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27 February 2023

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

Scrip Code: 541336

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

Symbol: INDOSTAR

Sub.: Transcript of analyst(s) / institutional investor(s) call held on 20 February 2023 at 04:30 p.m. (IST)

Dear Sir / Madam,

Please find enclosed herewith transcript of analyst(s) / institutional investor(s) call held on Monday, 20 February 2023 at 04:30 p.m. IST, pertaining to the Unaudited Financial Results of the Company for the quarter and nine months ended 31 December 2022.

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

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

Thanking you,

Yours faithfully,

For **IndoStar Capital Finance Limited**

JITENDRA BHATI
Digitally signed by JITENDRA BHATI
Date: 2023.02.27 17:22:53 +05'30'

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

Encl: a/a

"IndoStar Capital Finance Limited
Q3 and 9M FY '23 Earnings Conference Call"
February 20, 2023

MANAGEMENT: **MR. KARTHIKEYAN SRINIVASAN – CHIEF EXECUTIVE OFFICER – INDOSTAR CAPITAL FINANCE LIMITED**
MR. VINOD 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 Q3 and 9MFY23 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 operator 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. Nikunj Jain from Orient Capital. Thank you, and over to you.

Nikunj Jain: Thank you, Yashasvi. Good evening, ladies and gentlemen. I welcome you for the Q3 &9 FY23 Earnings Conference Call of IndoStar Capital Finance Limited. To discuss this quarter and 9 months business performance, we have from the management, Mr. Karthikeyan Srinivasan, Chief Executive Officer; Mr. Vinod Panicker, Chief Financial Officer; and Mr. Shreejit Menon, Chief Executive Officer, 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 risk and uncertainties. For more details, kindly refer to the investor presentation and other filings that may be found on the company's website and stock exchanges.

Without further ado, I would like to hand over the call to Mr. Karthikeyan for his opening comments, followed by commentary from Mr. Vinod Panicker and Mr. Shreejit Menon, and then we will open the floor for Q&A. Thank you, and over to you, sir.

Karthikeyan Srinivasan: Hi. Good evening, everyone. This is Karthikeyan Srinivasan here. I'm pleased to welcome you all to our Q3 and 9 months ended December '22 earnings conference call. We hope all of you are safe and in the peak of health. I want to begin by thanking Mr. Deep Jaggi for his services to our company. As you may already know, he has decided to step down due to personal reasons and the Board has accepted his decision.

We wish him all the best in his future endeavours. He will continue to assist IndoStar for a period of 3 months to enable smooth transition. Me, Karthikeyan joined IndoStar in May 22 as the Chief Risk Officer and now I'm the newly appointed CEO, I am excited to lead this company forward. I joined IndoStar after spending 20 years in ICICI. In ICICI, I have handled both the credit as well as the sales roles and was the product head for commercial vehicle portfolio before I moved to IndoStar Capital.

I, along with my team, have worked over the last 10 months to engineer a turnaround of the CV business, and I'm confident that with the support of our shareholders, our employees and partners, we will be able to showcase a successful turnaround. In addition, we have appointed Mr. Vinod Panicker to the position of CFO in December '22, and we have great faith in his ability to help us achieve our goals. Mr. Panicker comes with a huge experience in the NBFC industry.

To begin with, the domestic commercial vehicle volumes are expected to grow approximately 10% in FY24 and continue the way for the next 2 to 3 years.

This is mainly due to the strength of the underlying demand drivers like construction and infrastructure activity, the huge demand for e-commerce as well as the continued trust of the government on infrastructure development, which is expected to provide further support to this demand. The uptick will be primarily driven by the medium and heavy commercial vehicle and considering the economic growth at around 6%. The growth in the M&HCV will also propel a strong push for the ICV, the light commercial vehicle, which will aid the hub-to-spoke transportation and the small commercial vehicle.

These demands will lead to an increase in the used vehicle segment, which is expected to double by FY25. This doubling will be mainly due to the scrappage policy, which puts 15-year limit on the age of the vehicle. This will provide more opportunities in the segment. Currently, up to 60% of financing for these used vehicles is handled by the unorganized sector, but we believe that the organized sector will increase its share in the next few years. The used commercial vehicle segment has been able to maintain a stable growth rate.

