“Poonawalla Fincorp Limited
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Moderator: Ladies and gentlemen, good day and welcome to the Poonawalla Fincorp Limited Q1 FY2022 Earnings conference call hosted by ICICI Securities 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 '*' then '0' on your touchtone phone. Please note, that this conference is being recorded. I now hand the conference over to Mr. Kunal Shah from ICICI Securities Limited. Thank you and over to you, Sir!

Kunal Shah: Thank you, Lizaan and good evening everyone present on the call. This is Kunal Shah from ICICI Securities. We have with us today, Mr. Abhay Bhutada - Managing Director of Poonawalla Fincorp, Mr. Vijay Deshwal - Group CEO, Mr. Sanjay Miranka - Group CFO, Mr. Manish Jaiswal, MD and CEO, Poonawalla Housing Finance, Mr. Rajive Kumaraswami - MD and CEO of Magma HDI, Mr. Pankaj Rathi – CFO, Poonawalla Housing Finance, Mr. Mahender Bagrodia - Head Collections, Poonawalla Fincorp and other management team members from Poonawalla Fincorp to discuss their Q1 FY2022 earnings and their medium term strategy, so over to your, Sir!

Abhay Bhutada: Good evening, Mr. Kunal. I welcome you all and thank you for joining first ever investor call of Poonawalla Fincorp Limited on this Saturday evening. I will start with a quick update on some of the important milestones achieved post the transaction. These are the things that were part of the future roadmap as per the transaction and I am happy to provide this update that we have successfully achieved this in a very short span of time. Number one is, the Board reconstitution was done with Mr. Adar Poonawalla as our Chairman. The renaming and rebranding have been done successfully in a record time, strengthening of the management team across verticals of credit, risk, analytics, sales, human resources, finance, strategy, risk monitoring has been done.

We continue to build a larger talent pool within the organization, which will drive the risk culture in the organization. As laid out in our product strategy, we have shifted our focus to the consumer and small business segments along with discontinuation of non-focus product. The new product addition has already started happening with loan to professionals like CA, CS and doctors, personal loan to the Super Cat A, Cat A company's employees; all these products are live now. The rest of the product launches will be launched as per the quarterly plan mentioned in the investor deck, in Q3 and Q4. Right now, the focus is on technology and going digital has already started. Within record time, we have implemented the LOS, LMS and the CRM platforms.

The digital first approach is gaining ground with the launch of our new optimized website with the seamless integration to our backend system, with a very strong business rule engine as well. We have created a strong inhouse contact service center to ensure we offer excellent customer service. This is powered by the best people, process as well as the technology. We are working on building another pillar of sales and distribution through our strategic alliances and corporate tie-up, which will benefit us in our cost of acquisition and from next two quarters, we will do a lot of additional alliances and corporates tie ups, which are underway right now. We all know Q1 FY2022 has been a tough quarter for the entire sector due to the second COVID-19 wave, but despite of that we have put a very strong performance and worked towards building the right building blocks for future growth.

This quarter we have remained flat in terms of AUM, which is currently at Rs.14,424 Crores due to COVID-19 restriction across the country. We had consolidated profit before tax of Rs. 81 Crores against the 47 Crores quarter-on-quarter basis. Our NIMs improved by more than 1% on quarter-on-quarter basis. ROA almost doubled to 1.80% from 0.9% on quarter-on-quarter basis. Our strategy of focusing on the liability side has started yielding us benefits. We have started seeing gains on the incremental borrowings that we do, with fresh borrowing coming in at sub 7%, our liability strategy will be a key driver for us in the coming times. While we look at these results in light of COVID-19 second wave, I would like to state that we remain cautiously optimistic on the business and have used this time to create backend efficiencies, which should boost our performance in near future.

With these building blocks, I would say that we are on the way to build a very strong franchise based on conservative and calibrated approach to the risk management and asset quality. As the collection efficiencies show sign of improvement, we are looking at the market with a very cautious optimism and are well-prepared and positioned to tap into the same. I will say, our investment in building a strong leadership team, implementing best in class technology for a digital first approach along with our customer centric approach, these are the strong roots of our growth journey ahead and will enable us to achieve our management vision, which is to be a diversified tech enabled NBFC, focused on risk calibrated growth with customer centric approach providing a growth oriented environment for the people as well as creating value for all the shareholders.

Thank you so much and with that, I will hand over to Mr. Vijay, who is our Group CEO, who will take you through the detailed strategy and execution plan and after that our Group CFO will take you through the detailed financial update. Thank you once again.

