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

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

Scrip Code: 541336

Symbol: INDOSTAR

Sub.: Transcript of analyst(s) / institutional investor(s) call held on 01 August 2024 at 12:00 p.m. (IST)

Dear Sir / Madam,

Please find enclosed herewith transcript of analyst(s) / institutional investor(s) call held on Thursday, 01 August 2024 at 12:00 p.m. IST, pertaining to the Unaudited Financial Results of the Company for quarter ended 30 June 2024.

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**

SHIKHA JAIN
Digitally signed by SHIKHA JAIN
Date: 2024.08.07 21:33:41 +05'30'

Shikha Jain
Company Secretary & Compliance Officer
(Membership No. A59686)

Encl: a/a

"IndoStar Capital Finance Limited

Q1 FY '25 Earnings Conference Call"

August 01, 2024

MANAGEMENT: **MR. KARTHIKEYAN SRINIVASAN – CHIEF EXECUTIVE OFFICER – INDOSTAR CAPITAL FINANCE LIMITED**
MR. RANDHIR SINGH – EXECUTIVE VICE CHAIRMAN – INDOSTAR CAPITAL FINANCE LIMITED
MR. VINODKUMAR PANICKER – CHIEF FINANCIAL OFFICER – INDOSTAR CAPITAL FINANCE LIMITED
MR. SHREEJIT MENON –CHIEF EXECUTIVE OFFICER – INDOSTAR HOME FINANCE PRIVATE LIMITED
MR. PUSHKAR JOSHI – CHIEF FINANCIAL OFFICER – INDOSTAR HOME FINANCE

MODERATOR: **MR. VIRAL SANKLECHA – ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY '25 Earnings Conference Call of IndoStar Capital Finance 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 Moderator: by pressing star then zero on your touchtone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Viral Sanklecha from Orient Capital. Thank you, and over to you, sir.

Viral Sanklecha: Thank you, Shlok. Good afternoon, everyone. I welcome you for the Q1 FY '25 Earnings Conference Call of IndoStar Capital Finance Limited. To discuss this quarter's performance, we have from the management, Mr. Karthikeyan Srinivasan, Chief Executive Officer; Mr. Randhir Singh, Executive Vice Chairman; Mr. VinodKumar Panicker, Chief Financial Officer; Mr. Shreejit Menon, CEO of IndoStar Home Finance Private Limited; and Mr. Pushkar Joshi, CFO, IndoStar Home Finance Private Limited.

Before we proceed with this call, I would like to mention that some of the statements made in today's call may be forward-looking in nature and may involve risks and uncertainties. For more details, kindly refer to the investor presentation and other findings that can be found on the company's website.

Without further ado, I would like to hand over the call to the management for their opening remarks, and then we will open the floor for Q&A. Thank you, and over to you, Karthik sir.

Karthikeyan Srinivasan: Thank you, Viral. Good afternoon, everyone. I'm Karthikeyan Srinivasan and I want to extend a warm welcome to each of you for joining our Q1 FY '25 earnings call to discuss the financial performance of IndoStar Capital. I hope you all had a chance to review our financial results and investor presentation, which are accessible on the stock exchanges and our website. I truly appreciate all of you being part of our journey.

Today, we have with us, Randhir Singh, Whole-Time Director and Executive Vice Chairman; Vinod Panicker, our CFO; Shreejit Menon, our CEO of IndoStar Home Finance and Pushkar Joshi, CFO at IndoStar Home Finance.

Let me start with introducing Mr. Randhir Singh, who has joined us in July '24. He's a seasoned financial leader with 29 years of experience. In his last assignment, he was Joint CEO and Co-Founder at APAC Financial Services Private Limited, and has held numerous operational and strategic financial -- roles in the financial services industry across various banks and financial institutions. We, as management team, look forward to work together to continue executing our strategy and building the business to its full potential at IndoStar.

Let me start by discussing the macroeconomic factors this quarter. The IMF has increased the India's growth forecast of '24, '25 to 7% from 6.8% as of April '24. The increase was due to the improvement in private consumption, particularly in rural areas. Additionally, government also released India's retail inflation data, which revealed an increase to 5.08% from a 12-month low of 4.75% in May. The RBI has kept the repo rate unchanged at 6.5% for 8 consecutive meetings, highlighting its focus on balancing inflation control with economic growth stability.

The GST collections have shown significant improvement, reflecting the strong economic performance we are witnessing. In June '24, the total GST revenue reached an impressive INR1,73,000 crores. This represents a substantial 7.63% increase over June '23. Discussing about the CV industry, over the past three years, especially '22 and '23, the CV industry saw a good growth both in volume and tonnage terms, greatly expanding our foundation. This growth was driven by infrastructure development, increasing mining activities and replacement demand.

As we look forward, the replacement demand is expected to be strong, primarily driven by aging fleet. The implementation of the scrappage policy, and this is likely to support the new vehicle growth. But the current year, we feel like in spite of the good monsoons, the M&HCV as well as the light and ICV, industry is likely to have a lower single-digit growth in terms from last year.

That's more because the interest rate has remained high in the new vehicle segment. And the cost of the new vehicles has been going up with the driver cabin changes going to come in next year by March, the price of the asset is still likely to go up.

With the asset cost going up, it has become unaffordable for the retail and a few players to get into the new vehicle segment. And that is what is aiding the used commercial vehicle industry.