This growth can be attributed to several factors including affordability and multipurpose use. Despite the overall increase in the vehicle price trend due to the transition to BS VI and higher fee cost, the increase in the used CV price is relatively lower, making it an attractive option for many customers who want to venture into the commercial vehicle space. Also, these commercial vehicles, the used commercial vehicles come with multipurpose usability, such as their ability to handle variety of loads, including sand, cement, grain and have continued to drive demand.

In contrast, new vehicles typically are taken for contracts with specific applications and their usability in market load operation is quite limited. Also, the replacement demand is anticipated to be favorable in FY23 as certain replacement sales originally anticipated in FY2021-22were deferred due to the apprehension surrounding COVID-19 days. The opportunity to expand the used commercial vehicle disbursement is on the rise due to the increased growth in this segment.

To take advantage of this opportunity, at IndoStar, we plan to leverage our existing reach by increasing penetration to the field, which will help us enhance our customer connection. We also have launched a new digital process, which will help us increase our presence in the market and reach even smaller geographies so that we are able to increase our penetration in the rural market. We are confident of our ability to capitalize on this growing used commercial vehicle market and expand our business.

We are optimistic about the growth prospects of the commercial vehicle industry and are committed to leveraging these positive trends to drive our business forward. More importantly, with a small base, we can grow strongly over the coming many years at a much higher pace than the industry. We have spent a lot of time over the last 3 quarters in relooking at all our processes, policies and setting up in the line of what was seen some time back.

We have strengthened control, reviewed policies and upgraded our technology system right from loan origination, credit appraisal disbursal and as well as the collection processes. There have also been significant changes in the senior management of the CV business. Our promoters, Brookfield and Everstone are backed us to ensure that we've come back strongly and have just used technology to the maximum to ensure that anything beyond the approved policies are highlighted instantly and rectified immediately thereafter.

We are confident that we will see good growth in FY24 and going forward. On the corporate book, our endeavor is to reduce it and we expect our corporate book to be less than 15% of our AUM by the end of the next financial year. The SME book, we are reorienting our strategy and are now focusing more on the priority sector lending segment.

At IndoStar, we have a strong vision for growth, and we are committed to achieve this in a calibrated manner. In the next couple of years, we expect the CV loan book to grow by at least 2 times from our current base. We have done a lot of changes on the operational front in the last 9 months to keep ourselves ready for this growth. We continue to improve the efficiencies across branches and increase our reach, to achieve profitable growth.

We believe the Tier 3 and Tier 4 markets are still not served completely by the organized players, and we have an opportunity to fill this gap in these markets. Our focus on collections has helped us reach all-time high collection efficiency numbers. The numbers are in front of us, which has helped reduce our gross NPA level. We have also been very nimble footed on the cost front to manage our profitability. In terms of capital adequacy, our capital adequacy stood at 33% and our debt equity at 1.8 times, which provide us enough headroom to look for funds that will drive our future growth.

Our first focus has been on stabilizing the asset quality, we do believe the problem is now behind us and we also continue to believe in the market opportunity. We wish to point out that the recognition of Stage 2 and Stage 3, which we did in our March '22 financials was very conservative. And it is only due to this factor, we have been seeing reversal of provisions. The collection percentage stood at 137% in Q3 and 135% in Q2 and this gives us the strength to come back to the market with a very strong appetite to grow more in the commercial vehicle business.

And we are also putting processes and policies so that we can strengthen the organization and lead to good growth in the quarters to come. Our infrastructure has the capability of delivering up to INR 350 crores of disbursement a month, we were conservative to ensure that the processes were well laid out and tested before we press the growth paddle. We remain committed to delivering value to our shareholders while also providing the best possible financial solutions to our clients.

I'll now hand it over to Mr. Vinod to walk you through the Q3 performance. Over to you, Vinod.

Vinod Panicker: Thank you, Karthikeyan. Good evening, friends. Good evening, everyone. Thank you for joining us on this call today. Let me brief you on the financial highlights for the quarter that went by and also the 9 months ended December 2022. On a consolidated basis, we recorded a revenue of INR 282 crores in Q3, which represents a year-on-year decrease of 2% and for the 9 months ended December '22, we recorded a revenue of INR 890 crores, which represents a year-on-year growth of 7%. Our finance cost stood at INR 135 crores in Q3, which is an increase of 8% year-on-year. And for the 9 months, it was INR 427 crores, an increase of 7% compared to the 9 months of the previous year.