Vijay Deshwal: Thank you, Abhay and good evening everyone and thanks for coming on the call. While Abhay has outlined the broader vision, let me take you through in brief on how we plan to achieve the strategic objectives of being a diversified tech enabled NBFC focused on risk calibrated growth with customer centric approach.

We have chosen consumer and small business as focused customer segments for our lending business. In consumer and small business, we have further realigned our business mix towards highly scalable products where we feel there is huge funding gap and large opportunity landscape. Taking cue from the last investor deck what we presented at the end of May, we decided to discontinue certain business lines primarily due to three reasons.

They were heavy on operating costs, cash collection and very low or negligible on lifecycle profitability. We have picked up our go forward focused product segments judiciously based on the market opportunity and evaluated on the product mix that would help us deliver risk adjusted returns planned over medium to long-term. These are precisely affordable home loan, pre-owned cars and business loans from the current offering and adding loan against property, personal loan, loan to professionals, co-branded credit card, machine loans and equipment loans, making a healthy mix of secured and unsecured businesses. In terms of growth ambition, as mentioned by our MD, we are aspiring to grow at a CAGR of 25% to 30% over the next two to three years.

I will take you through five operating levers that will help us achieve the desired growth and risk adjusted return on capital. Our enabling levers in order first and foremost brand and equity capital, we are backed by one of the most respected and trusted business houses not only in India, but across the globe. We have got sufficient equity capital to support our growth ambition at least for next five years. Next is our cost of funds. We have started seeing a very aggressive repricing of the existing debt and are raising incremental funds at industry best rates of interest. Additionally, the liability mix will further be realigned with optimum mix of banks, debt capital markets, long-term financial institutions including refinance institutions.

The third lever will be distribution infrastructure. We have inherited a very well-established pan India branch infrastructure being complemented with strong digital capabilities to facilitate customer acquisition at optimal costs and ensuring process and delivery of credit at committed TAT. The fourth pillar will be digital, which is key to financing around entire customer centricity; our digital strategy is being adopted basis price, convenience, turnaround and service (PCTS) model. Where technology and analytics will lead to continuous product innovation, digitization to help direct customer acquisition, improve TAT and provide data for analytics to further serve the customer better. It will greatly help in bringing down the cost of acquisition and cost of operations.

Operating leadership team is our fifth lever. We have spent considerable time over the last few months in identifying the best talent in the market from the finest and best governed financial institution and from within across businesses and partner functions. All these leaders have relevant domain experience on an average of 20 years and are fully capable of delivering the ambitious business plans that we have envisaged.

I will also dwell upon how we will handle the credit cost, one of the most important variables in the retail lending or rather I would say for lending in any form of credit. We have carried out a complete overhaul of our credit and underwriting policies in the last two months. The exercise has been based on significant learning from our own businesses and the external environment faced by the industry over last few years. It does not mean only tightening but having policies which are business enabling with right guardrails and getting rid of any redundancies. Additionally, the prudent measures taken in Q4 FY2021 and the expected recovery from what we already provided for, will help us wither any potential shock in near future. On profitability, we spoke about right selection of products and customer segments, significant equity capital, access to best-in-class debt capital, optimal cost of acquisition and credit cost. All these aided with reduction in opex which is necessary right now to build for ambitious business plan growth as we scale up in the next few years. It will keep on getting optimized and this will ensure that we deliver the planned risk adjusted return on capital(RAROC). All in all, our strategy on products backed by low cost liability supported by digitization, cost rationalization and lower credit cost will ensure desired RAROC.

Moving onto to Q1 performance, Abhay already mentioned the key highlights of our operating performance have been maintaining the AUM in a challenging environment despite discontinuing some of the products, improvement in NIM on year-on-year basis, containment of credit costs and led by improvement in collection efficiency, and a sharp growth on profitability to PBT of 81 Crores. Now, I will hand over to Sanjay Miranka our Group CFO to take you through the financial update in detail.

Sanjay Miranka: Thanks, Vijay. Good evening everyone. Hope you and your loved ones are doing well. First quarter financial performance of Poonawalla Fincorp has been well placed more so given the limited time opening of the economy in general and transition journey for the organization in particular. While our asset under management at 14,424 Crores was flattish, there was a growth of 6% in the AUM of continued and focused products. With new capitalization and the parentage, the company is poised for accelerated growth.