The pre-owned vehicle industry is likely to continue its strong momentum. Two, three things are contributing to this. First and foremost, there is a scarcity of the old vehicle availability, combined with the continuous price hike in the new vehicle segment, plus lack of availability of finance for retail FTU operators is driving this.

Over the past 2 years, if you see the used commercial vehicle industry has surged by more than 30% due to limited supply. This scarcity originates also from the COVID years because between '20 and '22, the amount of sale of new vehicles has been quite low because that's at the years when we move to BS-IV, and the industry was badly impacted by COVID.

All these are contributing to the growth in the used commercial vehicle industry. And in our view, the market is likely to remain stable and grow here. Also, with FAStag, the removal of octroi and checkpost, the GST implementation, the lifestyle of the vehicles have gone up. Also, the scrappage policy overhand is also pushing the customers to replace. So this is likely to remain a key driver for us, and this will help us build a strong portfolio.

We are committed to our goal of exploring new products, strategies to boost returns and diversifying our offerings to retail and FTU operators, and we will continue with this. We plan to launch ancillary products around the trucking industry so that the complete benefit of IndoStar can get translated to our customers.

We have been consistently trying to improve the well-being of our customers, providing top class service and adding value to our stakeholders. We'll continue to work on this and include expanding our lending operations, which will be aided by the growth in the used commercial vehicle industry.

We remain committed to enhancing our analytics to ensure our model is flexible and capable of growth. Recognizing the increasing importance of technology, we have made significant investments in the technological area. Our end-to-end loan origination is today driven by technology. Additionally, we are expanding our operations, particularly in the Tier 3, Tier 4 cities with an emphasis on the used commercial vehicle segment because we feel with the rural demand picking up due to good monsoon, it is the place to be in, so that the growth can get subsided.

Now let me give you an update on our company's operational performance. Our disbursements for Q1 FY '25 reached INR1,627 crores, showing a growth of 45.8% over the previous year. We have actively pursued our goal to reduce the NPAs through the implementation of aggressive collection tactics, superior credit appraisal and stringent control measures, and we have been able to successfully reduce delinquencies quarter-on-quarter. Currently, our GNPA stands at 4.19% on a consolidated basis and 4.97% for the standalone entity.

Looking at our new SME products tailored to small ticket sizes, particularly targeted at Tier 3, Tier 4 market is getting launched. This strategic shift not only alliances with market demand, but also reflects our dedication to expanding our footprint and supporting entrepreneurship in undeserved regions.

Now I'll hand over the call to Mr. Vinod Panicker to present the financial performance.

VinodKumar Panicker: Thank you, Karthikeyan, and thank you everyone else who is on the call. Along with Karthik, I would also like to welcome Randhir, who is first time on our call. And over a period -- over the next few months and quarters will definitely help us go forward and boost the performance with the organization.

I'm grateful for your presence at this conference call today. Let me give you an overview of the company's financial performance for the first quarter of FY '25. Starting with the consolidated revenue. With the consolidated revenue, we generated a total revenue of about INR389.6 crores as against INR299 crores in the same quarter last year, and about INR474 crores for the immediately preceding quarter. Our net interest income was INR186 crores, marking an increase of close to 29% on a year-on-year basis. Our net margin stood at about 6%.

We are pleased to highlight the significant improvement in our yields with a strong focus on Tier 3, Tier 4 and secured lower ticket products, which we call it a Focus 4. Our operating expenses totalled to about INR139 crores in the current quarter as against about INR115 crores in the same quarter last year and about INR139 crores in the immediately preceding quarter.

Our profit for the quarter stood at about INR25 crores. Our stand-alone revenue for the quarter stood at INR304 crores as compared to INR241 crores in the same quarter last year and INR390 crores in the immediately preceding quarter, but in an immediately preceding quarter, we had a nonrecurring onetime income of about INR116 crores. If that is actually taken away, the growth was, I would say, reasonably good.

Our net interest income stood at INR137 crores as compared to INR108 crores in the same time last year. And including the one-off income of INR116 crores of INR228 crores, which again says that the net interest income has gone up in the current quarter.

Our operating expenses of the quarter was INR112 crores compared to about INR92 crores in the same quarter last year and significantly higher, INR122 crores in the immediately preceding quarter. At a consolidated level, the disbursements for the quarter, like Karthik mentioned, was at about INR1,627 crores as against INR1,116 crores, marking an 46% increase. And we were at about INR1,767 crores in the immediately preceding quarter.

On a stand-alone basis, the disbursement, mainly the vehicle finance disbursement was at about INR1,416 crores as compared to INR926 crores of the same quarter last year and INR145 crores in the immediately preceding quarter. On a consolidated basis, our AUM across the INR9,500 crores mark, we were at about INR9,565 crores as against the INR8,062 crores that we were about a year back. In March, we were at about INR8,763 crores, which shows that the growth was close to 11% in the current quarter over the immediately preceding quarter.

AUM on a stand-alone basis stood at INR7,170 crores as compared to INR6,321 crores, marking a 13% increase. We achieved a total collection of INR743 crores in the current quarter as against INR676 crores. Our collection efficiency, including the overdue was at about 95%, showcasing our commitment to highest credit standards and highest operational efficiencies.

Our primary focus continues to be an asset quality, and we are pleased to report that the efforts that have been put up by the teams have led to the Stage 3 being at the same quarter -- at the same levels that we were at the same immediately preceding quarter and significantly lower than the same quarter last year. This reflects a healthy loan portfolio going forward. We are committed to continue -- continuing this positive trend and further reducing these in the coming quarters.

