INDOSTAR

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15 November 2021

BSE Limited
Listing Department, 1st Floor,
P J Towers, Dalal Street, Fort,
Mumbai - 400 001

Scrip Code: 541336

National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (E), Mumbai – 400 051

Symbol: INDOSTAR

Sub.: Transcript of analyst(s) / institutional investor(s) call held on 11 November 2021 at 11:30 a.m. (IST)

Dear Sir / Madam,

Please find enclosed herewith transcript of analyst(s) / institutional investor(s) call held on Thursday, 11 November 2021 at 11:30 a.m. IST, pertaining to the Unaudited Financial Results of the Company for the quarter and half year ended 30 September 2021.

The transcript is also available on the website of the Company at www.indostarcapital.com.

Request you to kindly take the above on record and disseminate the same on your website.

Thanking you,

Yours faithfully,

For **IndoStar Capital Finance Limited**

Jitendra Bhati
SVP – Compliance & Secretarial
(Membership No. F8937)

IndoStar Capital Finance Limited *

Encl: a/a

"IndoStar Capital Finance Limited Q2 FY22 Earnings Conference Call"

November 11, 2021

MANAGEMENT: **MR. R. SRIDHAR – EXECUTIVE VICE CHAIRMAN & CEO, INDOSTAR CAPITAL FINANCE LIMITED**
MR. AMOL JOSHI – CHIEF FINANCIAL OFFICER, INDOSTAR CAPITAL FINANCE LIMITED
MR. DEEP JAGGI – CHIEF BUSINESS OFFICER, INDOSTAR CAPITAL FINANCE LIMITED
MS. JAYA JANARDANAN – CHIEF OPERATING OFFICER, INDOSTAR CAPITAL FINANCE LIMITED
MR. SALIL BAWA – HEAD INVESTOR RELATIONS, INDOSTAR CAPITAL FINANCE LIMITED

MODERATOR: **MR. ABHIJIT TIBREWAL – MOTILAL OSWAL FINANCIAL SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to IndoStar Capital Finance Q2 FY22 earnings conference call hosted by Motilal Oswal Financial Services Limited. As a reminder, all participants' 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, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhijit Tibrewal from Motilal Oswal. Thank you and over to you sir.

Abhijit Tibrewal: Thanks, Inba. Good morning, everyone. We have with us today the senior leadership team from IndoStar Capital Finance to discuss the Q2 FY22 performance and the strategic direction the company will take in the years to come. Allow me a minute to quickly introduce the management team for the benefit of some of the newer participants on this call. From IndoStar we have with us today Mr. R. Sridhar – Executive Vice Chairman and CEO; Mr. Amol Joshi – Chief Financial Officer; Mr. Deep Jaggi – Chief Business Officer; Ms. Jaya Janardanan – Chief Operating Officer; and Mr. Salil Bawa – Head Investor Relations. Now I would like to hand the call over to Mr. Sridhar for his opening remarks post which we will open the floor for a Q&A session with the investors and analysts present on this call. Thank you and over to you, sir.

R. Sridhar: Good morning to all of you. Thank you for all joining our Q2 results call. First, I would like to tell you that we had a very strong quarter as far as Q2 is concerned. We have crossed a disbursement of more than INR 1,000 crores, actually it is INR 1,100 crores. As we have been articulating in our earlier calls, we continue to focus on retail disbursements particularly in the used commercial vehicle finance business, SME and affordable housing finance. I am very happy to inform you that our productivity has been quite good. We have been opening offices expanding in the entire country including North, East, as well as Northeast And our productivity per branch, we have claimed in the past that we will do INR 1 crore per month per branch, but we are clocking more than INR 1 crore per month per branch and the field **o**f productivity is also substantially higher. We continue to focus on building this used vehicle financing business. And as we have articulated, we have put together a five-year plan where we will move from the current 250+ branches to 1000 branches. And we are very confident that with the kind of potential which is going to unfold in the used commercial vehicle finance business, particularly in view of the scrappage policy announced by the government, we are well prepared to take advantage of this potential demand which is unfolding.

Similarly, in the affordable housing finance business last quarter itself we crossed INR 1,000 crores. We continue to do well. As we have articulated earlier, we have made this company independent, and we have made our Business Head the Deputy CEO and we have capitalized this also substantially. So, in both these businesses we are looking to grow to big numbers in the coming quarters looking into the demand.