Based on that, the net total income stood at INR 147 crores for the quarter ended December '22, showing a decrease of 10%. For the 9 months, the total net income was at INR 463 crores, which represented a 6% increase year-on-year. Our NIMs have improved substantially as we have now shifted focus to the Tier 3, Tier 4 markets, with about 90% to 95% of the disbursement happening in the used CV business, where the yields are significantly better thus improving the overall yields and the spread.

Operating expenses are at INR 122 crores in Q3 FY23, was about 20% higher compared to the same quarter last year. This was mainly on account of certain securitization costs, certain professional fees that was paid, some increase in the employee cost, all of which we believe will get rationalized and controlled in the quarters to come. In the 9 months, the operating expenses were at INR 337 crores, which represented a 17% increase year-on-year.

Pre-provisioning operating profit at INR 25 crores for the current quarter showed a decline of 59% year-on-year. And for the 9 months, the pre-provision operating profit at INR 126 crores, represented a decrease of 14% year-on-year.

Both these can be clearly attributed to the drop in the AUM leading to lower revenue, the interest cost having risen and also the lower disbursements leading to higher idle funds, which adds a certain amount of negative carry cost. Also, Karthik had mentioned that the infrastructure that we have is sufficient to take care of disbursements of INR 300 crores to INR 350 crores which effectively means that there is a higher fixed cost, which is there in the existing opex.

The PAT at INR 37 crores for the quarter, is a 153% increase versus the same quarter last year. The 9 months PAT of INR 149 crores represents a 7.5 times increase over the same period in the previous year when it was only at about INR 17 crores. This is mainly on account of significantly lower provisioning and more importantly, on account of negative impairment costs.

We recorded a gross total collection of INR 937 crores during the current quarter, which is up by 8% versus the immediately preceding quarter.

Our gross collection efficiency at 137% in the current quarter versus INR 135 crores in the immediately preceding quarter and about 152% in the first 9 months of the current financial year, reflecting our commitment to maintain high credit standards and efficient operations. The collections against the pool sold to the ARC also gives us the confidence that we will end up getting write-backs in the quarters to come.

We closely monitor the quality of our portfolio and that is the reason why we are seeing the gross Stage 3 assets at 7.9% at the end of the third quarter.

If you recall, at the end of March 2022, the Stage 3 assets stood at 13.6% or INR 1,203 crores. We have been able to bring down the Stage 3 gross level in each of the quarters thereafter. And in spite of increase in the numbers, due to implementation of ONAN. ONAN is "Once an NPA always an NPA unless you go back to the 0 bucket". The Stage 3 December '22 numbers was INR 537 crores, in spite the ONAN figure being about INR 45 crores.

So net of that, it would have been less than INR 400-500 crores at about INR 480-485crores. Stage 2, had a similar moment moving from a peak of INR 1,770 crores in March '22 to our INR 991 crores as of end of December '22. All this would not have been possible without the efforts of each and every member of the company, more specifically my colleagues from the collection team.

This also demonstrates our commitment towards maintaining a healthy loan portfolio going forward. Our consolidated Stage 3 assets were at 3.6%, which demonstrates the efficacy of our credit risk management strategy, which has come from 6.4% as of 31st March '22. Therefore, we are able to take credit for certain write-backs and some of the provision reversal.

In the third quarter of FY '23, we have been able to raise incremental funding of INR 683 crores, which has contributed a lot to our healthy liquidity position. As of 31st December '22, we had a cash or cash equivalent of about INR 956 crores, which was about 15% more than what it was in the same -- in the immediately preceding quarter.

Finally, our capital adequacy, Karthik did mention, I'm just repeating; it stood at 33%, which gives us the resources and flexibility to pursue our future growth ambitions. Our debt-to-equity ratio at 1.8 times indicates a very healthy balance sheet, leaving a lot of headroom for us to source external funds and grow the book profitably.

Our assets under management of INR 7,669 crores, is down 3% versus the immediately preceding quarter when it was INR 7,908 crores also be -- this was in spite of we showing an increased disbursement of INR 522 crores in the current quarter versus INR 334 crores in the immediately preceding quarter.

We have a strong retail focus with the retail AUM now accounting for INR 6,143 crores or 84% of our total AUM, the retailization process that we started sometime in 2017-18, has paid rich dividends, and we are confident that we'll continue this route and grow profitably in the quarters to come.