Further, our Stage 3 has also at about 2.36% seen a reduction over the same figure that was there about a year back when it was 3.7%, which is -- but it is slightly higher than an immediately preceding quarter when it was at about 2.1%.

The ongoing improvement shows our effective credit risk management, a robust collection mechanism and dedication to maintain strong asset quality. We have a capital adequacy in the stand-alone entity of about 27.7% and the debt to equity of around 2%, which gives enough headroom for future growth. And we are confident that this will help us drive profitable growth in the coming quarters and years. The more we leverage is the more we will be able to improve our ROE going forward.

In the vehicle finance segment, our AUM at the end of first quarter stood at about INR6,323 crores and as previously mentioned, our emphasis continues to be on growing the used CV segment. And we have seen significant growth in the year, which we expect to continue. Our emphasis on Focus 4, something which I mentioned some time back, Focus 4 products has led to an increase in our yield by about 70 bps in the -- over the last 3 quarters besides the insurance income that we have started generating from the previous quarter and showed that our overall income starts going up and our mix will keep on expanding as we go forward.

Our emphasis on the coming quarters is to source funds from the banking channels in a big way, while we continue to repay the existing NCD loans, which we have taken since December '22 when we started to kickstart the business -- when we needed to kickstart the business engine. A large chunk of this NCDs, gets repaid over the next 3 quarters, and which will be -- we are confident be replaced by lower-cost funds that we are currently accessing.

I need to mention here that during Q4 FY '24, we raised funds at about 12.7%. And over the last 3 quarters, incrementally, the funds are being raised at around or even below 10.5%. This trend, we are hopeful of continuing as the business stabilizes and is seen by the lenders as such. These two together will ensure that the net interest income improved substantially and with the opex stabilizing, we expect to improve our profitability in the next few quarters.

Now I would invite my colleague, Shreejit Menon to provide further insights into the Housing Finance business, which is another key area, a focus area of our business. Over to you, Shreejit.

Shreejit Menon: Thank you, Vinod. Good afternoon, ladies and gentlemen. I'd like to start by taking you through the key highlights that illustrate our accomplishments during the quarter ended June 30, 2024. We continued the growth momentum carrying on from the Q4 of last financial year to clock our highest ever first quarter disbursement numbers. This is the first time we've crossed INR200 crores in the first quarter of the year. We are delighted to report that we witnessed strong momentum across most of our business metrics.

During the quarter 1, the total disbursement stood at INR211 crores. Our assets under management reached INR2,395 crores, representing a robust growth of 37.6% year-on-year basis. Our loan book stood at INR1,908 crores. Our customer base now stands at more than 30,000 customers, depicting the granular nature of our assets with an average ticket size of INR9 lakhs.

Tamil Nadu, Andhra Pradesh, Telangana and Maharashtra continue to remain our core geographies accounting for almost 85% of our loan portfolio. We continue our journey to enhance operational efficiency and embrace digital transformation. We have now a total branch network of 122 branches across the country as on 30th June and continue to expand radially in the chosen geographies by way of digital locations.

Maintaining an excellent asset quality remains the cornerstone of our operations. Our 90-plus days past due portfolio stands at 0.93%, and our 1-plus daypart due stood at 3.95% as on 30th June 2024, which are marginally higher than the previous quarter of 0.83% and 3.02% as on 31st March. Our gross Stage 3 assets, the GNPA stood at 1.34% as of June 30, 2024. We continue to enhance our digital infrastructure to provide a seamless experience to our valued customers. From this perspective, we have gone live with the end-to-end digital and paperless journey in the previous quarter.

And I'm extremely happy to inform you that the adoption rate of our sales app path is now 100%, and more than 40% of our incremental disbursements are going through the automated loan kit.

We are working towards strengthening this journey even further with few enhancements being developed in the process, such as the introduction of the login scorecards, the self-tracking of customer journey, and from a distribution side, we're now in the process of launching our own digital connector app to onboard connectors in a seamless manner.

On the liability side, we successfully raised INR165 crores during the quarter, majorly through term loans from banks. We are pleased to report a strong liquidity position with INR127 crores in cash on the balance sheet and an additional INR295 crores of undrawn sanctions.

Now moving on to our financial performance. Our total income stood at INR85 crores with our net interest income at INR49 crores. Pre-provision operating profit stood at INR21 crores. Profit after tax for the quarter stood at INR14 crores. Our return on assets are at 3%, and we maintain a strong capital adequacy of 56.2% and a debt-to-equity of 2.6x.

In conclusion, our commitment to innovation, efficiency and maintaining a high asset quality continues to drive our success. Looking ahead, we remain focused on executing our strategic initiatives to further enhance operational excellence, expand our customer base and explore opportunities for growth. We are optimistic about the future and remain dedicated to delivering sustained value for our investors and stakeholders.

I now take this opportunity to hand over the mic to Mr. Randhir Singh for final remarks.

Randhir Singh: Thanks everyone for joining the call. I'm settling nicely after joining the last week Monday. As I see it, I think we are a very positive trajectory over the last few quarters. And I look forward to working with the management team to really achieve the best-in-class operating performance over the next quarters and years. We look forward to be engaging with all of you in the future.

Vinodkumar Panicker: We will now handover the call to the moderator for further course.

Moderator: The first question is from the line of Kunal Khudania from DSP Asset Managers.

