ICFL/LS/0051/2023-24

2 June 2023

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 29 May 2023 at 12:00 p.m. (IST)

Dear Sir / Madam,

Please find enclosed herewith transcript of analyst(s) / institutional investor(s) call held on Monday, 29 May 2023 at 12:00 p.m. IST, pertaining to the Audited Financial Results of the Company for quarter and financial year ended 31 March 2023.

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: 2023.06.02 16:39:49 +05'30'

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

Encl: a/a

"IndoStar Capital Finance Limited

Q4 FY '23 Earnings Conference Call"

May 29, 2023

MANAGEMENT: **MR. KARTHIKEYAN SRINIVASAN – CHIEF EXECUTIVE OFFICER – 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.

MODERATOR: **MR. NIKUNJ JAIN – ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to the Q4 FY '23 Earnings Conference Call of IndoStar Capital Finance Limited. As a reminder, all participant lines will remain in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on a touchstone phone. Please note that this conference call is being recorded.

I now hand the conference over to Mr. Nikunj Jain from Orient Capital. Thank you, and over to you, sir.

Nikunj Jain: Thank you, Celvin. Good morning, ladies and gentlemen. I welcome you for the Q4 and FY '23 Earnings Conference Call of IndoStar Capital Finance Limited. To discuss this quarter and full year business performance, we have from the management, Mr. Karthikeyan Srinivasan, Chief Executive Officer; Mr. Vinodkumar Panicker, Chief Financial Officer; and Mr. Shreejit Menon, Chief Executive Officer of 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 filings 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: Good afternoon. Thanks, Nikunj. Good afternoon, ladies and gentlemen. I, Karthikeyan Srinivasan, would like to extend a warm welcome to each one of you for attending our conference call on the earnings for the fourth quarter and financial year ended March '23. Joining me on the call are Mr. Vinod Panicker, our Chief Financial Officer; and Mr. Shreejit Menon, the Chief Executive Officer of IndoStar Housing Finance.

We are pleased to report a profit after tax of INR 225.2 crores for the full year FY '23 as compared to a loss of INR736 crores for the full year FY '22. Disbursements were at INR 2,099 crores for the year and INR898 crores for the quarter, up by 72% from INR 522 crores in quarter 3 of FY '23. The total AUM stood at INR7,813 crores.

As an organization, we are focusing on the used Commercial Vehicle segment and the Affordable Housing segment. As you are aware, according to the latest reports of CARE as well as ICRA, domestic automobile sales grew by around 20% year-on-year and each of the categories witnessed double-digit growth. We saw 2-wheelers moving up by 17%, passenger vehicles by 27%, commercial vehicles by 34% and tractors by 12%.

Particularly in the Commercial Vehicle segment, the growth of 34% has been robust based on -- and have crossed the peak of 2018-'19, making it the second highest domestic sales. The demand outlook for this segment remains positive due to the continuous focus of the central government on the infrastructure as well as the implementation of the onboard diagnostic device, the Stage 2A price hike, all these have been driving the Commercial Vehicle segment.

What has happened due to this new commercial vehicle momentum is, this has given a large impetus to the used commercial vehicle market, immediately creating a pool of second-hand commercial vehicle, which is IndoStar's target segment, UCV, which has a much lower ticket size. And typically, are purchased by medium-distance operators between local town, plays to company's strength and our branch network reach in the Tier 2 and Tier 3 towns is with the company's retalisation strategy.

To capture this growth in the Used Commercial Vehicle segment, our focus has been on investing in technology and digitization to improve our operating turnaround time and productivity. This also helps us drive our operating cost efficiency. To capture this, we have launched a new digital process, which will ensure customer convenience and will ensure a quicker turnaround. This will also create a USP for us in the Tier 3, Tier 2, Tier 4 towns, which we are in and ensure that our performance is sustained. We also launched a customer service app last year, which makes our customer life easier through online services so that he gets whatever the services he requires immediately.

We are also strengthening our management team. We have brought in a new business head, Devaraj who joined in March and a new product head, Dipesh Mehta who joined in March again. Both have significant experience in the commercial vehicle area, which is our core focus. A new Chief Risk Officer will be joining shortly, and with these changes in place, we have a stable management team, which is well-equipped to ensure this company goes on a growth path.

Coming back to the business. Our collection efficiency reached 126% in the current quarter, reflecting our commitment to maintain high credit standards and efficient operations. The collection against the pool, which we sold to ARC last year also gives us confidence in obtaining write-backs in the future. We are diligently monitoring our quality of portfolio, resulting in decrease in the gross stage 3 effects to 6.8% at the end of the fourth quarter from the 13.6%, this was last year.

Before I hand over to Mr. Vinod, I'd like to mention that Everstone Capital has successfully completed the sale of 14.21% of the company's total paid-up share capital making the company compliant with the new public shareholding requirement. We thank the new investors who have put faith on capital in the company's vision, mission and the management execution ability.