We are also happy at the same time with regard to our collection performance. Right from the March 2020 when the pandemic set in, after that we had moratorium for six months, then restructuring. Continuously our collection efficiencies have moved up and in October 2020 we achieved a 100% rough collection, that is the time we restarted our disbursements. So, the last one year's disbursement performance vis-à-vis the quality of the assets have been stupendous. November 2020 when we restarted the disbursements to October 31, we have done about INR 2,500 crore of disbursement only in commercial vehicle and in that more than 98% is in stage one. Without doing any restructuring, we have been able to achieve. So, whatever we have done post pandemic with regard to changes in the accounting policy, changes in the product mix have resulted in higher yields. In used commercial vehicle finance business we have been able to get a 17% at an average yields with the cost of funds hovering around 9% and 9.5%, our spreads as well as the NIMs are going to be substantially higher which will keep moving up. So, with 35% of capital adequacy and 7%-8% of spread, we can look at 9% to 10% of net interest margin for a period till we have higher capital, and it will stabilize at around 8% net interest margin. So, used commercial vehicle finance business is going to be our main business and we have expanded our products. We have started the tractors, construction equipment and passenger cars, and we are also expanding the geography as I have told you earlier. And we have also expanded the customer segment from two or three vehicles' owners to FTBs to five vehicle owners. So, these strategic changes is going to increase the potential for funding. With the scrappage policy, we do feel that the opportunity to grow in this business is quite substantial. And we have revamped our executives also in this, and we have been able to attract good talent from very reputed companies with adequate experience in the depth we are confident that we will be able to highly scale this business with profit and asset quality.

Our stage three efforts have been very stable, and we have been able to make a lot of improvements in the stage one and two and three and we will be more than 90% in stage one by March 2022. With this kind of growth and performance in the retail business, our corporate lending business is steadily going down and as we have mentioned earlier, we are very confident that this would be less than 10% by March 2022. As against the 73% of retail business last year, we have been able to bring it down to 20% corporate lending business mix, and it will go to 10% by March 2022. In the last one year, we have been able to collect around INR 800 crores in this business and the balance INR 1,600 crores we are confident that this will become zero in the next 12 months. And as far as the quality of this book is concerned, we have already taken sufficient and adequate management overlay on an estimated basis, and we are very confident that there will be no further probation or write off is required in this book. So, we will be focusing more on building this retail business. Our strength is on the liability side. We have a capital adequacy of 35% with very strong ALMs as well as a huge liquidity pipeline. The incremental borrowings are coming in from banks and mutual funds for the parent between 8% and 9%, for the housing finance company between 7% and 8%, which helps us in continuously reducing the average cost of funds and which expands our net interest margin. So, the yields are stable. Liquidity is strong, capital is quite high, and the cost of funds incrementally is quite low.

So, we are in a good shape, and we have a huge aspiration to achieve these things in the next three years and in the next five years we will be one of the strongest NBFCs in the country and we are moving towards that. So, the Q2 has been the beginning of our five-year cycle, and that happens to be quite strong.

So, with these initial remarks, I leave the forum for your specific questions and me and my colleagues would be very happy to answer. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We take our first question from the line of Dikshit Doshi from Whitestone Financial Advisors. Please go ahead.

Dikshit Doshi: Congratulations, as you indicated we will be crossing INR 1,000 crores disbursement and business mix from Q2 onwards. So, congratulations for that. If I see in Q2, we have come back to profits, but almost 50% of pre-provision operating profit is from the corporate book which will continue to come down. And the credit cost in commercial vehicles and SME is still very high. So, when do you see this start improving? And let's say in next three to five quarters down the line, what kind of credit cost targets we have for specifically CV, SME and housing? And what kind of PPOP percentage possible considering most of the top-level hiring is already done and there will be scope for operating leverage?