Vivek Ramakrishnan: This is Vivek Ramakrishnan. I had four questions. I'll just ask them in sequence. One, collection efficiencies and GNPAs have increased both in the commercial vehicle and the Housing Finance business. If you could throw some more into it. I mean we know it's been a tough quarter for heat -- with heat and elections and so on? And do you see any correction happening immediately? Or will it take a longer period of time? So those are the two questions for the assets on the two sectors. .

Then on the liability side, I noticed that the HFC has been successful in raising bank loans, but the NBFC is still not increased its bank loans, and Mr. Panicker referred to progress being made. So if you could throw some more colour on that?

Lastly, in terms of -- since you're going to refocus on the SME business, is that going to increase cost to income? Or is there any operating leverage you can get from your existing branch network? Those are my questions.

Karthikeyan Srinivasan: Yes. So we'll start with the asset question on CV. Typically, April, May is a dull quarter in CV because compounded with elections, there is always a spike, is not this year phenomenon. It's an annual phenomenon. But we have been able to maintain ratios. I'm sure we will be -- this will get pulled back basis post monsoons. So typically, what happens up to monsoons there is a slight increase in delinquency, it starts getting normalized post September. And by the end of the year, it will go back to normalcy. We will see the same phenomenon there.

The second question I'll take is on the SME portion of it. We are leveraging our existing branches. So we don't expect any increase in the cost to income beyond whatever is there. The asset portion of mortgage, Shreejit is taking that.

Shreejit Menon: Yes. So I think if you look at a pure 90-plus days past due, the increase is about 10 bps, and that's something that's expected in the first quarter. And as you rightly pointed out some of the expenses that come up in the first quarter do lead to some of that. But as we see happening across the second and third quarter, we start the moderation and the real moderation then towards the end of the last quarter.

VinodKumar Panicker: Yes. Maybe just to add to what Karthik said, on the SME, there will be some amount of increase, but then that would be in relation to the increase in the employee manpower. Everything else would be through the existing bank. Just adding that as a clarification number.

Then on the second point you had asked about fund raising. And I mentioned about the fund raise, which is there. We have raised about INR730 crores in the current quarter. Most of it actually came from the banks, maybe in one form or the other. So some of it in the form of a term loan which was a public sector bank, there were 2 funds which came from the private sector banks in the form of WCDL, a long-term WCDL. One was a large PTC, which we did with one of the -- with a large private sector bank, and there was some amount of CPs that we did.

There are many, I would say, things which are there in the pipeline in terms of bank sanctions, which would fructify in the month of August and in the month of September. So we are confident that we will possibly come back when we come back the next time, we'll come with a substantially higher collection, I mean, sourcing of funds from banks, more specifically banks, while we are continuing to do other things. In fact, when we are talking about raising of funds, I just need to make this mention of the public issue of the NCDs that we are working on, we have filed a prospectus on the 29th with the stock exchanges.

And we are awaiting a response from them basis, which we are looking at raising INR150 plus INR150 in terms of -- by way of public issue of NCDs. We are confident that these things are -- a combination of all the sources we help us get funds at a substantially lower rate or -- I also mentioned that over the last 3 quarters, the incremental cost of funds has been falling, and it has been at an average of about 10.5% from -- down from 12.7% that it was in the second quarter of last year.

So we are seeing funds coming from various sources, and that will drive our volume. There is a large, I would say, sanction from a PSU bank, which in the final documentation stage. That should also be taken by us in the next 8 to 10 days.

Vivek Ramakrishnan: **Thank you very much and wish you all good Luck**

VinodKumar Panicker: **Thank you Vivek Ramakrishnan**

Moderator: The next question is from the line of Sunidhi Joshi, which is an individual investor.**Sunidhi Joshi:** Okay. So in the CV finance presentation, there is a drop in ATS, after multiple quarters of ATS above 8 lakhs. So any secular change in disbursement policy that is being implemented?

Karthikeyan Srinivasan: Yes. See, we were doing M&HCV to a large extent. What we have now done is we are focusing completely towards small commercial vehicle pickup. This comes at an average ticket size of 4 lakhs.

In terms of units, almost 60% of the units are coming through these small ticket sizes, that has pulled down our ATS. The thought behind this because it's a large consumption-driven economy. We are a large consumption-driven economy.

These products help in making the consumption-driven economic grow further. The rural market is also seeing an uptick. So our focus has completely changed towards pickups and small commercial vehicles.

VinodKumar Panicker: Sunidhi, I had made a mention when in my speech about the Focus 4. This is the Focus 4 which Karthikeyan is talking about, which is smaller in ticket size, which is higher in the yield, and therefore, it is helping us in overall business.

Moderator: Ms. Sunidhi, does that answer your question?

Sunidhi Joshi: Yes, on the housing finance side, our GNPA and NNPA metrics have inched up and now higher than FY '23 metrics after years of downward trend. So any stress buildup in this segment?

Shreejit Menon: No. So as I mentioned in my answer to the earlier question, the GNPA for the first quarter, typically for companies are slightly higher, and then they start inching down towards the second and third quarter.

In our case, on 90 DPD plus the GNPA has increased only by 10 bps. So 0.83% has gone up to 0.93%. And we are fairly confident that, that will moderate as we move towards the future quarters.

Sunidhi Joshi: Okay. And just two quick follow-up on it, is how do you foresee the asset quality metrics to evolve as you scale in terms of introduced SMEs?