I would also like to highlight that the rating agency CARE has removed the rating watch with negative implications as on March 31, 2023, and assigned a stable outlook to the instruments and facilities of IndoStar. With the strengthening of the management team, the strengthening of our processes, improvement in liquidity and the buoyant economy, we are confident of our ability to capitalize on the growing used commercial vehicle market and expand our business.

We are also optimistic that the digitization process and the technology which we are driving, will ensure that we are able to ride the used commercial vehicle growth in India. Also, the low base, which we have will ensure that we exhibit strong growth over the next few years and at a much higher pace than the industry.

With this, now I'd like to hand over the call to our CFO, Mr. Vinod Panicker, to present the company's financial performance. Sir?

Vinod Panicker: Thank you, Karthikeyan, and good afternoon to all of you. We sincerely appreciate your presence on this conference call today. Allow me to provide you with an overview of the financial performance for the past quarter and the fiscal year that went by of March '23.

The years, as we had communicated in the last quarter conference call also, was a challenging one. Despite these challenges, we are pleased to report a profit after tax of INR 76 crores for the quarter compared to a loss of INR 754 crores in the same quarter last year. Similarly, for the full fiscal year, the PAT was at INR 225 crores compared to a loss of INR 737 crores in the previous year.

These improvements were primarily driven by a reduction in impairment costs due to the various issues identified last year, we had to make substantial provisions. While I would say that many of these were conservative provisions, but that were made by us. We have been able to reverse a lot of these provisions and also the provisioning requirements on the new portfolio has been much lower, which indicates that the new sourcing which has happened, is of extremely high quality.

Our yields has significantly improved, and we have shifted our focus to the Tier 3, Tier 4 market with 90% to 95% of our disbursement happening in the Used Commercial Vehicle space, where the yields are significantly better. In terms of the operating expenses, we recorded a total cost of INR 66 crores for the fourth quarter, representing a 22% decrease over the same quarter last year. The reduction this quarter is mainly on account of reversal of unvested ESOPs that were charged to put P&L in the previous year.

In terms of collection, we have been able to achieve a total collection of INR 918 crores during the current quarter, an increase of 8% compared to the immediately preceding quarter. Our gross collection efficiency reached 126% in the current quarter, reflecting our commitment to maintaining high credit standards and efficient operations.

With this all the 4 quarters, we have been able to have a collection efficiency of 125% plus, which is definitely speaking volume of the collection efficiency that we have been showing in the last financial year. The collection against the pool sold to the ARCs have also given us confidence that we are -- that we will be writing back a lot against the SR in the future in the coming quarters.

We are diligently focusing on the quality of our portfolio, resulting in an increase in gross Stage 3 asset to 6.8% at the end of the fourth quarter. This downward trend has continued in each quarter with the Stage 3 reaching INR 479 crores in absolute numbers as of end of March '23 from INR 1,203 crores that was there as of March '22. The Stage 2 asset also experienced a decline coming down from INR 1,770 crores to INR 1,203 crores as of end of March '23. These achievements reflect our commitment to maintaining a healthy loan portfolio going forward. Mind you, these figures are not strictly comparable as in the month -- in the March year-end, there is a higher delinquency due to the ONAN impact, which I would want to mention upfront.

Our consolidated net Stage 3 was at 3.2%, demonstrating effectiveness of our credit risk management strategy, which has improved from 6.4% as was seen as of 31st March '22. In terms of funding, we successfully raised INR 900 crores in the fourth quarter of FY '23. And for the full year, INR 3,967 crores was raised contributing to the healthy liquidity position.

As of 31st March, we had maintained a cash and cash equivalent of approximately INR 1,069 crores, representing a 17% increase over the immediately preceding quarter. Our capital adequacy at 31.5% and the debt equity of 1.8x shows that we have got ample headroom for growth in the future. And we are confident that we will be driving profitable growth in the coming quarters and years to -- and the current year.

Our assets under management of INR 7,813 crores is a 2% increase compared to the immediately preceding quarter. This is the first time our AUM has grown after 3 consecutive quarters of decline. We have seen an increased disbursement of INR 898 crores in the current quarter, up from INR 522 crores in the immediately preceding quarter. This growth can be attributed to the strong focus on the retail segment, which on an overall basis accounted for 85% of INR 6,587 crores of our total AUM. Our retailisation effort, which we initiated in 2017, '18 continues to yield favourable results and we are confident in our ability to sustain profitable growth in the upcoming quarters as well.

Moving to the segmental performance. Our Vehicle Finance business reported an AUM of INR 3,672 crores, an increase of 6% over the immediately preceding quarter. And as mentioned in our previous interactions, our emphasis will continue to be on growing the used CV segment and the growth in the AUM is increasing and will continue to do so.