R. Sridhar: As you rightly said, our corporate lending book is going down. Simultaneously, we are building the retail book. But unfortunately, you know that the last year had been a most challenging year as far as the pandemic is concerned and now our disbursements are going up. So, there is also a run-off on our old CV book which we have bought from another NBFC. So, incremental book is smaller now, so we have to increase our disbursements. So, as you rightly said in the next three to four quarters our retail business will show a lot of profit and when it comes to the credit cost, as I have articulated earlier in March 2020 and March 2021, we have taken on an estimated basis adequate overlay. So, we have always followed a very conservative accounting policy. Our board and auditors and the management have taken this kind of a stand because of the challenging environment. As I had mentioned to you, the new book is more profitable, and quality has been fantastic. So, as and when the old book which had been there till March 2020 runs off, we estimate that this will run off in the next 12 months. So, after 12 months, if you find that there will be no corporate book, only the new book will be there, the old book also would have run off, so we would be having a book which will have high-quality which are mostly 95%+ will be in stage one, requiring less provisions. Plus, it would be mostly used vehicle with 17% and odd as the return. And as far as our new vehicle business is concerned, we have followed the same strategy of pushing all these with the partnership of ICICI bank. That will also grow simultaneously. So, with all these strategies, we are hoping that every quarter we will be able to show improvement in our income and profits and lesser credit costs and operating expenses.

Dikshit Doshi: Because I see that in commercial vehicle separately would give P&L for all the businesses, so if I see commercial vehicle almost INR 58 crores is the credit cost this quarter as well. So, if we remove the corporate book of almost all the segments are still not much profitable.

Management: Your objection is right. See, CV is going to be our flagship product and what they have done, there were some releases from the other businesses in the ECL line, you will see corporate book as it's going down, all the overlay that we had against that book is now available to be redeployed. Similarly for SME, while we have increased our coverage ratio for stage three in SME, we have seen improvement in stage two in terms of overall performance. So, what we have done is that while optically yes, the CV finance segment to P&L looks as if it's loaded with an ECL cost, that is basically to ensure that any releases that we have from other products is rightly allocated for our flagship products. So, that's where you will find that incremental provision is coming. It got less to do with asset quality. The other part is, we also had done, as you are aware in Q1, an ARC transaction for our CV book. And what we have done on a conservative basis, we have treated that ARC with the same parameters that we apply for on balance sheet ECL computation and a step-up provision has been done. So, what would have been a sort of a hit in the next eight or nine quarter, we are just forcing that and tried shore up the provision and link the asset.

Dikshit Doshi: My second question is regarding the growth. So, we have opened 38 branches this quarter. What could be the quarterly or a yearly target of opening branches going forward? And considering that with the new branch openings and also more productivity from the existing branches where do you see this disbursement of INR 1,000 crores quarterly will go into let's say next one year on?

R. Sridhar: We have a plan of a hub-and-spoke for branch expansion particularly for the CV financing business where we have presence in all the four zones south, west, north, and east, and now we have moved to Northeast also. This financial year we have plans to go to around 400 branches. And over a period of next five years, this will move to 1,000 branches in a hub-and-spoke. So, today we have 50 hubs and around 200 branches that will go to 200 hubs and 800 branches about 1,000. So, the productivity simultaneously through digitization, through other strategies, we are increasing it substantially. Earlier we have been talking about INR 1 crore per branch, that's no longer valid. We can do much more. And the field officers productivity of INR 24-30 lakhs is also expanding very fast. So, we do feel that every hub should do around INR7-8 crores of business. So, with 200 hubs in 2025 we should move monthly disbursement of around INR 1,500-1,600 crores in the next 3-4 years. That is a kind of a projection we have. So that will gradually happen as and when we open the branches. We need to bring in a lot of talent and then train them and it takes about a year to breakeven that branch. So, all these are going to substantially happen very quickly because of the product expansion, customer expansion, and geographical expansion. So, these strategies will work. We are in the beginning of our strategic cycle. We must take a couple of more quarters to fully utilize this strategy. But you will find that in every quarter there will be an incremental income, profit and productivity which you will see in our numbers.

Dikshit Doshi: Just one small question from my side, and then I will join back in the queue. What is this INR 22-crore of net gain on lead execution of financial instrument in their total income?

Management: So again, if you remember in Q4FY21 a particular corporate loan was sold to an ARC with a clear objective that in the coming quarters, we will eventually sell it down to a potential buyer. So, that INR 22 crores gain is on sale of that particular investment that we are holding.

Dikshit Doshi: Just one last if I can squeeze, what is the latest timeline from the SEBI to reduce the promoter holding by 70%?