The large capital infusion, the cost of funds advantage led to 107 basis points of improvement in quarterly NIM at 7.9% per annum. We have started engaging with banks and undertaking aggressive repricing of our existing loans. Also, the incremental borrowing is being done at the finest rates in the industry currently being at sub 7% levels.

We expect our incremental cost of borrowing to be about 250 basis points lower. Talking about ALM and update on liability management, we have an extremely comfortable liquidity of about 3200 Crores on book and another 600 Crores of sanction lines. We have surplus ALM across all our buckets.

The gross stage three declined by 37 basis points to 5.4% on Y-o-Y basis. Even the quarter-on-quarter increase of 169 basis points was contained despite large scale shutdown during April and May 2021. The net stage three book declined by 103 basis points to 2.7% in the reported quarter. The credit costs stood at 1.5%, 89 basis points lower than Y-o-Y quarter credit cost. Pre-provision operating profit improved by 15 basis points to 3.6%. Our restructured portfolio is currently placed at 5.9%.

As regards to collection efficiency, after dropping down to 80% to 84% during April and May respectively, it rebounded sharply to 93% in June 2021 and further to 98% in July, which is similar to pre-COVID levels of collection efficiency. We at Poonawalla Fincorp Limited adopted one of the most stringent and conservative provisioning and write off policy in March 2021. As on June 30, 2021, our provision coverage ratio on stage 3 book stands at 51% which is amongst the highest in the industry. Moreover, we are carrying a provision cover of 21% on stage 2 book and this is by far the highest this year on stage 2 book in the entire industry. As on June 30, 2021, we are carrying 283 Crores of specific COVID provision which is included in the above provision coverage ratio, which I talked about.

This along with conservative provisioning basis revised policy in March 2021 visible improvement in the collection efficiency and expected recovery from write off pool provides enough cushion and would help us bring down the credit costs in the remaining nine months. We would strive to achieve net NPA of less than 1.5% by the end of this financial year.

Our consolidated PBT in Q1 FY2022 is 81 Crores against 47 Crs achieved in Q1 FY2021 witnessing a significant growth of 72%. The profit after tax has increased to 65 Crores against 38 Crores in the corresponding quarter of FY2021. Our

ROA doubled to 1.8% as against 0.9% achieved in the corresponding quarter of last year.

So, this was a summary of our financial performance. Thank you so much. Over to you, Kunal!

Kunal Shah: Lizaan, we can start with Q&A.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: Congratulations for the entire senior management team for the management vision. Sir, it is very exciting to see in terms of being a diversified tech enabled NBFC focusing on a risk calibrated growth with customer centric approach, so a couple of questions from my end, firstly in terms of the product, so we are following a consolidate, grow and lead kind of a strategy and we have highlighted in the presentation that we will consolidate for initial nine months thereafter it would be a growth phase for 9 to 18 months and then we would be a leading in some of the segments, so if you can highlight at the time of the consolidation in terms of the products that we would focus even in terms of the growth and finally in terms of being a leader, which are the key product segments which we are looking at, we have highlighted the products over next four quarters but particularly from a growth and leadership perspective, which should be the key segments which one should envisage in the medium term?

Vijay Deshwal: Thank you, Kunal and I think this is the most appropriate question to open the dialogue. In terms of our near-term growth drivers, we have identified our product segment very clearly and judiciously. We will focus on the growth of pre-owned car finance, affordable home loan, business loans and affordable LAP that we are going to start in the current quarter. Going forward and I will also remind that the year of FY2022, there will be a year of capital conservation, it would be a year of where we will focus more and more on credit cost, we will focus on profitability, and we will focus on calibrated growth on the identified products that we focus on. Largely this year will be around secured products and slowly as the situation around COVID evolves and we see market opportunities, we will also start getting into unsecured loans in a calibrated fashion going forward.

Kunal Shah: Sure, and in terms of the leadership if we have to look at it over a period some of the product segments wherein, we would lead say from three to five year perspective amongst NBFC space or the financing space?

Vijay Deshwal: Kunal, we aspire to be in the top three in pre-owned car finance, in business loans and in affordable home loans.

Kunal Shah: Secondly, in terms of the digital we are quite clear in terms of being a tech enabled NBFC and we have highlighted a lot in terms of how our digital focus would be and interestingly in terms of customer acquisition, end to end and need to be digitized process so when we look at it in terms of our customer segment and our employees, besides maybe catering say digitally, how would we tend to realign them given the way we have been working till now, so how would we bring about the digital alignment amongst the stakeholders, the employees, customers as well?