As regards the retail estate book, we -- as clearly said at the time of our retailisation strategy, a beginning of our retailisation strategy that this will come down. It was at about INR3,000 crores as of end of FY '20. Today is in the INR1,200 crores range and it will keep going down over the next few quarters. We are focused on transforming our SME portfolio by changing the composition of our book from a large ticket to a small ticket.

Now I would like to invite my colleague, Shreejit Menon to provide further insight into our housing finance business, which remains a very key focus area for us. Comment, Shreejit.

Shreejit Menon: Thank you, Vinod. Good afternoon, everybody. As many of you already know, IndoStar Home Finance is an affordable home finance company with primary focus in providing high-yielding housing loans typically ranging from 14.5% to 15.5%. Our portfolio consists of loans with an average ticket size of INR8.9 lakhs. And I'm proud to say that we maintain a best-in-class asset quality with a net stage 3 rate of close to 0.9% and healthy spreads across our portfolio.

We have laid a very strong foundation in this year with our robust branch infrastructure and a dedicated team of employees. With these resources in place, we are fully committed to expanding our assets under management and doubling it, more than doubling it over the next 2 years. This is what we have been able to achieve in the last 3 years as well, including the period of the pandemic.

In FY '22, we witnessed a significant increase in our disbursements, doubling of figures compared to the previous year. We used the first half of FY '23 to focus on significantly improving our portfolio quality, which you all can see has happened as we got ourselves prepared for ONAN. And in the last quarters, we went back to ramping up our disbursements. I'm pleased to announce that we disbursed loans worth INR183 crores in Q4 which represented an increase of 71% over the previous quarter of Q3 FY '23. We have a clear line of sight on liquidity and a robust funding pipeline to support our efforts.

To further reinforce these initiatives, we have strengthened our workforce, bringing the total number of employees to 684 in quarter 4 FY '23 with a particular emphasis on our feet on street. In terms of financial performance, we've achieved positive results. As of March '23, our AUM increased by 6% over the previous quarter, reaching INR1,623 crores compared to INR1,526 crores in December '22.

Additionally, we recorded a net total income of INR 33.2 crores for Q4 FY '23 and INR 144 crores for FY '23. Our PAT at INR 3 crores for Q4 FY '23 and INR 38 crores for FY '23, which is an increase over the previous year.

I'm delighted to report that our efforts in managing asset quality have been indeed successful. Our gross Stage 3 rate has trended downwards to 1.3% as of March '23. This is including the new ONAN norms, marking a significant improvement from the 1.8% levels in March '22. This achievement is even more noteworthy considered that we implemented these new norms on October 1, 2022. Maintaining our healthy capital adequacy ratio is of utmost importance to us. I'm proud to share that our ratio currently stands at 80.5%, highlighting our ability to support business growth while ensuring ample capital results.

Over the last FY, we've also strengthened our leadership team by onboarding accomplished professionals from the industry to oversee critical function such as finance, HR, and technology. We firmly believe that this infusion of talent will enable us to scale up our business operations even further.

In conclusion, I want to express my sincere appreciation to each and every one of you. Your continued support and trust in IndoStar Home Finance is invaluable. We will now open the floor for Q&A.

Moderator: The first question is from the line of Vivek Ramakrishnan from DSP Mutual Fund.

Vivek Ramakrishnan: **Good Afternoon and** Congratulations on steady performance. My questions were twofold. One was on the stressed portfolio that you sold and you have some -- and you also retained a certain component of that. How is the collection efficiency in that portfolio working? That's question number one.

And question number 2 is on a stand-alone basis. If you take out ESOP, which you have done, sequentially, the cost -- operating costs seem to have come down, if I read it right from INR40 to INR44 crores. What would you see as a trend -- or going to be the trend in operating costs in the future? Thank you

Vinod Panicker: Vivek, thanks for being on the call, Vinod here. To answer your queries, I will take the second question first. Operating -- last quarter, we -- in terms of the employee cost, I think we had included some bit of incentive and bonus provisioning for the first couple of quarters because the third quarter was the first time when we saw things steady, and therefore, we wanted to create those provisions, which would be payable. So that is the reason Q3, Q4 -- in the fourth quarter, you're seeing some bit of reduction versus the third quarter. So going forward, it would be more in line with the fourth quarter numbers.

On the collection against the stress pool, like both Karthik and me both of us has told during our speech, the collection against the sold portfolio has been excellent in a sense that in the last transaction that we did, not only the amount that we received in cash against the sale that has got collected, we have been able to collect substantial amount of collection against the SRs as well. We had actually felt the -- we had actually given a commitment that against the INR250 crores that we got upfront would get collected by June of '23, we actually ended up collecting the whole thing by the end of November or early December '22.