R. Sridhar: This is a question to be answered by the shareholders, but you know that they have done something, and they informed us that the effort is on.

Dikshit Doshi: So, I understand that they apply to SEBI then SEBI do give them some extension also. But do you have any knowledge that what is the latest SEBI has given the deadline?

R. Sridhar: No, we are not aware of any such development.

Moderator: Our next question is from the line of Hitesh Arora from Unify Capital. Please go ahead.

Hitesh Arora: You may have answered it in your previous calls, but just wanted to understand, for your used commercial vehicles what is the tonnage that you are looking for your portfolio, whether it's light, medium or heavy, what is the proportion that you are looking to lend or any specific sub-segment that you are focusing on?

R. Sridhar: We fund all the vehicles, but from our past experience as and when required the policy of lending credit, credit policies keep changing. Now infrastructure and all that where mining, if there is a pressure, then we don't fund the tippers. And during the lockdown we have not funded any passenger carrying busses which have been extensively used by the IT industry and because of work-from-home there were issues. So, we have not been funding that. We have made changes in product mix, and we keep doing that and because of that you will find, as I mentioned, the last one year’s disbursement of 2,500 crores is performing exceptionally well. So, this keeps happening. But we are here to fund all the vehicles from small to heavy commercial vehicles, everything we fund.

Hitesh Arora: Just again, I am sure you have discussed this in the previous calls, so you fund used commercial vehicles, but if you could explain a little bit more on the borrowers’ profile, how long has he been in the industry? Is he new to credit or whatever? If you could please explain on the borrower profile a little more?

R. Sridhar: There are very few companies only in commercial vehicle financing business. You know that. They are all 50-60 years old companies. One company is focusing on the top end of the customer. The other company is focusing on the bottom most segment of the customers. So, we are in the middle. We have been focusing on two or three vehicle owners to start with in commercial vehicle finance. But subsequently we got a huge capital and today we have a lot of liquidity. So, we do find that this is a great business which can be grown with quality and profitably and potential is quite large. So, we have expanded the customer segment from first time borrowers to five vehicle owner is our current, thinking. So, that is where we are financing. This has tremendous potential, and we will be able to get an average yield of 17% to 18% in this segment. So that is where we are focused on.

Hitesh Arora: Just so that I understand correctly, so initially you were focusing on first-time borrowers for used commercial vehicles, and now you have expanded to small fleet owners, somebody like five vehicle owner.

R. Sridhar: Earlier we have been focusing on small fleet owners. Now we have included first time borrowers and our customer segment goes up to five vehicle owners.

Moderator: Our next question is from the line of Prashanth Sridhar from SBI Mutual Fund. Please go ahead.

Prashanth Sridhar: Just one clarification and one data point, are you saying that you would not be competing with the likes of Chola, Sriram Transport and you would be somewhere in between? And if you could give us some idea on weather the market has that much depth, that would be helpful. And one data point I missed, if you have disclosed, what is the stage two this quarter?

R. Sridhar: See, none of these big companies are competing with each other, even though they are financing the road transport industry. So, as I told earlier that all of them are focusing on different customer segments, so they don't compete at all. So, three companies, top, middle, and the lower segment, that is what they are focusing. But the fourth company when it comes, so I am financing first time borrower to five vehicle owner, so I will be competing with Chola and maybe HDB to some extent. Beyond that I am not competing with Sundaram or Shriram. There will be competition and as I told you, the potential is quite high. And we are a dedicated 100% used vehicle financier as against some of the other companies which our competition have a mix. So, Chola has got more new vehicle mix than used. We have got 100% used. And as I had earlier mentioned that our new vehicle will be off balance sheet. So, on balance sheet we are a dedicated 100% used vehicle financiers. So, we are the only one in this country that uses that kind of a business model.

Prashanth Sridhar: That is interesting. Anything on the stage two number this quarter?

Management: Stage two is 21% of the overall yields.

Prashanth Sridhar: One last question. This new RBI guidelines of excluding the DA profit which calculating capital adequacy. What is the impact for us?

Management: See, IndAS allows any direct assignment related income which can be upfronted. So, RBI has given it thoughts around it on whether to include it. What we have done is that there are no immediate plans to do any big-ticket direct assignment in any of our portfolios. So, you will not find that causing any blips into our performance.