Let me talk about the segmental breakup for a couple of minutes now. Let me begin with the Vehicle Finance segment where we recorded an AUM of INR 3,469 crores, down 4% from the immediately preceding quarter. This rundown was mainly on account of lower collection. The disbursement did increase in the third quarter, in the first 2 quarters, the disbursement was pretty low. We have experienced a reduction in the SME Finance segment from about INR 1,541 crores to INR 1,432 crores. That's again because the disbursement has been lower.

On the corporate loan book, the disbursement -- the loan book came down to INR 1,218 crores, a 2% reduction over the immediately preceding quarter -- while this is a segment that is not in focus now and not being pursued, we do disburse against old sanctions. And in this quarter, we had a disbursement of INR 80 crores, this is 1 segment where we are looking at collecting the amounts that are due on due date to ensure that there are no slippages.

To talk a lot more about the housing finance segment, which is a segment that we are focusing on. I would now invite my friend Shreejit to come and take over.

Shreejit: Thank you, Vinod. Good evening, everyone. IndoStar Home Finance, as you know, is an affordable home finance company focused on high-yield housing loans in the range of 14.5% to 15.5%, with portfolio level average ticket size of INR 9 lakhs.

We have a best-in-class asset quality with net Stage 3 of close to 1.2% and healthy spreads on the portfolio. Our recent past growth is neither reflective of our ambition nor of our capabilities. We have built a strong branch infrastructure and employee base to grow our AUM by over 2.5 times in the coming 2 years, that is end of FY '25, we expect our AUM to be in the INR 3,500 crores to INR 4,000 crores range. We had doubled our disbursements in the last financial year ending March '22. This year, however, in the recent quarters, we had slow disbursements.

We have now shifted our focus back towards ramping up disbursements along with sustained asset quality. As a result, the company has now disbursed loans worth INR 107 crores, indicating a 30% increase compared to the INR 82 crores disbursed in Q2 FY23 with a clear line of sight on liquidity and robust funding pipeline. To support this effort, we have put in place manpower of 684 employees in Q3 FY23 with a thrust on feet on street.

Financially, the company managed to post a small increase of 2% in its AUM as on December '22, which stood at INR 1,526 crores as against INR 1,489 crores as on September '22. In terms of revenue, the company recorded a total revenue of INR 46 crores for Q3 FY23 and INR 158 crores for 9MFY23. It also achieved a profit after tax of INR 5 crores and INR 35 crores in Q3 FY23 and 9MFY23, respectively. Gross Stage 3 trended downwards to 1.65% as on December '22, which is a significant improvement from the March '22 levels of 1.8%.

And this is in spite of the adoption of the new ONAN norms, which as you're all aware, commenced from 1st October 2022. Our capital adequacy ratio has been extremely strong at 86.5%, which indicates that the company has enough capital to support business growth. We will continue to maintain a healthy capital adequacy ratio. We also used this period to onboard some leading professionals from the industry to manage key functions of finance, HR, technology, and this, we believe, will aid us to scale up the business further. Thank you, everyone.

Moderator: Should we begin the question-and-answer session?

Karthikeyan Srinivasan: Yes, we can. Please.

Moderator: We have a first question from the line of Nandish Shah from Moneycontrol Pro.

Nandish Shah: My first question is there is a change in the management, Mr. Jaggi has resigned. Can you explain a bit more on his move?

Karthikeyan Srinivasan: As I shared in my opening remarks, Mr. Jaggi resigned due to his personal reason. The same was considered and approved by the NRC and the Board in their meeting on February 14. So, it was his own personal decision to move ahead, move away from the company.

Nandish Shah: So, my second question is, do you see any risk to the capital adequacy because with weak profitability and asset quality impact, what is the capital adequacy ratio currently?

Vinod Panicker: Nandish, good evening. Vinod here. We don't see any risk in the capital adequacy because currently, is at about 33%, which is very good versus the regulatory requirement of 15%. Apart from that, we have been seeing profitability in the first 3 quarters, and we don't see any reason why that should not continue going forward. While the book will definitely grow, we expect the profitability also to increase going forward. So, we don't see any challenge at the capital adequacy front.

Nandish Shah: And sir, my last question is, can you explain the reason for the deterioration in asset quality during the quarter NPA ratios have inched up. So, I wanted to know the reason for the same. Want to know, what's led to this?