Karthikeyan Srinivasan: See, we feel like our assets, the GNPA overall numbers will remain stable or will go down. Because in the market, I am operating, we are expecting a 5% GNPA and 2%, 2.5% net NPA will remain in that territory. We will not have any surprises. The new SME book performance will be on probably next year. But it will be a aping whatever is there in the market, it will be a low NPA product.

Moderator: The next question is from the line of an Aahan Tulshan from Trivantage Capital.

Aahan Tulshan: I had a couple of questions. I just wanted to know what the trajectory of the credit costs will be in the coming quarters, the ECL provisions and the write-offs? And I wanted to know what would be this -- if there is a targeted share of housing finance in the consolidated AUM mix, because this quarter, the disbursements relative to CV disbursements, the Housing disbursements so much lower. So I wanted to know if there is a targeted share?

Karthikeyan Srinivasan: We'll take that credit cost question first. See, the segment I'm in, we can expect a 1.5% to 2% credit cost. We will remain in that territory only. We feel like -- we have some amount of old book, which is around INR211 crores, which we have mentioned, which will get resolved over the period of next 2 years. So until that time, some amount of here and there can come in. But the segment in, we expect a credit cost of around 1.5% on the long term. That's how we will end up at.

Shreejit Menon: Yes. On the second question, I think the way we look at our overall targets for the year, and we've seen the budgets both for Housing and CV. As you know, Housing moderate in the first quarter and picks up towards quarter 2 and 3. So we're fairly confident that both the budgets will be met and the ratios will be what it is as we plan out for the year.

Aahan Tulshan: Okay. So the current mix will be maintained for the year?

Shreejit Menon: Yes.

Moderator: The next question is from the line of Devansh from Safe Enterprises.

Devansh: **Thank you for the opportunity,** Sir, with respect to cost of borrowings, can you elaborate when will the benefits start flowing in? Also, I mean, this quarter, there has been an inch upright in cost of borrowing in comparison to last quarter. And we expected significant benefits flowing in from this quarter. So some thoughts if you can share over here. Credit cost, can you break that up between Housing Finance and ex of Housing Finance, how that has shaped up?

Vinodkumar Panicker: So I'll take the first question, Devansh. The cost of funds have actually started coming down. If you see Q3 FY '24, we were at about 11.9% on an overall basis. Today, on an overall basis, we are at 10.8%. That is on the overall.

On the incremental, like I said that during my initial speech. From a Q2 FY '24 when we were at -- my incremental cost of borrowing was 12.7%, we're now come to close to 10.5%, just below 10.5% in the current quarters. We are confident that going forward, this trend should continue. See, I also made a mention about the NCDs that we had borrowed between December '22. And let me put it maybe up to December '23. A lot of it gets paid over the next 3 to 5 quarters. A lot of it in the next 3 quarters, that is Q2, Q3 and Q4. Those were taken at higher rates. That will -- and that is getting replaced by these funds which are now at about, I would say, 10.5% or may be lower.

So once that actually -- those kind -- that kind of replacement is happening, the cost of funds -- that trajectory will be downwards. It would be for me to possibly get the benefit of the AA minus, I would be possibly 2, 3 quarters away.

Shreejit Menon: Yes. On the credit cost -- so credit cost in the housing side has been consistent at 0.4% over the previous quarters. So there's no reason to believe that, that will change.

Karthikeyan Srinivasan: 75-25, 75% is from the parent and 25% from the housing company.

Devansh: Okay. And our guidance in terms of AUM for this year, next year and also the ROE metric you are looking for? And within that guidance for cost of borrowing as well as credit costs for the FY '25 and FY '26?

VinodKumar Panicker: See, like I said, on the AUM, I think we had said back earlier also, we are looking at close to INR9,500 crores in the stand-alone and on an overall basis of about INR12,500 crores. It's the AUM that we are looking at. When we talk about the cost of funds, I said that we are at about 10.8% on an overall basis in the current quarter.

We should possibly go down by about 10, 15 -- 10 bps a quarter and go to a figure -- so let me say, around 10.5 in the fourth quarter. That's the way I would look at it. On the ROE, I would say that we would possibly be able to give more guidance as we go into the -- possibly at the end of the next quarter because we are working on certain things, and we would want to see that, I happen before we give any guidance on the ROE.

Moderator: The next question is from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal: Sir, the first question that I had was on vehicle finance. A little bit earlier, you had said that we have now started focusing on pickups in small commercial vehicles. So just wanted to clarify, has the focus completely shifted to SUVs and pickups? Or I mean, is it still going to be a good mix between M&HCVs and SUVs going ahead?

Karthikeyan Srinivasan: Abhijit, I think we explained this during the last call also, somewhere ICVs are getting replaced by single axle trucks. Because the viability of the single axle trucks have significantly improved with the tonnage changes that have happened. And they are coming and hitting the resale market.

So some amount of single axle trucks, particularly in Tier 3 locations, there is a lot of market that has grown. We would not want to miss those opportunities because if ICV versus single axle truck, I would anytime prefer a single axle truck because they are more stable. There is no discounting there. So the price of the used vehicle market doesn't drop there. So some amount of M&HCV will remain because India moves in M&HCV.

Abhijit Tibrewal: Sir, the second question I had was on the SME business. I think during the opening remarks, we spoke about starting this new SME product targeted at Tier 3 and Tier 4 markets. .