So we expect the SRs collection also to happen. A last chunk of it has got collected, we have not reversed any of the provisions. It is still in the books against SR. And that would get collected and we would -- we are expecting against the INR120 crores of its SR. The whole thing would get collected and something more would also get collected.

Moderator: The next question is from the line of Digant Haria from GreenEdge Wealth.

Digant Haria: **Hi Everyone,** My first question is that CV finance and housing finance are going to be our focus areas. But in that context, can you just elaborate a little bit on what kind of tie-up are we looking with JM Home Finance? Like is it eventually going to be an outright sale? Or anything on this particular news item, which was there?

Vinod Panicker: So the company announced on April 24, 2023, that we were engaged in preliminary discussions with JM Financial Home loans to explore potential strategic options, including potential combination and listing of the retail mortgage portfolioof JM Financials and the Home Finance Business of IndoStar Home Finance, including other mortgage-backed businesses of IndoStar Capital. Now these discussions are ongoing, evaluations are on, due diligence is going on, and we will come back to you when there are further developments.

Digant Haria: Okay. Okay. Okay. Fine. My second question is that now the new management has already spent 2 or 3 quarters in the company, so on the Commercial Vehicle finance base, I just want to know that as investors, what are the 2 or 3 things that you have identified so that the mistakes of the past don't repeat? When I say that our CV finance portfolio, let's say, it has to grow from INR 3,800 crores to something like INR 6,000 cores, INR 7,000 crores over the next few years, how have we ensured that the management overside the control, these are much better than what has been the case in the past? Any such trackable or any of those would be really helpful for all of us.

Karthikeyan Srinivasan: See, Digant 2, 3 things we have started doing. First and foremost, we have started putting -- we have put a very robust hind sighting system, which immediately escalates any kind of deviation on the policy front that has been taken by the credit team. Second, we have launched -- on the digitalization front, we have business rule engines which throw up any kind of errors which have the credit manager could have potentially done. These are 2 things which we are doing in terms of monitoring.

Third is we are communicating to the team why it is not healthy to keep going and funding overdue. So the customer, when he becomes overdue, we are saying that because we are going to operate at 18%, we are going to have a particular kind of delinquency and the field team need not panic. That confidence is something which as senior management, we are continuously giving to the team. So automatically scheme now realizes that there is going to be delinquency and that delinquency has to be within the boundary levels, which we have defined for ourselves. These are the 3 actions which we are taking.

Vinod Panicker: And last but not the least, Digant, what we have done is we have told the team that businesses could be bad in a month, it could be bad in the quarter. Everything is fine, but policies need to be added to the way it is to actually meant together to. So very clearly, we are putting a lot of emphasis on policy adherence, a lot of emphasis on compliance of everything. So all this put together, along with the technology and the processes and other things that Karthik just mentioned above, we are fairly confident that anything that had happened in the past was an abrasion and that will not get repeated.

Digant Haria: Fair to say that you internally as a team also feel confident enough to start growing this portfolio at a reasonable rate, say, after maybe 1 or 2 more quarters or these measures have already been done and we feel confident enough to start growing the CV book organically?

Karthikeyan Srinivasan: Digant, we are very confident that these measures are holding because whatever is the disbursement we did in October, November, December also, we are closely monitoring, so we know that what is the kind of underwriting which we should not do. But those things are getting removed from the policy, say, like a particular asset, not behaving well in a particular market.

We are immediately removing those assets so that we don't repeat those kind of funding. We are pretty confident that with the growth in the market, we'll be able to capture that and start growing. Our controls are in place. Only thing is we need to strengthen our distribution and start growing. That's the action which we are taking.

Digant Haria: Thank you gentleman for this detailed answer. I'm sure these measures will also help you reduce the borrowing cost in FY '24. So my good wishes to all the management.

Moderator: The next question is from the line of Harsh from Reliance General.

Harsh Shah: **Hello** Sir, congrats on a good set of numbers. Sir, what I would like to understand largely is that how is the cost of fund behaved in the quarter end? What kind of increase or decrease in cost of fund can we expect going forward?

Vinod Panicker: In the fourth quarter, the total -- the cost of fund was in the range of about 10.5%. And we believe that this is possibly the peak for the cost of funds because in the recent past, we have been sourcing funds in form of NCDs and things like that. We were all waiting for the Q4 results to come so that we can with the financials go to the banks and ask for funds. We have been speaking to most of the banks and they've asked us the simple thing that no, come back to us after the fourth quarter, we are very keen to look at it. We are very keen, we are very confident that the banks -- bank funding would come to us. And the overall cost of funds should start going down after the next couple of quarters.

Harsh Shah: Sir, and on the yields, so if we have to look, so how would the portfolio yield shape up going ahead? So if I understand that corporate and SME book, we are running it down.

Vinod Panicker: Correct.

Harsh Shah: So any impact of that, which we'll see on yields or margins?