Vinod Panicker: Nandish, again, the deterioration in percentage terms have got to do with the reduction in the loan book. The loan book, overall, has fallen down. In fact, it has -- as of end of September it was INR 6,857 crores, it has gone down to INR 6,719 crores that is one aspect.

Second is that from 1st of October, we have implemented ONAN, which had an additional impact of about INR 45 crores from the total NPA. Those put together has led to the percentages being higher in terms of the gross NPA and the net NPA.

If the ONAN as such was not considered in both the stand-alone and consolidated, we would have possibly reported lower GNPA and lower NNPA. On a consolidated basis, the GNPA against the 7.9% gross that we reported, we would have possibly reported 7.1%, which is in line with what we had reported in September. And NNPA, we had reported 3.6% or something in September that we would have possibly reported 3.05 in December, if only ONAN is not considered.

Moderator: We have a next question from the line of Apurva Mehta from A M Investments.

Apurva Mehta: Sir, can you share some outlook on our growth prospects, profitability going ahead for next 1, 2 quarters? And how do we see our disbursement and the credit cost about our company for next 1, 2 quarters? And the next whole financial year.

Vinod Panicker: We are scaling up our disbursements. We did around INR 330 crores of disbursement in the December quarter in the parent. We plan to take this disbursement around INR 500 crores in the March quarter. The first quarter of next year also, we plan to increase our volume further. As I explained, we have the ability to clock INR 300 crores per month. So we will slowly start reaching there. So we feel like this segment because there is a segmental growth, plus we are reaching into Tier 2, Tier 3 markets, asset growth will be quite strong.

We have ramped up our processes also so that we are able to reach the expected numbers, which we are committing. The CV AUM was likely to grow continuously. And we are targeting a segment which is at a yield of around 18%, this will give us a good NIM. So, we don't anticipate any further shock also. So, we feel like both in terms of profitability and asset growth, the next year is going to be good.

Apurva Mehta: Okay. And we have seen an uptick in the corporate disbursement. Any particular because we basically want to focus into the retail segment. Are we -- this time, we have disbursed around INR 80 crores. So any particular reason that we are again looking towards the corporate lending? Or this is just a one-off thing?

Karthikeyan Srinivasan: Yes. Apurva, see, I had mentioned it in my commentary that we have -- we have stopped focusing on corporate lending. But I also further said that for the sanctions which are there, against that, if any disbursements are there, that we would do. No fresh sanctions are happening. So this INR 80 crores that you have seen, which we reported was some of the sanctions which were done in the past. No fresh sanctions are happening.

Apurva Mehta: Okay. Very, good. And on the housing finance, we were supposed to dispose this and potentially find some investor, where are we currently? And what is our thought process on that? .

Karthikeyan Srinivasan: So on the HFC side, as you know, we are a pure play affordable housing franchise and our growth potential is immense. And as you can see from our numbers, we've been able to do consistent in our all parameters and our operating metrics are pretty much best-in-class. So while we continue to invest behind it, but at the same time, the Board is contemplating various options to unlock its value. And at this stage, there's nothing more to add beyond that whatever was already mentioned in the press release.

Apurva Mehta: And any time line, maybe a year or next 1 year time or something like that?

Karthikeyan Srinivasan: It would be very difficult to predict, Apurva. You know the industry better than me. I think tough to actually give a time line to it like this.

Apurva Mehta: Okay. So in next 1 year time our focus will be more on CV finance. That is the area we'll focus on -- that is what we are looking to do our business more on the CV side or any other line of business which we are looking at?

Karthikeyan Srinivasan: CV finance and within the CV finance used CV finance and then definitely the affordable housing.

Apurva Mehta: Okay. Okay. And on the branch addition, we would like to expand the branch addition or this is the thing we are done with the branch addition and we would like to maintain this?

Karthikeyan Srinivasan: We have footprint across 22 states across India.

Apurva Mehta: Yes, yes, yes.

Karthikeyan Srinivasan: Yes. We believe that it is a time to consolidate or gain the presence, reap the benefits out of this presence. We are more focusing today on digitization so that the customer journey becomes at least assisted and then probably move to DIY before we start expanding the branches again.

Apurva Mehta: Okay, okay, okay. And on the profit side, over the last past 1, 2 years, how do you see ourselves on the process side? And because used CV is the dangerous segment, where the yields are high, but there can be a lot of NPAs coming when the cycle turns bad. So are our processes and everything in line and whatever we have gone through all the things for the period, are we -- we are proving the process that even if the CV cycle turns around, we will not be taking any hit.