Vijay Deshwal: Kunal that is a very appropriate question, and you are right that we have been into certain business models which were more around people, more around a large branch network; however, within that we had even before the infusion, there was a journey which was onboarded towards central processing, a journey towards paperless transaction, so that were started. I will give you an example, that in the erstwhile Poonawalla Finance, which was led by Abhay over the last two years, there is an illustrated record of E2E digitized process of online application journey which goes through online verification checks and BRE, goes through an approval system on the fly moving to an E-agreement, e-NACH registration and an online disbursement, so pretty much everything do it yourself (DIY). We have strong learning from that, we will integrate our existing businesses on the similar philosophy, and we have already onboarded on the journey of digital taking these strong fundamentals. I will also add not only digital, data sciences and analytics, is something that we will use very, very strongly across our sales and distribution, credit risk and monitoring and collections optimization.

Kunal Shah: Sure, great that is very useful, and all the best say for your medium term strategy. Thanks a lot.

Moderator: Thank you. The next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Thanks for the opportunity for taking my question. So, my first question is you have spoke about the complete overhaul of credit and underwriting policies over the past two months, could you please elaborate a bit?

Vijay Deshwal: Piran, thanks for bringing that question, so we went through each one of our existing products which we have been handling, whether it is pre-owned car finance, whether it is affordable home loan or whether it is business loan, so we studied each one of the policies. While there was some action taken in terms of evolving COVID situation in the last one to one-and-a-half year itself; however, we tried to align it to the evolving customer segment that we want to focus on. Largely earlier if you see the customers focus was more around self-employed non-professional segment largely in the rural and semi-urban spaces. We are planning to move the customer segment and geographies more towards formal income, income proof and credit tested customers as well as in terms of geographical distribution we are looking at more of urban and semi-urban. So all the credit policies have gone through the filter of requirement of the customers and the geographies, so that is how we have really approached it and each one of the credit policies have been overhauled keeping that in mind and as I mentioned it is not only about tightening the credit policy, it is about making them as business enablers, if we found something which was not helping us over a number of years in terms of containing credit cost or business enabler, we have done away with those kind of redundant filters I would say.

Piran Engineer: Understood and now you mentioned that we are targeting more on formal income class in urban and semi-urban geographies then what will be really our unique proposition to clients because you have got the whole host of banks, there you got even the other Pune based NBFC out there large one so really what is going to be our unique proposition out there except our cost of funds which is low, what is really our right to win?

Vijay Deshwal: Piran, very valid question. As I mentioned that our entire customer proposition will be around the models of PTCS, pricing we have already mentioned that we have one of the best cost of funds. We are looking at a complete turnaround in terms of our processes and an agile backend operation by leveraging technology, while you may say this is hygiene but what we have experienced it in our erstwhile Poonawalla Finance that by really delivering it. We did that experiment with loans to professionals to the CA community, we realized that not only the customer on-boarding was smooth it also was at almost negligible cost of acquisition, and we had almost next to zero credit cost, so that is our value proposition. This is going to be so because as long as we are confident on containing the credit cost we will be able to deliver value to our customers and you are right that we will have to differentiate in each one of our business segments and therefore the products that have picked have gone through the rigor of micro market opportunity, complete data of credit record of these customers over the last two to three years also across the COVID cycles so that is what will be our play combined with the existing strength what we have in those markets.

Piran Engineer: So, our proposition will not be to try to offer the best rates or something like that?

Vijay Deshwal: Piran, my take on that will be that rate is something which is derived by the market, a customer will get the rate what the customer deserves, our cost of funds will help us in achieving profitability and targeting the right set of customers so that my credit costs are contained within the parameters that I have defined for myself.

Piran Engineer: Understood and lastly, the cobranded credit card with whom we are tying up, is it in the late stage of tie-up or is it just a plan that we have, but nothing has firmed up yet?

Vijay Deshwal: Piran, first of all on the name we cannot disclose because it is confidential as of now; however, we have gone through in detail on what exactly we are going to offer through the cobranded credit card, it will be slightly premature to discuss the overall strategy, but yes, when we say that we have applied to the regulator you will see the launch pretty soon in near future.

Piran Engineer: That is good. Thank you so much and wish you all the best.

Moderator: Thank you. The next question is from the line of Shreepal Doshi from Equirus. Please go ahead.