So if you could just explain what products are we exactly targeting in SME, ticket sizes, yields, how are we kind of building this product? And is it going to be a core product for us going forward? Because what I see in our threshold is now, we started calling out vehicle and housing as our core AUM and core disbursements.

Karthikeyan Srinivasan: This product we just launched. It is a INR3 to INR7 lakh micro loan against property product. We have started piloting in Tamil Nadu, which is one of the largest markets. It will be predominantly towards business people who want loan to run their working capital. That's the product which we are targeting. It will be CV will remind -- the vehicle will remain the core business of the company. This product may be an ancillary product for at least next 2 years. We are targeting yield of beyond 20% in this product.

Abhijit Tibrewal: And then the last question that I had was on basically predictability. Today, I mean, if you look at our P&L rate, I mean, while the business momentum has been very, very good, and congratulations to you for that, there's still much to be desired in terms of predictability on the P&L. So whether it is credit costs, the noninterest income components, so when can we start seeing more predictability in our earnings profile?

VinodKumar Panicker: I think I will respond to that. See, I will split it two parts. One means the revenue part. I will talk about the expenses separately. On the revenue, the predictability has come in. See, there was a one-off in the immediately preceding quarter. But then now we are talking about the same thing, which will go forward and the growth will happen basis a combination of the interest income, the other revenues which are there and also the insurance income that we would be -- we have started getting from the preceding quarter.

So the way -- once the business grows and because of the kinds of funds that we are now getting, we are confident that the growth will be there. So -- and that's the reason we are saying that the CV business by itself would have as a roughly INR9,500 -- I mean the stand-alone business will have a book of about INR9,500 crores. And all this will be revenue-yielding businesses. So -- and that will grow on a quarter-on-quarter basis.

Between the last quarter and this quarter itself, the CV interest income saw an increase of about INR30 crores, INR29 crores to something to be very precise. So that kind of growth you'll see on a quarter-on-quarter basis.

I will now talk about the expenses. See expenses, we had said in the previous calls also that we are in a phase where we are actually growing. We are looking at expanding. We had said that we intend to have about 80 to 100 branches in the current financial year. We have increased it by about 20 -- 22 or something in the first quarter. Some bit of the balance will happen in the next 3 quarters.

We are ramping up manpower, which will be a cost. Apart from these two and the new business, which Karthik mentioned about the SME, we don't see any additional cost that will come. So we don't see any large expenses or new expenses coming up in the overall operating expenses line item. The credit cost is possibly, like Karthik mentioned that some time back and I think Shreejit also mentioned that Q1 is normally pretty bad because delinquencies go up a little bit, only to get corrected over the next 3 quarters.

So the credit cost will continue to be, I would say, reasonably steady. And the indication of about a 1.5% kind of ultimate loss, which Karthik mentioned, would definitely be there. Here, I would actually want to point out the at the PPOP level, if you leave out the one-off versus the -- and compare it with immediately preceding quarter of the same quarter last year, there has been a substantial increase. And it's all because of the increased asset book that we have and the increased yields and also the new insurance income, which is there.

So the predictability going forward is there, and we are confident that we will be able to deliver increased revenues. And I would say, a reasonable amount of opex and therefore better profitability.

Abhijit Tibrewal: Got it. Sir, just one follow-up on that. I think I heard during the call that there is a legacy book of almost INR211 crores, which will get resolved over the next 2 years. Other than that, any portfolio either in the corporate book, vehicle or SME book where you are contemplating any other ERC transaction or basically portfolio sell-downs, or all of that is now behind?

Karthikeyan Srinivasan: I'm not predicting anything, but two of my corporate companies have come and asked me for -- telling me that they want to move out of me. So if any of these guys move out of me, then I will not run a corporate book for a Single customer. That's the call we will take at that point of time because 2 people -- one of the large guys have come and told me that he has a lot of money he wants to foreclose. So if we forecloses, the other guy wants to BT out to some other NBFC. For one loan, we will not continue. At that point of time, we will take a call as to what has to be done. Apart from this, we don't see any other things coming in there impacting us.

VinodKumar Panicker: Even on the INR211 crores, which Karthik mentioned above, that is substantially provided for and we carry close to 60% of provisioning upon that. And the settlements that we are doing is at a rate will be substantially higher than the Four wheeler. So we are confident that there will not be any major challenges.

Abhijit Tibrewal: **Thank you and all the very best to you and your team**

VinodKumar Panicker: **Thank you for your support as usual**

Moderator: The next question is from the line of Saptarshee Chatterjee from Groww AMC.

Saptarshee Chatterjee: **Hi Sir, thank you for the opportunity and congratulation on good growth** My question pertains to the implied growth that I'm seeing around in the CV business around 500 employee additions, but this is only 20 branch addition in this quarter, and there is a sharp increase in the employee strength. Can you please highlight which verticals and why are you adding the employees? I was expecting that here onwards employee productivity would increase.

Karthikeyan Srinivasan: Employee productivity is at around INR40 lakhs, which is one of the highest in the industry. So we are dealing only with retail FTU profile, which are predominantly in Tier 3, Tier 4 markets. So the distance see, what we have done is we have categorized the branches based on their potential. And based on the potential we have given manpower. We feel like this is the correct kind of number which we are having, and the productivity, which I have mentioned is one of the best in the industry.