Vinod Panicker: See, currently, our focus is on 2 lines of businesses. One is CV and the next one is housing finance. The corporate and SME are the portfolios where we are saying that we will try to reduce it over a period of time. And those are the ones which possibly the yields are lower. CV, we have said in the past, I'm repeating it, the yields are in the range of 18% to 18.5%, and housing finance is also equally good.

With housing -- CV business as of end of March, the CV portfolio was at about 47% of the total, and we expect that as a percentage to go up significantly. And when that goes up, the overall yield because that becomes a larger portion of our total AUM, our overall yield will start looking up.

CV is at about 47%, housing finance was at about 21%. So when the 47% becomes higher and which we are confident of because we are looking at the major growth in the current year, the overall yields will start going up. We have said that -- to the previous question, we have said that the interest -- our cost of funds will come down and that will help us to increase the overall net interest income.

Moderator: The next question is from the line of Sumit Bhalotia from MK Ventures.

Sumit Bhalotia: Congratulations for the good set of numbers. Can you elaborate on the guidance that you have given on the full year disbursements for FY '24. So this INR350 crores average monthly disbursement target that you have given, this includes housing as well?

Management: No. CV, we want to do INR 4,000 crores. That's average INR 350 crores, which we have mentioned. Housing will be a separate number, which will be around INR 1,100 crores.

Sumit Bhalotia: Okay. Housing will be INR 1,100 crores. So broadly INR 5,100 crores, INR 5,200 crores for the entire company but the rest of the segments, corporate and SME would be fair to degrowing, right?

Karthikeyan Srinivasan: See corporate, there are -- as I mentioned last time also, there are a few deals where we are the only lender though incrementally small kind of disbursement will keep happening, but it will not be a major portion. Major portion of INR 4,000 crores will be on CV and roughly INR 1,100 crores will be on the Housing.

Sumit Bhalotia: Okay. Okay. And on the existing any new areas that we have, we are roughly around 20% or 30% of rundown, if I just go by the quarterly EMI yield in collections?

Management: The regular is down by 30%.

Sumit Bhalotia: Understood. And on the cost of funds perspective, you gave the obviously, a detailed explanation of how the cost you're planning to bring it down. So what is our current incremental spread that we are generating and what is your internal target for, say, by March? And what is the spread that we would be generating? On Consol basis

Vinod Panicker: Sumit, currently, I would say that my incremental -- or my cost of funds is in the 10.5% range. And on the CV business, in fact I've to keep it separately, so that on the CV business, we can yield of around 18% to 18.5% that we expect. And on an overall basis, it would be in the range of about 15% -- on the stand-alone business, 15%, 15.5%. There we would expect the cost of fund of -- including the -- we expect that the cost of funds would be in the range of about 7% to 8%. So leading to a net interest income of roughly about 6.5% kind of thing. That's the way we look at it.

Sumit Bhalotia: So basically 7% to 8% is including equity cost you're saying, the blended cost of...

Vinod Panicker: Yes, that is the blended cost.

Sumit Bhalotia: So by...

Vinod Panicker: Yes, from about 6 point -- 5.6%, I think we should go to about 6.5% kind of net interest rate.

Sumit Bhalotia: Sure. Just to understand, so we back on the growth track, the quarterly is -- it is visible in this quarter and going forward now we are seeing a degrowth. On a steady state perspective say FY '25, what is the normalized spread NIM and, say, opex we have and credit cost that one should assume to have some sort of benchmarking for the ROAs and ROEs?

Vinod Panicker: I think on a steady state basis, we expect the operating expenses to be in the 4% kind of range. I think that's something which we have communicated and 4% of AUM, we expect the credit cost to be in the 1.5% to 2% range. And this 1.5% or 2% is without any reversals that would come in the current year also. And net-net, we are looking at an ROA of about 1.5%.

Sumit Bhalotia: This is 1.5% by FY '25?

Vinod Panicker: No, FY '24. '25 would be much better. It should be in the range of about 2.25% to 2.5% ROA.

Sumit Bhalotia: **Great Sir, Great Thank you so much I will come back in the queue with more questions**

Moderator: The next question is from the line of Rajat Setiya from ithought PMS.

Rajat Setiya: **Hi, Thanks for the opportunity** with regards to the announcement that we made with JM Financials, something to do with JM Financials. So can you help us understand what is our intention? Do we want to sell our business? Or do you want to collaborate in some way?

Shreejit Menon: So the Board of Directors had kind of provided an in-principle approval to the business review committee to engage in discussions because you know the way our business has trended over the last 5 to 6 years, and we've withstood the test of time and COVID and the underwriting has helped us. We did receive interest from prospective investors, and so we got that approval to explore options for value unlocking, which will help the housing finance company deliver long-term growth.