Shreepal Doshi: Sir, good evening. My question is with respect to our strategy in the pre-owned car segment, so if you can just throw some light on how will be the product structure since we are targeting in semi-urban and urban locations, how will this product be like in terms of features, what kind of pricing bracket are we looking at, what kind of tenure you are planning to put across and what will be our customer acquisition strategy or what kind of tie-ups are we planning to have in terms of dealer tie-ups or in the second hand dealer tie-ups also that one can look at, so just you can throw some light on these lines?

Vijay Deshwal: Thank you for your question and I will take it up in two parts; one is that how I see the competitive landscape and in terms of what is our right to win. If you look at the overall industry of pre-owned car finance, all of us know that in our country there is the ratio of about one-and-a-half times of used car to a new car sales that happens primarily driven by ownership cycle in India which is slightly more than the developed markets, we end up owning a car for almost about six to seven years while in western world car ownership lifecycle is about three years and therefore as the trend changes and as we graduate towards less than four to four-and-a-half years of ownership of a new car, there is a huge opportunity which is coming up in terms of the used car financing market. Second interesting dynamics is that just about 20% of the total used cars which are sold gets financed, that is also undergoing change and we see that over next four to five years almost about 30% cars will start getting financed. Now we have huge presence across the country in terms of our branch network. We have a unique underwriting model, we have a seasoned team which is close to about 15 years of experience in the same industry; however, we were limited by our cost of funds, our scale of operation and because our cost of funds was high our ability to raise debt capital and equity capital was limited, we were focused only on a specific segment in certain geographies. I will just give an example; we were not present too much in Maharashtra. Now with our ability now to raise funds debt capital at a very fine pricing and support of equity capital, we will focus very, very aggressively in Maharashtra market. I can say that that with fair confidence. Now what is my right to win? My right to win here in this segment is that we understand this industry, we have a seasoned team to deliver it, have the backing of data analytics, technology, digital delivery and have the formidable backing of the finest cost of funds. So, we will do it in two ways, one is that we will penetrate into the markets wherever we are already present and second we will hugely exploit the market where we were not there and go very, very deep into that.

Shreepal Doshi: But, like in these geographies, there are already large players with significantly better cost of fund so I mean winning on those lines will be sort of difficult, so then in that case, what is the customer segment that we will be targeting where we have a right to win?

Vijay Deshwal: I will save time for the entire participants who are present today, so I will actually speak out the competition which is present, so this market is largely dominated by large banks like HDFC Bank, ICICI Bank, AU Bank and some of the NBFCs and even as we speak we are at almost #6, so therefore we are talking about not really coming from scratch, but we are coming from #6 and we aspire to be in the top three. In terms of customer segment if we talk about, we were focused largely on SENP and commercial usage limited by our cost of funds and our access to capital, we will move that towards semi-urban and urban and we will take it forward accordingly, also we have operations which are backed by a very, very strong collections infrastructure which is seen in our collection efficiencies over the last few months.

Shreepal Doshi: Got it and Sir, second question was you have highlighted the collection efficiency numbers, so these are against the billing for this month or including the arrears?

Vijay Deshwal: If we talk about connection efficiency overall, all of us are aware that when wave two hit us in April and which persisted through almost middle of June, the collection efficiencies dipped to almost 84% in April, sequential to about 80% in May, returning back to normalcy in June at about 93% and in July I can confirm to you that we have seen a very, very strong collection efficiency of 98% trending back towards normalcy of pre-COVID levels.

Shreepal Doshi: But Sir, are these numbers against the billing for that month or including the arrears?

Vijay Deshwal: These numbers are in line with how the industry reports the collection efficiency. This does not include foreclosures and part payments so to that extent okay is a far more conservative definition.

Shreepal Doshi: Got it and Sir, on a business model perspective, so what is the kind of normalized credit cost that we are looking at going ahead for the lines that we are expanding?

Vijay Deshwal: So, over the next two to three years' timeframe we are looking at normalized credit cost of about 1.5%.

Shreepal Doshi: Thank you so much, Sir. I will come back in the queue for anymore questions.

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

Umang Shah: Good evening. This Umang Shah from Kotak Mutual Fund. Thanks for the opportunity and congratulations on a good quarter and the transition. Sir, my question is a little strategic, so if we take a step back while we appreciate that clearly the management is kind of bringing in a lot of changes both on the product side and in terms of the way the whole business has been done, but if we just take a step back, clearly the expertise of the company or the employees have been in a very different sort of a business and the kind of target markets and the customer segment that we are now looking to approach in our new avatar clearly that is something which is kind of diagonally opposite I would say in some sense, how easy or difficult the transition is going to be both in terms of adoption of culture and the whole technology changes by the employees and if you could just throw some light in terms of employee attrition and the whole transition from the operational perspective? That is my first question?