Prashanth Sridhar: The restructuring is included in that 21%, is that right?

Management: Yes. So Prashanth, by default what we have been doing, even if a zero DPD customer avails of restructuring, we on a conservative basis include him in the stage two so that 21% is all inclusive.

Moderator: Our next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: While you have already shared the stage two numbers at the consolidated level, if you could also, please share the stage two numbers in your three retail product segments, vehicle finance, SME and affordable finance. And also, if you could share the corresponding provision cover that you have on the respective stage two in these three product segments?

Management: For the HFC portfolio, it continues as expected. While the wave two did cause some worry for us. It continues to be less than 5%, it's around 4.6% kind of thing for HFC. And we carry a 4% cover because we are quite confident about that pool going back to stage one sooner than later. For CV it's around 29% includes the restructured portfolio there. There by default we are anyway taking a 10% provision on the restructured. We have some specific customers were required. We have also taken additional provision when we restructured them. So, the cover there is around 11.5%. And for SME the stage two book which is where you have seen that we have done some restructuring in Q1 and Q2 is 35% with a 9% provision cover there.

Abhijit Tibrewal: The other question that I had was for Sridhar sir. This was I would say, a very important quarter where you have demonstrated that, I mean, obviously last year was a difficult year and I think this quarter we demonstrated record high levels of disbursements wherein we crossed this milestone of INR 1,000 crores. Going forward how should we look at your disbursements that could pan out? While you have given us a five-year kind of a roadmap, if you could just break it up into two years for us, how should we look at IndoStar growing in terms of disbursements and its loan book over the next five years in two-year.

R. Sridhar: Because our base is small Abhijit, the percentage of growth is going to be very high. And I am prohibited from giving any futuristic numbers, but what I can say is this, we have anticipated this kind of a potential which will unfold post pandemic, particularly in the used commercial vehicle finance business. So, in the used commercial finance business we are anticipating huge growth with quality and profit. So, we have been able to attract talent and bring it as our regional and zonal heads, credit underwriting and operations. So, all these we have done. We have also initiated the digitization there. We are going to grow this book exponentially in the next 5 years. I am very confident with the kind of team and potential and the product strategies we have done, we are going to surpass our projections and their targets. That would be what I would estimate. As I had told you, the productivity which we have been keeping conservatively at INR 1 crore per branch, INR 25 lakhs per field officer is going to be exceeded. We will be quickly breakeven branches and we will ramp up disbursements quite strong. For example, if you take CV, we have been an average INR 250-260 crores per month, which will move to INR 400-500 crore next financial year.

Abhijit Tibrewal: Sir, in your opening remarks maybe you also kind of suggested that in the near term our NIMs could be in that range of 9% to 10% given that we are running high capital adequacy, and which could finally stabilize around that 8% kind of levels on a sustainable basis. Would it be fair to assume here that at this point in time, there are absolutely no pressure on the yields what you have been suggesting 17% in new CV financing and to that extent we will continue to see some benefits in your cost of funds in the coming quarters?

R. Sridhar: Yes, of course, so the yield, if you see after we have started disbursement from November has been continuously going up. And it varies from branch to branch, region to region, zone to zone it will vary because the different kinds of borrowers, different kinds of vehicle demands are there in different geographies. But as a company, as a whole, we have been able to get between 17% to 17.5% as the yield which is substantial, and we would definitely maintain that going forward even when the volumes go up substantially. So that is not under pressure. At the same time, we are also able to raise debt from banks and other financial agencies between 8% and 9% which has been going down for the last few quarters. When we get an upgrade from AA- to AA which has been long pending which will happen in the next few quarters that will also help us in reducing the cost of funds. So, there is no pressure on yield and there will be reduction in the cost of funds which will help us enhance the net interest margin.

Abhijit Tibrewal: Next question was actually around what you just touched upon this credit rating upgrade. So, in your discussions with credit rating agencies what is it that they suggest? Are they looking at a particular size of the balance sheet wherein they can consider the next credit rating upgrade? Sir, the reason I ask is, once you get your next credit rating upgrade, you will see a lot of benefit in your current cost of borrowing. So, what are the discussions currently with the credit rating agencies and what will be that level of balance sheet where they would be kind of comfortable upgrading you?