So there were multiple corporate actions that we were exploring as a part of that. And we met several prospective candidates who are looking at this in the last 2 quarters. JM is one such conversation that has progressed more than the others, and this continue to be ongoing at this stage, as I mentioned earlier.

Rajat Setiya: All right. What is...

Vinod Panicker: Rajat, the characteristics is very fluid. I think once it takes some shape only we can possibly say which way it is going and what will be the final shape.

Rajat Setiya: Sure, sure. And what is the current size of our loans in that segment that -- with which we are going to have over the next -- we have some sort of collaboration?

Shreejit Menon: Sorry, I don't think we got your question. Can you repeat, please?

Rajat Setiya: Was the loan book size there, in our retail side, which we are exploring with JM?

Shreejit Menon: So cumulatively, it will be about INR1,800 crores of assets under match.

Rajat Setiya: So is it all housing loans or non-housing loan and some other sort of...

Shreejit Menon: Yes. And there will be a part of the business at IndoStar capital, right! The entire business there. So that's the cumulative component.

Rajat Setiya: Okay. All right. So you mentioned multiple options you are exploring. So one could be selling it off, other could be probably listing out separately in a merged entity, so a new entity will be formed, so anything else that could be on the debit?

Shreejit Menon: No, this is where we are. I mean whatever we've stated is what it is. And like I said, these are very initial days with the conversation with JM. And we will come back to you if there's anything more in terms of development.

Vinod Panicker: Rajat, you know these things better than us saying that these things would -- the shape can keep on changing until the time it actually concludes. So I think we should leave it for time to decide how it goes.

Rajat Setiya: **Alright alright Sir, Thank you so much**

Moderator: The next question is from the line of Rishikesh Oza from Robo Capital.

Rishikesh Oza: **Hi, Thank you for the opportunity.** Sir, my question is if you could guide us loan book growth over the next 2, 3 years and what kind of product mix are we looking out through?

Vinod Panicker: Sorry, Rishikesh. We -- your line was breaking. Could you repeat it again?

Rishikesh Oza: Sir, my question is, could you give a guidance on loan book growth for 2, 3 years and also indicate on the product mix?

Karthikeyan Srinivasan:: Product will be used commercial vehicles and affordable housing on the whole book.

Vinod Panicker: Our intention is to have a book of roughly about INR9,000-odd crores in the stand-alone business, that is the ICF, which would largely be commercial vehicle and a book of about INR4,000-odd crores in the housing finance system. That's in FY '25. We have...

Rishikesh Oza: Yes, you were saying something.

Vinod Panicker: No. While you asked for 3 years, we -- I've actually have more I would say clarity on what would be in 2 years from now. So we thought we should mention that.

Moderator: The next question is from the line of Anant Mundra from Mytemple Capital Advisors LLP.

Anant Mundra: **Hi, Thank you for the opportunity.** My question was more on the qualitative side. I wanted to understand both the products that we are trying to focus on, who are our customers and who are our competitors? And how are we trying to differentiate from our competitors? Or what do we think is our competitive sense vis-a-vis our competitors?

Karthikeyan Srinivasan: Yes, I'll take this. Thanks, Anand. Thanks for the question. In the Used Commercial Vehicle segment, our key critical competitors will be the larger players like Cholamandalam and smaller players in niche markets like an IKF Finance in Andhra or Kogta in Western Maharashtra or a SK in Rajasthan, plus Shriram is also there, these are the major competitors. Our segment will be retail and FTU profiles, who are customers who have just taken a vehicle or who are planning to buy vehicles. These are our major focus areas in the Commercial Vehicle segment.

If you look at it, the Used Commercial Vehicle segment in India is very large. It is around INR170,000 crores market and 40% of it is with organized player. The balance 60% is with unorganized players only. Our ability to go and tap this unorganized segment will help us achieve the numbers what we are committing.

The unorganized segment players operate at much higher rates than what we are offering and also don't provide a seamless processing to these customers. That's the USP with which we are entering the Tier 3, Tier 4 market so that we can capture the Tier 3, Tier 4 with our digitized product, which will be our USP, wherein the customers will be able to understand if a proposal will go through or not. That's the second USP with which we are doing.

We are not saying that it is vastly different from what a large competitor is doing. But the reach at the Tier 3, Tier 4 markets where he will be having a differentiation between us and the unorganized player will help us achieve the numbers. This is the strategy on the Used Commercial Vehicle. On the housing, I would let Shreejit...

Shreejit Menon: So on housing, very clearly, we are focused on the informal segment, which is the informal self-employed segment, primarily residing in Tier 3, Tier 4 and looking at constructing their own house. So our average ticket sizes are perfectly in sync with the affordable housing through TrueBlue definition of sub 1 million.

And our competitors would largely be players like Aptus and Aavas, which are similarly focused on these markets and these customer segments. And we've actually been able to build a strong foundation in South, which is well recognized as a bastion for affordable housing in the country. And that's where we will continue to put our investments in.