Karthikeyan Srinivasan: And that's what we are doing Apurva. 2 things we are focusing on. One is we have shifted focus to ICV, LCV funding and small commercial vehicle funding. So if you look at even a bad recession, these are vehicles which cater to the consumption segment. So the consumption segment typically doesn't go down too drastically. So we feel like we are adequately covered there. Second, our NIMs are much higher. And we are assuming a good amount of GNPA so that even when there are bad cycles that come across, we will be able to cover and recover our money.

Moderator: We have a next question from the line of Harsh Shah from Reliance General Insurance.

Harsh Shah: So would like to understand our AUM guidance for next 1 or 2 years? And how we are going to achieve that?

Vinod Panicker: Harsh, thanks for being on the call. I think when Karthik gave his commentary, he did mention about it -- Karthik and both Shreejit when they gave the commentary, they did mention about the plans that they have for the future. I will first take the CV segment. There, we have said that currently, the infrastructure is such that it can cater to INR 300 crores to INR 350 crores of disbursement a month. We are currently doing about INR 150-odd crores, which effectively was done that way because we had to put our processes in place. We had to put our systems in place. And now that having been done, we are looking at how to ramp up.

He also mentioned about INR 500 crores plus the disbursement in the current quarter. We hope to maybe double it going forward into the subsequent quarter. Update is that we are fairly confident of going to where we were possibly a year or year and a half back in terms of INR 1,000 crores plus kind of disbursement on a quarterly basis. God willing that happening, we would definitely be adding roughly INR 3,500-4,000 crores of disbursement. And along with the existing book of over INR 3,400 crores of CV we should possibly look at the INR 5,000 crores kind of AUM for the -- by end of March 2024.

We also look at the housing finance segment growing up significantly, the growth was at about 30% in the current quarter versus the immediately preceding quarter. Funds have been tied up in ok, I would say sanctions are coming our way. We are very confident and expecting to grow by at least the same level in the coming quarters. So, we believe that we should be in the INR 2,500 crores range in terms of the housing finance segment.

Harsh Shah: Okay. And on the SME finance?

Moderator: Sorry, you are not audible.

Harsh Shah: On SME finance, so what are our plans over there?

Karthikeyan Srinivasan: SME, Harsh, we plan to refocus our SME segment. We want to focus there more on the priority sector lending. Our approach will be to move from whatever is the large ticket loans that we are doing today to a segment around the CV customer. We want to be the end-to-end lender for the

CV in this financial year. So in the SME segment also, we want to push it down to the overall SME segment, we want to focus around the CV segment, so that the customer -- CV operators who want a working capital funding come to us and take the SME funding by giving their property. So, this gives us 2 cover, 1 they will be able to raise funds with an own financier. Second, I get the comfort of their property so that the overall asset cover of mine is better. So, we plan to reduce our SME focus and put focus only on the priority sector lending there.

Harsh Shah: Okay. Sir, secondly, if we look within the SME finance. So, you said we are planning to look towards CV financial kind of book only? So other than that, what kind of -- or that will be the sole kind of a lending will do in the SME finance?

Karthikeyan Srinivasan: As of now, SME segment, we want to do the priority sector lending. That will be the top priority. And we want to move into a smaller ticket size. That's what is the plan which we are doing. So, the smaller ticket size, if you look at the immediate biggest customer base that will be available to us, will be my captive base, which is where I want to capture. That's what is the plan.

Harsh Shah: And sir, secondly, I wanted to understand that within the past incidents which has happened with our asset book. So what are our learnings from the past? And what kind of process tightening we have done. So these things are not repeated again?

Karthikeyan Srinivasan: Yes. What we have done is we have put in our processes and also had our loan origination system revamped. So now the new loan origination system has business rule engine which ensures that any kind of past repeat doesn't happen again. So, we feel like technology will be the most important solution to implement whatever is the process control, which we plan to deliver. Thathas been implemented, that has got tested, then only we have started ramping up.

Harsh Shah: Okay. Sir, and last question from my end, is that -- what will be a sourcing mix going ahead for the world (42:35) disbursement that we do, what will be a sourcing mix? How much percent will be in-house?