R. Sridhar: We have multiple challenges we faced Abhijit. One is a transition. We are building a new business. We acquired a portfolio that too during the challenging time. All these posed challenges and our traction also is required for rating agencies to decide whether there is an upgrade. As far as the liability side is concerned with the kind of partner we have on the capital adequacy, the liquidity pipeline, ALM, absolutely there is no problem for rating agencies. But when it comes to asset quality growth and all that, we need a little more time for the traction and corporate lending business we are exiting. So, I think as I mentioned, in the next 2 to 3 quarters we can reasonably expect a good progress in this regard.

Abhijit Tibrewal: The last question that I had was on the credit costs and the provisions. While you have deeply touched upon it in some of the previous questions, I just wanted some more clarity around, while obviously the last few quarters in the last year were difficult times for most of the asset financiers but going forward, looking at this kind of a business where you are concentrating on these 3 retail product segments, which is new CV financing, SME and affordable housing finance, what in your view would be sustainable and normalized credit costs for this kind of a franchise that you are building up?

R. Sridhar: See, the management of credit cost is paramount important in a money lending business. Your yield takes care of the customer profile which you are financing. You should have adequate cushion for providing for the risk so that your final risk adjusted return is quite high. So, as we are contemplating mid segment of customers who have some credit track record which eliminates major risk. We are pricing it at around 17% to 18% and I am confident that our bad debts if we manage it properly will be 10% of the deal, not more than 10%. So, I do estimate that our long-term bad debt will between 1% to 1.5% in commercial vehicle financing business. So, that we are confident of achieving it. If you look at our new book that will clearly demonstrate that we are definitely going to achieve that. But when it comes to affordable housing finance, there we are getting a 14% deal that would have a bad debt which would be less than 1% so it would between 50 basis point to 75 basis points. Every bad debt is estimated on the basis of the risky profile of customers you are financing as well as related to the yield. So, this is the guideline I can give. This is where we are working, and we are very confident that we will be able to achieve.

Moderator: Our next question is from the line of Rishikesh Oza from Robo Capital. Please go ahead.

Rishikesh Oza: Firstly, a clarification, you had said that in the next 3-4 years about hubs that you were mentioning around 200 hubs and INR 7-8 crores disbursements. So, you were saying, INR 1,600 crores disbursement monthly you were saying in 3-4 years?

R. Sridhar See, at very hub it's not only the hub location, it will have 3 branches plus one rural center. This is what we are planning. Including the hub, it will be 5 units, which will do around INR 8 crores, it is estimated today. So, 200 x 8 is 1,600 is the rough disbursement per month.

Rishikesh Oza: My question is how do you see the OPEX now from going here?

R. Sridhar See, the OPEX because we have to incur expenditure. We are opening new branches and there the maximum cost is coming is the people cost. So, for them to become productive, breakeven, it takes about 12 months and by that time they breakeven, there are new additional branches. Initially our cost to income ratio will be high. That is because the denominator is low. And as and when the business increases, the income goes up, the cost income ratio will come down. We do expect that in the next 5 years we should bring it down to 30%.

Rishikesh Oza: My last question is if you could indicate, what will be your near-term credit costs. Actually, it would be great if you could quantify. So, would it be fair to say that it will be in the range of somewhere around 1.8% to 2% or it would be above 2%, if you could indicate that would be great, sir.

R. Sridhar As I earlier answered it, it is related to the yields. We expect that on a long-term is 1-1.5. In the medium term, I am unable to project but I would only say for the old book, we have already taken the cover. So, there will be no further credit costs which would come. The volatile credit cost is because of the transition to a new accounting policy, and we have been in I-GAAP and now we have come to Ind-AS, all the NBFCs. So, the ECL is the one which is causing this volatility and there are on balance sheet portfolio, off balance sheet portfolio. So, depending upon the kind of shareholder, board and the management, the auditor, as far as IndoStar is concerned, we have taken a very conservative stand on this and as we are an emerging company, we don't have the pressures. So, we have taken enough provision coverage when the going was tough. So, we have done all that. And today when we are growing the new book, we will not have any pressure. Only in the old book we will be there. So, we have already provided so there will be no further credit cost requirement for the old portfolio and in the new book the credit quality is absolutely fantastic. So, I do feel that we should be able to manage between a 100 to 150 basis points in the CV and between 50 to 75 basis points in the affordable housing.

