-2 pre-COVID on a business as usual basis?

Amol Joshi: Yes, Abhijit, I do not have the numbers immediately in front of me, but be assured that pre-COVID, the Stage numbers are far lower than what I have told you at 24%.

Abhijit: Okay. my question, also what I was trying to understand was, Sir your next Stage 3 is about Rs.140 crore, plus your restructuring is about Rs.250-odd crore. Your management overlay provision seems to be far higher than what is actually Stage-3 plus provision requirement for restructuring. So, will there be any reversals or reduction of this management overlay in Q4FY21? Or will you continue to carry this management overlay into the next couple of quarters?

Amol Joshi: Abhijit, thank you for asking the question. I just wanted to give a background, so we did this overlay when we are at Q4FY20 of last year. At that point of time, RBI also allowed us to split that into Q4 of FY 2020 and Q1 of FY 2021, but we took the stance and considering the uncertainty we took the full provision in Q4 itself as you would have seen that provision has stayed with us over the last nine months. Today, we are in position where we talked about relief. We, as a management team believe that taking a write-back will not be the best possible outcome for IndoStar. As the business goes, we would rather use this provision to further strengthen our positioning ratios were required. As of now, for Q4FY21, I am not looking at the write-back at all.

Abhijit: In that case, will your credit costs or provisioning requirement be lower than what we have seen in the recent past, so quarterly charge-off for the P&L, will it be lower than what we have seen in the recent past?

Amol Joshi: You have seen the Q3FY21 numbers. There is no major blip there. I expect the same trend to continue in Q4FY21 as well. If there is any specific action to be taken, where I must dip into the management overlay, we will do that, but I do not see that coming in the retail portfolio in this quarter.

Abhijit: Actually, I am confused. Under what conditions will you dip into management overlay and what conditions will you continue to charge-off to P&L because Rs.40-Rs.50 crore of quarterly charge-offs is still on the higher side, even though you are carrying management overlay, so my question is, why is the management so conservative, do they continue to charge-off good amounts when they have sufficient cushion on the overlay question. I wanted to understand specifically what is holding back the management and being so conservative?

Amol Joshi: Sure. Abhijit, I will try to answer it or happy to take it offline because it might need some deep diving for really to take you through the numbers, just a quick update on Q3FY21 when you see Rs.46 crore of credit cost. One is, I would not call it charge-offs because it is still provision that we are doing, there is no major component of write-off there. Of that, you are aware that we are resolving the corporate asset and whatever that corporate loan asset that we are resolving, any provision that was required to resolve it, has already been taken in Q2FY21 so there is no new hit coming on under Q4FY21 on the corporate asset side, especially on the dissolving that NPA.

Second is the management overlay, as you are aware, is to be used under strict IND AS guidance, which says that there are specific conditions that are to be met before a write-back happens, even while creating it, there are certain amounts of structures which are applied, so it is not a number which goes without scrutiny, so the auditors and the board also reviews this overlay. Similarly, at what point will we utilize it will depend on the underlying conditions that we are facing to really take that call.

Abhijit: Okay Sir I will probably take it offline. Thank you.

Moderator: Thank you. The next question is from the line of Jainis Chheda from Dimensional Securities. Please go ahead.

Jainis Chheda: Yes, just two quick questions. Number one, as you said, there is a new partnership agreement with ICICI Bank. So just we wanted to understand what is the whole thing? And what are the terms that have changed? And number two, the promoter holding is currently very high because of the Brookfield investment, which has to come down to 75% so what is any guidance of comments over there?

R Sridhar: Amol, would you like to take?

Amol Joshi: Sure, Sridhar. When we said that we renegotiated terms with ICICI Bank we meant there were the two key commercial parameters with that arrangement One is the lending rate at which is a ICICI Bank charges fee for every loan that we book that has been renegotiated downwards from the existing 10.4% to 8.6%. The second piece of the commercial agreement is the FLDG (First Loss Deposit Guarantee) that we keep with ICICI Bank that stands at 8% today that will move to 5%.

Jainis Chheda: So, 8% to 5%, that will be on the total portfolio or per account?

R Sridhar: Incremental from 1st April 2021.

Amol Joshi: The lending rate is effective February 1, 2021.

Jainis Chheda: So, no, again, on 5% incremental margin, it will be per account or on the total portfolio?

Amol Joshi: So it is always maintained at a total portfolio level and when we say incrementally, what will happen as of March 31, 2021 if the book is 100%, we will keep it as FLDG, going forward, any new book that we create, it will be on the 5% of the book will be kept as FLDG.