VinodKumar Panicker: Also the increase of over 482-odd employees, roughly 60 of them are for the SME business, which Karthik said that we are we have just started, and we will be rolling out over the next, I would say, couple of months. We have just done a pilot in Tamil Nadu, we will be rolling it out.

So that is the reason why the number looks -- your feeling that a number of branches have not come in, but the number of employees are more.

Saptarshee Chatterjee: Got it, sir. Can you please highlight what is the outlook for total branch addition as well as employee addition for full year?

VinodKumar Panicker: We were at about 391 last year in the end of March -- we are looking at being close 460, 470 by the end of the year.

Saptarshee Chatterjee: Understood. And second question, is on the CV business again. So when you are saying that we will reach around INR9,500 crores and then what kind of ECL provisioning you want to maintain, it would be around this Stage 3, 55%? Or do you see that there can be better PD-LGD therefore ECL, provisioning can be lower for this year?

Karthikeyan Srinivasan: See, the 50% is something which really comfortable with. We will continue to hold 50% at Stage 3. That is the comfortable number in our view.

Saptarshee Chatterjee: Understood. And sir, lastly, can you please remind us what is the total? I think you were highlighting at demand total SR book for us and total absolute provisioning on that? And any updates on that part?

VinodKumar Panicker: See, we were at about INR1,175 crores of net debt as at the beginning of the year. We have collected about INR53 crores against that. So the gross is at about INR1,122 crores. We, as in a provision -- net provision of about INR357 crores, leaving a total outstanding of about INR766-odd crores on the overall basis. So these are, I would say -- example would get redeemed over a period of time. Most of it has happened in the last, let's say, 6 to 9 months. So most of it will start, I would say getting -- in fact, I mentioned about the INR53 crores or INR54 crores of cash coming in. That has happened against one of the SR, which were issued towards last August.

So against that -- substantial cash have come in, a lot more will start -- will come. But then it is something which would be a 2 to 3 years kind of journey for the entire thing to get redeemed.

Saptarshee Chatterjee: Got it. So just one clarification that here as of June, you are not expecting any devaluation negative impact in next 2, 3 quarters for the SR book, right?

Karthikeyan Srinivasan: See, we created that extra cushion last year. So we don't expect anything to come this year.

Karthikeyan Srinivasan: March we had -- if you remember our March call, we had said that whatever is the gain we got, we have put it as extra provision. So we don't expect anything extra to come.

Moderator: The next question is from the line of Vibha from FairConnect.

Vibha: Yes. My first is on operating efficiency. In fact, you're operating at best level efficiency at industry level. Could you please elaborate on that? What does it translate into the number of cases per sale officer or what benchmark are really you're talking about?

Karthikeyan Srinivasan: See, we have 2 sets of businesses. The M&HCV business has been a minimum 40 lakh productivity or 5 units minimum. In the small commercial vehicle, it has to be 30 lakhs or 8 units. That's the productivity level which we are following, which is one of the best in the industry because we -- I'm talking about conversion. I'm not talking about sourcing. So log-ins will be much higher because only -- 62% is my approval ratio. So the number of cases are much higher.

Vibha: Okay. So these are disbursement? 8 cases are...

Karthikeyan Srinivasan: What I mentioned is on disbursement.

Vibha: Small and M&HCV is 40 lakh and 5 cases.

Karthikeyan Srinivasan: Yes. M&HCV is INR40 lakhs or 5 cases. Small is 8 or 30.

Vibha: And this is your -- this is the benchmark or this is your average productivity that you're achieving?

Karthikeyan Srinivasan: This is the average productivity we are achieving as of today. The benchmark we have today, almost 70% of my population achieves this benchmark.

Vibha: Okay. And what is your attrition rate at branch level?

Karthikeyan Srinivasan: See, the overall company level is stable at around 24%. Front-end ranges between 35% to 40%, depending on the markets. There are a few markets where there are aggressive competitors, where we are seeing a bit of higher attrition, particularly in the sales side, collection credit and we're not seeing any attrition.

Vibha: Okay. My question is actually, I'm just trying to put the numbers and relate them to profitability. If we are already at best of productive here, and if you are achieving 70% of your staff is achieving is productivity is quite commendable by any standards. But that also means that there is no scope to improve the cost-to-income ratio because on cost side, you are already doing the best.

And if that is the case, then the profitability metrics looks very worrisome because your return on equity is only 0.36%. And to an earlier participant, you said that 1.5% is the credit provision you expect on an ongoing basis after your bad books turns up?

And if I see for this quarter, credit provision in relation to the average advances is only 1.3%. So where do you think the profitability improvement, if at all, will come from?

VinodKumar Panicker: Vibha, I think I had answered this in a combination of 2, 3 points. I would possibly consolidate it in a single response and give it to you again. As we have mentioned, change in the strategy where in we are now talking about going from M&HCV to a HCV and the smaller truck, which are smaller vehicles, which are yielding higher.

So over the last 3 quarters, from a Q3 FY '24 to Q1 FY '25, we are talking about the increase of roughly 70 bps in the yields. So the yields are now going up. The disbursement normally happened towards the year end, so the income generation against the disbursement normally come in the next quarter.

So a lot of it you will start seeing it in the current quarter. So that we are talking about 70 bps. The insurance income that we mentioned about is something which started from the 22nd of February, to be very precise, from the 22nd of February, so some INR4.76 crores of income came from -- in the preceding quarter and roughly INR15-odd crores came in the current quarter. We expect this to continue and basis the disbursement that we do get, I would say, we will be -- and if we are able to sell more policies, we will be able to get higher revenues from there. So the revenue part is something which is going.