Karthikeyan Srinivasan: Our model is predominantly our relationship manager base. So it will be approximately 80% relationship manager base, but if you understand the used commercial vehicle segment, a lot of business happens through brokers who act as connectors for us. So it will be a mix of our relationship managers, plus this connector who will be the sourcing mix in our overall commercial vehicle sourcing. Also, if you understand commercial vehicle is always a customer-driven thing, a customer refers to another customer who is in the same market. That's how the commercial vehicle sourcing happens. So customer referring other customer will be 1 where my relationship manager will be the major guy who source, plus there will be a small portion of the connector. On housing...

Sreejith Menon: So in housing, it's pretty similar to the CV business that 75% of our sourcing will be through our in-house relationship managers and 25% is where we would have connectors who would be sourcing business for us.

Moderator: We have a next question from the line of Sumit Bhalotia from MK Ventures.

Sumit Bhalotia: Thank you for the detailed presentation and also hosting this con call. So welcome teams. I hope that we do engage on a quarterly basis through con calls. Sir, my question is, firstly, on the liability side, so we went through crisis last year. So if you can just share what are the corrective actions that we took on the liability side in particular? And what is the strategy going ahead to ensure that we are able to cater to -- be able to manage this INR 350-400 crores kind of a monthly disbursement. And what is the strategy on the off-book, on-book mix? What proportion of the incremental disbursement would be funded through securitization or other or co-ending or other such measures that would be helpful?

Vinod Panicker: Sumit, thanks for being on the call. On the liability side, I would say that I did mention in my commentary that the funding has started, we have been able to raise INR 683 crores in the immediately preceding quarter -- in the third quarter, we have been able to raise INR 683 crores. In fact, our one-off that was a large INR 400 crores NCD issuance which we did and which were subscribed to fully by Tata Capital. So -- and along with that, a lot of other lenders that we have been working with in the past have started coming back and I would say, started funding us.

We are speaking to many of them we expect there a lot more funds to come in. And we don't see any challenge in having a steady pipeline for any disbursement that we would need to do. Sanctions have been coming -- the lenders are getting comfortable. We are able to talk to each 1 of them the way you thanked us for being on the call this time or getting on to a call system. All lenders have also echoed the same sentiments that you have echoed. So definitely, we don't see a challenge going forward in terms of getting funds for disbursement.

Sumit Bhalotia: Sure. So that also means that the cash on books that we have as of now, which is pretty high, that will also come down as a proportion of loan AUM. And also how has your cost of funds been moving? What is it today incremental?

Vinod Panicker: The cost of funds for the third quarter was at about 10.2%. So, we expect it to be reasonably steady as we go ahead. And I would say that going forward, when the lenders, they see the volumes improving, the profitability coming back, we will be able to convince them to reduce rates, as we go forward.

Sumit Bhalotia: Sure. And sir, what is your monthly or quarterly repayment? Just to understand, again, linked with the overall AUM growth because we have given a guidance of I think INR 250 crores a month in just the current quarter, right, the disbursement target?

Vinod Panicker: Yes.

Sumit Bhalotia: Sure. In the presentation, it was mentioned INR 250 crores monthly run rate for disbursement. And I think just on the concall, you guided for an INR 500 crores disbursement only on the parent side?

Vinod Panicker: No, I will clarify that. We said that monthly disbursement of INR 250 crores, that said that the consolidated basis. When Karthik spoke about the disbursement, he specifically mentioned it is about the commercial vehicle CV space. So overall, we expect the total disbursement to be in the INR 750 crores range for the quarter.

Sumit Bhalotia: For the fourth quarter?

Vinod Panicker: For the fourth quarter.

Sumit Bhalotia: And our monthly payment our run down would be how much run rate?

Vinod Panicker: I think I would need to take it offline with you. If you can send out a mail separately, we will reply on the mail because definitely when we have factored when we looked at the ALM for a 1-year kind of picture for the first 1 year basis all the inflows that we are expecting this is all the repayments that we are seeing. We are fairly confident that we have sufficient funds in hand to take care of it.

As regards the repayments, if you take on Slide 22, where we have actually covered the ALM. There we have mentioned about total outflow in terms of liability repayment in January about INR 129 crores went out. February is about INR 95 crores, March about INR 209 crores. And then for the next 3 quarters, after March, INR 443 crores, INR 431 crores and INR 180 crores.

Sumit Bhalotia: Yes. Only conclusion that I was trying to arrive is that the pace of growth for us is over now. And from the current quarter, hopefully, we'll see us getting back into the growth trajectory on the plant. .