Jainis Chheda: Okay and in terms of promoter holding?

Amol Joshi: So, in terms of promoter holding, a question, which is there in front of all of us. I think active steps are being taken to explore opportunities to see how best we can do it. The shareholders, obviously, are very concerned and are working towards it, but we assure that as the market improves, we will find a way out of this. We have time till end of June, 2021 to resolve this.

Jainis Chheda: Okay Sir thank you so much.

Moderator: Thank you. The next question is from the line of Prashant Sridhar from SBI Mutual Funds. Please go ahead.

Prashant Sridhar: Hi thanks for taking my question just got a bit confused on the provision, so what would be the total provisions you carry as on day, it is like Stage 1, 2 and 3 together?

Amol Joshi: So, all full provision put together, will be around, so if I have to look at you want the full provision in terms of Stage 1, 2 and 3 together, right? You are not looking only at the Stage provisioning that we carry?

Prashant Sridhar: Right.

Amol Joshi: So, it is around Rs.550 crore.

Prashant Sridhar: Okay and this includes the management overlay or the Rs.255 crore over and above it?

Amol Joshi: No, it includes the management overlay.

Prashanth Sridhar: Okay. Got it and just another clarification. So, I am just saying the collection, where you are saying, for the month of December, 2020 there is total of Rs.2800 crore collected. How much of this would be amount not related to the billing of Rs. 2000 crore? Sir I am just looking at December, 2020 collection, where you said there is a billing of Rs. 2050 crore and collection of Rs.2,809 crore. So, I just wondering, out of the Rs. 2,809 crore, how much is the amount not related to the billing for that month?

R Sridhar: See, billing is one, plus you have the overdue also, you get collected. So those take into account there are some closures will there. There could be some foreclosures are there in all the three businesses. That is why it is higher, so if you adjust it, that could be around 85% to 90%.

Prashanth Sridhar: 85-90% okay that is helpful. Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Prasheel Shah from CapGrow Capital. Please go ahead.

Prasheel Shah: Yes, so the ICICI change that has happened, so the reduction in lending rate and that would be related to the fact that you guys moved to giving our new vehicle loans to ICICI, right?

R Sridhar: Yes. There is nothing that preventing us from doing used vehicle also.

Prasheel Shah: Sorry?

R Sridhar: We can do all the vehicles. Our intent is to do more new vehicles there and keep used vehicles on the balance sheet, but we can also do used vehicle in their balance sheet.

Prasheel Shah: And the reduction in the lending rate, how does that affect our spread that you are making?

R Sridhar: It is less than our average cost. See today, 8.6%, you see a rate which ICICI is going to charge. Anything beyond in yield goes plus, so the spread will increase that is one. Second is you have we are going to provide only 5%, which will be the capital we do for this. So, you have an ability to leverage more. So that is this arrangement is ROE accretive.

Prasheel Shah: Thank you. We will take the last question from the line of Piran Engineer from Motilal Oswal Financial Services.

Piran Engineer: Hi Sir, so most of my questions have been answered. I just have one question. How much of ECLGS has been done so far?

R Sridhar: Yes, you have the figure, Amol?

Amol Joshi: Yes, there is a most of our Q2FY21-related disbursements Piran has been through ECLGS because we have not gone ahead and increased our disbursement during that period. For the number you see for Q2FY21 for retail is predominantly the ECLGS, excluding the HFCT

Piran Engineer: So how much that would add up to roughly Rs.200 crore?

Amol Joshi: Around Rs.210 crore is what, so we did a portion of it in October,2020 as well, around Rs.225 crore will be the overall lending under that scheme.

Piran Engineer: Okay fair enough, that is all from my end.

Amol Joshi: All right.

Moderator: Thank you I now hand the conference over to Mr. R Sridhar for closing comments.

R Sridhar: So, thank you, everyone, for very active participation. I hope that we have answered all your queries. If you have any more queries, you can always contact my colleagues there, Amol, CFO; as well as Salil Bawa, the Head of our IR so as I mentioned in my initial remarks that we are fully geared up and prepared to take advantage of a huge potential which is unfolding from now. So, we are excited, and we are very confident that our growth in business, as well as our asset quality, will be fantastic in the next coming quarters. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Motilal Oswal Financial Services Limited, that concludes this conference call for today. Thank you for joining us, and you may now disconnect your lines.

Ends