Anant Mundra: **Thank you for the detailed answers.** On the CV side, I just had 1 more query. So typically, what is the loan tenure that we are looking at?

Karthikeyan Srinivasan: Typically, used Commercial Vehicle is around 3 years, is the tenure, 3 to 3.5 years.

Anant Mundra: All right. And how does the recovery in this business work? Is it like more by calling the customer and trying to -- if a loan goes bad, just calling the customer or trying to take possession of their vehicles? Or how does it work?

Karthikeyan Srinivasan: It is typically calling the customer, meeting him when he has the money. That's the -- what you call the fastest finger first strategy, wherever you are there along with the customer. That's how the CV industry works. The recovery through stopping the vehicle is a very small portion. 2% to 3% of the portfolio will go through that process also. But typically, if you are there, along with the customer in the interland market, the customer tends to come and pay you on time.

Anant Mundra: And the current book that we have, the CV book, what would be the vintage of that book? Like how old approximately would that book be?

Karthikeyan Srinivasan: That is around 19 MOB.

Moderator: The next question is from the line of Jehan Bhadha from Nirmal Bang.

Jehan Bhadha: **Good afternoon, Gentleman** So my question is on the ROA guidance for FY '25, so what would be the levers that would help us increase ROA from, let's say, 1.5% in current year to 2.5% next year?

Vinod Panicker: We had actually said -- there's is an echo, can that be corrected.

Jehan Bhadha: Hello. yes. So I'll repeat my question.

Vinod Panicker: I got your question. I will -- it's only the echo, which is bothering me, nothing else. The levers for the change in the ROA would be mainly on account of increased yield overall in, which would be based on the higher yielding CV business that we'll be focusing on. We are saying that over the last one year or so, we had limited -- I would say, funding which were coming from banks and we are confident that a lot will start coming from -- coming going forward. And our focus on ensuring that the operating expenses are under check.

To do this one thing that we have emphasized on is we have told each and every branch of ours that we will look at the branch profitability. That is something which will ensure that our overall cost is under check because each of the brands would want to be seen profitable. And their KRAs will be determined basis that.

So -- or the achievement of the KRAs will be determined basis that will be one big component. So we are looking at all these factors together to ensure that the ROA goes up from 1.2% in the current quarter -- current year to about 2.5% in FY '25.

Moderator: The next question is from the line of Vignesh Iyer from Sequent Investments.

Vignesh Iyer: Sir, I just wanted to understand on the AUM side, what is the kind of a size are we looking for in, say, another 8 quarters? I mean, need not be -- I mean, it is okay if you don't give the mix as well, but what is the size we are looking, what is the book size we are looking in 8 -- 6 to 8 quarters?

Vinod Panicker: Yes. I will -- I think as mentioned in one of the previous queries, I think we have said that we will be -- by end of FY '25, we are looking at roughly about INR9,000-odd crores for the stand-alone and on a consolidated basis at about INR13,000 crores.

Vignesh Iyer: Okay. Stand-alone, INR9,000 and INR13,000 crores for consolidated, right. And if I'm not wrong, around INR6,000 crores out of this would be CV finance, right, or it will be more?

Vinod Panicker: It should ideally be more because let us say, currently, out of INR13,000 crores roughly 50%, about 47% is CV, so that will possibly go to 60%, 65%. So I think you should look at a much larger number.

Moderator: The next question is from the line of Darshan Shah, an Individual Investor.

Darshan Shah: **Thank you for this opportunity.** So as you mentioned that your housing finance business will be a key area of focus, so I had just a couple of questions on that end. So my first question was your guidance for FY '24 with regards to AUM growth, disbursements, opex, credit costs, etc etc.

Shreejit Menon: So on the housing finance company side, we should be looking at around INR1,100 crores of disbursements, and we should look at a 50% growth rate over the previous year. That's our endeavour in terms of our assets under management. Our credit costs, as you know, have held quite steady over the last few years. And so we expect our credit cost to be similar and to be under the 0.5% range in terms of overall credit costs.

Darshan Shah: Yes, sir. And operating expenses?

Shreejit Menon: So let me put it this way. Our endeavour will be to -- be at return on asset of around 2.6%, 2.7% for the next financial year.

Darshan Shah: Okay. And another question, do we see any pressure on the net interest margins considering there are many players in the housing finance segment?

Shreejit Menon: Not really. So one of the advantages we've had if you see our growth over the last few years has been that we've largely been a home loan led portfolio. And you've seen a lot of the players have inclination towards the small ticket non-home loan products as well. So we've been about 82% on home loans, 18% on LAP.

And over the last year, we've seen some opportunity in the smaller markets to increase the higher-yielding smaller ticket LAP part of the business, which is, by the way, done very well for us. So while we continue to remain focused on home loans, we will look at some uptick in the -- the small LAP business, which will help keep our yields and our spreads intact. We've always been at 5.5% to 6% spread range and we don't see any challenge in keeping that range.