Moderator: Our next question is from the line of Saili from Old Bridge Capital. Please go ahead.

Saili: Basically, I have just got one question. We are talking about having a target of opening up almost 800 branches and leading to disbursements of almost INR 1,300 to INR 1,600 crores over next 2 to 3 years. So, are you saying that this growth is only a function of the new branches that we are opening or are you seeing any good sentiments overall on the industry front of when you were talking about financing the new CV? What's your take on overall industry sentiment for financing?

R. Sridhar The commercial vehicle finance is a cyclical industry. We had a lull for first 2 years. It will move up when the pandemic subsided plus the economic activity is picking up. We are able to see with the kind of collection performance is alright. And on the on top of it, the number of finance companies which are financing used to commercial vehicles, the penetration is less than 50%. The balance is catered to by unorganized segment with huge cost. So, we feel that we have enough opportunity to gain market share from the existing players as well as from the inorganic segment. Plus, on top of it the pie is keep on increasing plus scrappage policy is coming. So, scrappage policy is going to trigger a huge replacement demand which would be continuous because every year more than 15-year-old vehicles will keep coming into the system. This is a big opportunity and there are no players to take advantage of that. So, I do see IndoStar playing the role of the leader in the used vehicle financing which would come through the replacement cycle. So, we are very confident that this will grow very-very high in the next 5 years. It may not be a gradual increase. It will be a huge increase.

Saili: Basically, what is our average age of vehicles that we are financing? What bracket are we in?

R. Sridhar See, as I mentioned that we are financing all kinds of vehicles. The vehicles which 1 ton to 49 tonnes, 50 tonnes and all that which are all differently priced. But our average ticket is around INR 7-8 lakhs. That is what is coming in the ticket price. When it comes to age first 4 years will be actually new vehicles 5 to 12 years is our segment where we will be financing. Actually, finance 12^{th} year vehicle within 3 years that will be paid off after that it will go to scrap.

Moderator: Our next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: I had a few more questions that I wanted to ask. While you have very elaborately kind of laid out entire management team in your presentation and that gives a lot of confidence. What I wanted to understand are precisely two things. One is, you have been talking about building a separate collections vertical which you have shared in your previous earnings call that it has been a kind of learning for you in the past. If you could just elaborate on what are our thoughts around building a separate collection verticals, how are you kind of planning to structure it? And secondly, if you could briefly also touch upon some of the digital initiatives that you are taking because every NBFC, every asset financing company is investing significantly in the digital initiatives today and which I think is going to be hygiene in the years to come, if you could just touch upon that as well.

R. Sridhar So, let me take the first question which is a difficult question. So, as you mentioned all the other companies, we have also realized that we have to go digital, so we have started that project last year itself during the pandemic and we are almost in the end. We are going to launch in the next one month. So, maximum by January we should be launching it. So, when it comes to the consumer finance business, you can actually do through digital everything, but the business which we are doing has collateral, one is used vehicle, the other one is a house. These all cannot be done through digital with regard to valuation and the title checks and all that. So, a lot of physical intervention is also required. The digital helps us in customer onboarding, KYC and lot of credit checks and the collection. Some of them we have been doing earlier, we are intensifying that, and this is going to help us in turnaround time and the operational expenses. When it comes to digital, we now provide space for field force in the office, so the office space has come down resulting in lesser rent. All these benefits are going to come. The digital initiative is going to help us in enhancing the productivity as well as reducing the operating expenses. And to a large extent our businesses, both commercial vehicle as well as affordable needs a lot of physical intervention when it is more relationship based. So, without diluting the relationship-based business model we are bringing in processes including digitization to enhance a few things, including productivity and operational expense. So, that is what we have been doing it and that would take some time to take off from January 2022 and it will take a few months to make our people understand, use it. Over next 6 months to 1 year, we will go fully digital in both these businesses. What about the other question, I forgot?

Abhijit Tibrewal: On the separate collection verticals that you are building.