Vinod Panicker: We are hoping for the best, and we are confident that this current trend will continue.

Sumit Bhalotia: Sure. Sir, 1 last question, if you come on the branch addition slide, so we saw an aggressive expansion from FY21 to '22 almost from 200 branches, we moved to 400 plus in FY22 end right now, today, we are at 423. But in the same time frame, if I just look at last 3, 4 quarters when this crisis had happened with us we have been reducing our employee headcount from I think from 3,000 kind of number. How does this add up? We've been reducing employees, but we have not shut down on the branches? Are we looking to going forward, I on which are inefficient and shutting down. What is the strategy on that front to ensure that our cost to income gets to a reasonable number?

Vinod Panicker: See branches as of now, we have rationalized. We have not shut down any of the branches. We continue to be in the 423 branches employees, you know because the bulk of our employees are field level RM, who continue -- where there is a large amount of churn that happens across the industry and we are no different.

If you look at the industry also, there has been a large churn that has happened, and it will keep happening because we slowed down our disbursement, there was some impact there, but we feel like it will recover the whatever -- we only based on the performance you people have more of. The balance, we feel like there's no major change.

Karthikeyan Srinivasan: The branch increase may not be there, but then -- because like we said, that the current infrastructure is capable of taking care of at least 2.5x the existing volumes.

Sumit Bhalotia: Okay.

Moderator: We have a next question from the line of Amit Shah from AT Capital Group.

Amit Shah: Sir, I -- given that we have a new management in place, I would like to hear from the new CEO, what will be the immediate focus in terms of the growth areas, the areas of improvement for the organization?

Karthikeyan Srinivasan: Thanks for the question. Our primary focus is on the commercial vehicle funding. We plan to increase our presence in the used commercial vehicle funding so that our NIMs are in the higher bracket. Two things we are doing. One, we have moved our focus down from the M&HCV segment to small and light commercial vehicle segment. I touched upon this briefly during the last question. ICV, LCV and small commercial vehicles on the used brand is something which we want to focus on. This will reduce our average ticket size to around 5 to 6 lakh. We feel like this statement is 1 thing which will help grow IndoStar because these segments are not impacted by any -- on the vagaries of the economy because India is a consumption market and the consumption industry is likely to be remaining quite high.

If you see even during the peak of the lockdown, you and I were ordering from Amazon, which were getting delivered. Those were getting transported by the ICVs or LCVs and small commercial vehicles, that's where we want to be in. That's on the business front.

On the process front, we have tightened. We are moving towards digitization so that the customers can get assisted quickly by the relationship managers at the feed, they are able to decide on cases based on scorecard. That's the process tightening we are doing. We are also built in rule engines in our loan origination system so that the system doesn't permit any kind of errors that could have kicked up in the past. That's the tightening which we are doing. These are the 3 broad areas. We will focus on growth of our book and ensuring compliance, these are the 2 things which as CEO I want to take forward so that IndoStar becomes 1 of the top-performing NBFC.

Amit Shah: This is really helpful. My second question is on the shareholding, sir. Brookfield owns around 56% of the shareholding, is there any chance that Brookfield might reduce their stake below 51%? Essentially, what I'm trying to understand is, will there be any reduction in support from the group in what sort of conversations are happening between you and Brookfield?

Vinod Panicker: See, Amit, during the bad times Brookfield or for that matter Everstone, they supported us. Now that things are over, things have come back to normal. We don't see any reason why we would need more support from them. Regarding the shareholding and other things, I don't think we can comment on it. I think it's appropriate that they comment on it. But we don't see any reason why the support will go down. We don't see any reason for that.

Amit Shah: Okay. And just to continue on this, what are our plans to bring down the promoter stake to 75%?

Vinod Panicker: The steps are being taken to adhere with minimum public shareholding norm. So we are moving in that direction. We will give our, I would say, as and when we move on that, we will keep on informing the market about it.

Amit Shah: Okay. This is really helpful and all the best.

Moderator: Thank you. Ladies and gentlemen, in the interest of time, that was the last question. I now hand over the call to Mr. Nikunj Jain for closing comments. Over to you.

Nikunj Jain: Yes. Thank you, participants for joining us today. It's been a pleasure. If there are any further questions, queries, please feel free to reach out to me or Orient Capital team coordinates are shared in the presentation. Thank you.

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