Moderator: The next question is from the line of Sumit Bhalotia from MK Ventures.

Sumit Bhalotia: I wanted to get some sense on the Stage 2 movement. In the presentation, we started reporting Stage 1 and Stage 2 combined. One year back when the crisis has happened, this number used to be 27-28 percent and that's the bulk of the recognition has come. So can you give some sense on where these numbers are currently? And what kind of provision do we have excluding Stage 1 provision, so Stage 2 movement and provisioning.

Karthikeyan Srinivasan: Stage 2 as of -- on a stand-alone basis, because I am talking about the stand-alone because that is the area where we have actually seen some issues last year. On a stand-alone basis, we had a total book of about INR1,709 crores as of March '22, that has gone down to about INR1,172 crores. Against that -- at that time, we had to keep the higher provisioning of 20.7%, that has now come down to 15.1% at about INR177 crores.

Sumit Bhalotia: Sorry, I missed the number, it is INR1,022 crores as of March '23?

Karthikeyan Srinivasan: INR 1,172 crores.

Sumit Bhalotia: INR 1,172 crores.

Karthikeyan Srinivasan: And we will operate it like one account. We explained to you last time also because of one large account, which is there.

Sumit Bhalotia: Okay. So basically, this includes the corporate part also. And if I have to just look at the retail part, on the retail book, what would be Stage 2?

Karthikeyan Srinivasan: Only the CV portion you're asking?

Sumit Bhalotia: Yes, the CV portion.

Vinod Panicker: Can we separately take it offline with you, Sumit?

Sumit Bhalotia: Absolutely. No issues on that front. Sir 2 questions on the CV front, one is the disbursement yield services looking at the blended number, which is reported, that has slightly come down on a quarterly basis. And second is on the bounce rate, I think you reported on a monthly basis was from September '22, it has slightly inched up, 10.5% to 12.8%. Any specific reasons for these 2?

Karthikeyan Srinivasan: See, the first question I didn't understand. Second question, bounce portion, I'll answer. The first question, if you can repeat.

Sumit Bhalotia: The disbursement yield on CV book has slightly come down on a quarterly basis, whatever is reported in the presentation? In the current set up, yields are not moving down, it was revised upwards, so any reason for that? And secondly, on the bounce rate?

Karthikeyan Srinivasan: See, the yields have remained almost flat only. There is not much difference between the yields, I'll just check it out. The bounce rate because many of these customers have just entered into the banking space. Always the initial portion of it, there is always an increase in the bounce rate. After some amount of learning these consumers learn how to bank and then -- So many of our competitors offer a non-PDC mode wherein every month, you go and collect. We are not offering that more as a practice.

Now we are pushing everybody to give a match, basically their repayment happens. So the initial period for these customers to understand why it is important to come and pay on time. The initial month, we'll see some bounce, then it automatically stabilize.

Vinod Panicker: To answer your first part of the question, why there has been a reduction in the yield on the disbursements in the fourth quarter versus the third quarter. Fourth quarter did see some 6% to 7% of the disbursements in the form of new CVs. And therefore, the yield actually came down to 19.1%.

Maybe to answer your other question on that -- you had asked about on a -- Stage 2 for CV specifically, it was INR789 crores as of 31st March '22 that has gone down to INR182 crores as of 31st March '23.

Sumit Bhalotia: So only INR182 crores left, great.

Vinod Panicker: INR182 crores, yes.

Sumit Bhalotia: This is very helpful, sir. I have 2 more questions. One on the housing finance part. The other expenses have shot up and despite of AUM growth and lower employee expenses and provision reversal, PAT has come down. So what is the reasoning behind that?

Vinod Panicker: You are specifically looking at the fourth quarter?

Sumit Bhalotia: Yes, specifically for the fourth quarter.

Vinod Panicker: See, it is specifically on account of certain additional charges that we have taken because there is a process of, I would say, cross charge, which happened on certain fixed costs, so the figures are finalized in the fourth quarter. So some additional charge has been taken.

Sumit Bhalotia: Understood. Sir, lastly, question on net worth reconciliation. We did a profit of around INR76 crores -- we reported profit of INR76 crores, and our net worth has gone up by hardly INR26 crores, INR27 crores. So why is that?

Vinod Panicker: We will separately revert to you on that, Sumit.

Moderator: In the interest of time, this was the last question. I would now like to hand the conference over to Mr. Nikunj Jain for closing comments. Over to you, sir.

Nikunj Jain: Thank you, everyone. 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 Orient Capital Advisors -- Orient Capital, Investor Relations Advisors to IndoStar Capital Finance Limited. Thank you, everyone.

Moderator: On behalf of IndoStar Capital Finance Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.