Now we come to the cost of funds. I also mentioned about the cost of funds being higher than possibly what my peers are at. It's largely because of the reason for me to -- for the need that I had about a year and half back or maybe slightly more than that to actually go and get funds through the NCD route, but the intention was to kickstart the business which we did successfully. And now we talk about the increase that we are having.

The – basis that we have started getting funds from banks and other sources. I also mentioned about the public issue that we are doing for which we have filed the prospectus a couple of days back on the 29th of July --. So those things will actually lead to my cost reduction. Some of which I have actually shown by way of numbers going from the incremental borrowing cost has actually gone from -- down from 12.7% to roughly 10.5%.

So the benefits of that will come in the quarters to come. And going forward, with the banks opening up for me, I am able to get funds at a lower rate and the NCDs, which I have taken is something which will start -- will start getting repaid from the September quarter, some INR500 crores, INR600 crores gets repaid in the September quarter, INR400 crores, INR500 crores are repaid in the December quarter, another INR400 crores, INR500 crores gets repaid in the March quarter.

So we are talking about the high cost funds going away, getting replaced by lower cost funds. And so when you -- if you look at it, it is more like a see-saw that one is going down, the other is going up kind of thing. And therefore, you will see that the benefit of that going to the bottom line. You had comfort on the opex, I'm not getting into that right now.

Vibha: Okay thank you for that clarification. M&HCV, what is the yield? And on HCVs that you're doing now, what is the yield? Can you please help with that? Maybe last quarter disbursements...

Karthikeyan Srinivasan: See, company-wise, we are average 18.4%. M&HCV are -- 18.6%, sorry. M&HCV are in the range of around 17.5 to 18. Small commercial vehicles are much higher. I don't want to give a number for the small commercial vehicle because this call will be heard by everybody. You can talk to me separately so that I can give you the current number.

Vibha: Yes, sure. And what is the percentage book between M&HCV and HCV? And what do you target it to be going forward?

Karthikeyan Srinivasan: See M&HCV as of today in terms of the units is around 35%, volume is around 45%. We would like M&HCV to be in the range of less than 35%.

Vibha: Okay. Okay. And second question is on the investments that you have. These are all liquid investments, so apart from your investments in the HFC subsidiary? Or there is something more to that?

VinodKumar Panicker: There are 3 parts to the investment One is the investment in HFC, which is roughly about was INR453 crores. Second is the investment that we -- I mentioned some time back to a different question on the investment in the SR that we have, which we replied to the previous person -- previous investor I had mentioned that on what is that as a figure. And third are the liquid ones, which -- the extra funds are put somewhere so that it is some bit of revenue.

Vibha: Okay. Okay. So what would be the quantum on SR, if you could help me with that?

VinodKumar Panicker: SR, that figure would be about INR766 crores.

Vibha: Okay. So these HFC cost will remain, but the SR may run down, then that will also impact your overall yield, favourably?

Karthikeyan Srinivasan: Correct.

VinodKumar Panicker: It will improve my overall ROA. When we talk about yields, we don't consider SR, so it will improve my ROE, and therefore my ROEs also.

Vibha: Okay. And what are the other financial assets, is INR225.9 crores as on June '24, which is Slide number 36.

VinodKumar Panicker: **Give me a minute,** You said 26 or 36?

Vibha: 36, and there is other financial assets, INR225.9 crores as on June '24.

VinodKumar Panicker: Vibha, can we take it offline?

VinodKumar Panicker: Just hold on. It's security deposits, some assignment receivables deposit with the trustee for securitization and other receivables of over 40, that's the INR228 -- INR226-odd crores.

Karthikeyan Srinivasan: Bulk of it is the deposits with trustees for securitization.

Vibha: So these will be yielding the same as your normal is it, right?

Karthikeyan Srinivasan: No, no. The FDs generally yield lower, and...

Vibha: These are the FDs, okay.

Karthikeyan Srinivasan: These are FDs for the PTC kind of transactions we have done.

Vibha: You're carrying lot of liquidity actually in relation to your borrowings. Is it because they're not confident in getting the refinance lines? What is your policy?

VinodKumar Panicker: No, that is not -- we have a policy of ensuring that we keep at least funds to take care of the next 2 months of repayment. So I -- just now in a different context, I mentioned about September we may -- we have a huge repayment, a lot of NCDs go out. So that is the reason we keep the kind of funds. And the business is growing, so funds are required. So we need to ensure that funds are available. While the collection has been very good at about INR300-odd crores a month. We need to have funds in hand to ensure that the business doesn't wait for the funds and then do the business.

Vibha: Thank very much

VinodKumar Panicker: Thanks Vibha

Moderator: In the interest of time, this was the last question for today's conference. I would now like to hand the conference over to Mr. Viral Sanklecha from Orient Capital for closing comments.

Viral Sanklecha: Thank you. I would like to thank the management for taking the time out for this conference call today and also thanks to all the participants. If you have any query, please feel free to contact us. We are on Orient Capital's Investor Relations advisors to IndoStar Capital Finance Limited. Thank you so much.

Karthikeyan Srinivasan: Thank you.

VinodKumar Panicker: Thank you, everyone.

Moderator: Thank you, sir. on behalf of IndoStar Capital Finance Limited, that concludes today's conference. Thank you for joining us, and you may now disconnect your lines.