R. Sridhar Collection vertical, I have come from a company which has done everything through branch banking. Branch manager has been the king and they have done. But when we have set up this business, we are looking at sales, credit, collection and operation separately. So, we have set up sales and credit through sales sources and Credit under rights, but we have realized that collection also, we have to bring looking into the other companies which have done it efficiently. If we are scaling up our business substantially high in the next 3 to 5 years, it is also necessary to build a backbone of collections. So, we have brought in a guy from Chola, and Aditya Birla as our Collection Head and we will be building a collection vertical. So, as and when a vehicle is financed for first 12 months it is taken care of by the sales and credit so that they avoid a non-starters, they continue to follow up with the client. Once 12 installments are paid, the customer's the equity in the vehicle goes up substantially. After that the default comes down. So, we are going to support the sales and credit with a separate collection vertical which will take care of the collections post 12 months leaving the sales and credit to focus on business growth. So, this would help us grow fast with collection activity taken over by a separate vertical. That is our strategy.

Moderator: We will take our next question from the line of from Ratish Varier from Sundaram Mutual Fund. Please go ahead.

Ratish Varier: Just one clarification with respect to the SME book, you mentioned SME stage two is 35%, right?

R. Sridhar Yes.

Ratish Varier: I just wanted to ask you, because if you look at this quarter, the P&L of the SME, we have reversed certain credit cost or provisioning. Do you think we are comfortable with the provisioning what we have done there, looking at the stage two book or are you confident that the stage two book will keep on improving in the near term and longer term in the next 3-4 quarters, if you can just give some comment on this book, that's it, that's only one question I had?

Amol Joshi: Hi Ratish, this is Amol here. So, on SME, we actually did some deep dive. You would have seen that the restructuring volumes have increased in Q1-Q2. So, we spent some more time on the SME model. What is clearly coming out is stage three needed more attention. If you look at the asset quality slide that we put out, while in my gross NPAs have gone up, my net NPAs have remained the same. Basically, top up provision has been taken in stage three and the 35%, in stage two, we have actually gone account by account and that has helped us with that relief. Overall stage two is very much under control. The restructuring by default stage two position that we have taken with a 10% provision is also a very comfortable position is what we see. What we are very keen to track this through to the next 12 months is how much of that restructured book actually comes back to stage one, which is what we are tracking versus the last year restructuring that we did for SME. We see some positive signs there, especially now that things are normalizing on the ground. What we see for the next 3 quarters at least we shouldn't see any specific shakeout in the ECL related to SME.

Ratish Varier: But just for clarification purpose over the next 4 quarters only actually we will come to know where this book is moving because a lot of these customers will be ECL customers, etc. Is that understanding right? That is how we are having confidence that next 4 quarters the provisioning wouldn't be there.

Amol Joshi: Absolutely.

Ratish Varier: Just 1 question in terms of disbursements, within the SME only we mentioned a lot about SPV and affordable housing, some commentary on SME in terms of how you are seeing this book shaping up?

R. Sridhar See, this book is around the less than INR 2,000 crores now and this may not grow big because considering the MSME situation here, so run off and the incremental are almost same. So, this will not grow immediately big. We will have to figure out when we should do that looking at the environment.

Ratish Varier: Because earlier, if I am not wrong, we were confident in terms of growing this SME book?

R. Sridhar Always, we have maintained that vehicle and the affordable housing finance as the focus areas and the MSME is a profit-making business for us. We will always balance the growth depending on the environment. Post the pandemic and the economic down cycle the MSME have been a hit, there is a huge impact, so we will have to be little bit cautious and careful. We have a fantastic team which have got huge experience in SME coming from large NFBCs and banks, so that is able to manage this business very well. We will take a view how to grow and manage the growth depending upon the conditions of MSME. Post the pandemic it is improving but still little bit we will have to be cautious and wait.

Ratish Varier: Monthly disbursements of last 3 months run rates that those numbers we should expect similar range.

R. Sridhar we will not go beyond the INR 200 crores per quarter.

Moderator: Ladies and gentlemen, that was the last question. Now I would like to handle over the call to Mr. Abhijit Tibrewal for closing comments. Over to you, sir.

Abhijit Tibrewal: Thanks, Inba. We would like to take this opportunity to thank the management of IndoStar for giving us this opportunity to host their earnings call today. Thank you all for your time and have a good day.

R. Sridhar Thank you, Abhijit and thanks for all the participants for taking time. Look forward to discussing with all of you again in the Q3 call. Thank you.

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

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