Vijay Deshwal: Thanks, Umang for a detailed question I would say and bringing us back to the drawing board in terms of what exactly and how exactly we are going to do the business transformation in specific. So, you are right that in the erstwhile avatar the teams were focusing on certain lines of business which were primarily I would call it wheels and affordable housing. When I say wheels, it was all around the CVs, across M&HCV and primarily into used, we were also doing a used car finance, new car finance and there were a wide array of products, but not a singular sort of leadership. We were also spread across urban, semi-urban and rural geographies, so all we are trying to say is that the teams have a fantastic experience into the wheels business, the products that we have picked up from the erstwhile bouquet is pre-owned car finance where in a way there is a right to win which exists with the team. I explain it in detail, we are the fantastic affordable housing franchise which has been built very, very carefully over the last three years, and have done business loans in the unsecured segment, which has withered the test of COVID one and COVID two. Added to that you are aware that Poonawalla Finance which Abhay was leading was into loans to professionals and personal loans, so there has been an experience of two years into those segments which are completely led by digital, so you are right there is an amalgamation happening, we are picking up learning's from our experiments in the past and we are trying to arrive at the synergies. We have completed all on the technology side, I can confirm it to you that the entire migration of the loan origination system, loan management system and the CRM has already happened. A complete training of the entire team's right up to the ground has been done. Today all my new loans are getting booked into the new systems and these are being fed by teams on the ground. There has been again negligible attrition because now people are looking forward to a growth journey. They were held up because of the want of debt capital, equity capital and no growth happening over the last two to three years. They have seen a new lease of life and all the teams are professionals, I can confirm it to you that in my last two months after I had joined and even previously I had a feedback that the teams on the operating side are almost best in the industry, the franchise on the ground is solid, so we will going forward integrate them into the entire business plan and we have done in fact, I mean, we are not only talking to you, we have done at least 10 to 15 town halls before we have come to you, we have traveled to the geographies, we have met people and we are trying to have them on the alignment towards the management vision that we have tried to spell out.

Umang Shah: Sure, that is comforting. Sir, my second question is pertaining to a couple of group companies and the sister company so what happens to the erstwhile Poonawalla Finance, I mean do promoters continue to run two companies separately or at some point in time we look at and does the regulator would kind of allow that?

Vijay Deshwal: Umang, we will not do further business in Poonawalla Finance, so all the lines of business which were happening in Poonawalla Finance are being migrated to Poonawalla Fincorp, including the existing portfolio.

Umang Shah: You mean to say the existing portfolio is already kind of transferred to Poonawalla Fincorp?

Vijay Deshwal: That will start moving as we speak.

Umang Shah: Alright, sure, and just lastly on the affordable housing and insurance subsidiary so while erstwhile management of Magma Fincorp were looking at some sort of a value on locking or demerger of the affordable housing business or value unlocking opportunities on the insurance side, just wanted to understand what is the thought process of the new management on this front? Thanks.

Vijay Deshwal: Umang, as we speak in this quarter, we have infused 500 Crores of fresh equity capital into Poonawalla Housing, last quarter to be correct, we have infused 500 Crores of equity capital so that shows the commitment of the new management like this is an integral part of our business, however, as I mentioned as we accelerate the growth trajectory of Poonawalla Housing, we will look at a value unlocking through an IPO in our run towards our growth journey towards 2025 and the timing of that will be completely depending on the market opportunity and our own requirement of additional capital/value unlocking.

Umang Shah: Sir, just one last question which I wanted to squeeze in, any updates on your dialogues with credit rating agencies, any timelines which they are talking about in terms of rating upgrades?

Vijay Deshwal: Umang, we are engaging with our credit rating agencies, there have been rounds of discussions and we are optimistic that in the next few weeks we will be able to get a confirmation and the final ratings from them.

Umang Shah: Alright, great. Thank you so much and wish you all the best.

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

Prashanth Sridhar: Thank you for taking my question. A lot of interesting stuff; just couple of things I had, so one is, how do you plan to get rid of the discontinued book would we see sell or you would run it down, but I guess that would be mostly be CVs where currently at least the market would see higher delinquencies? That is number one and number two when you switch from a self-employed to a salaried class, all your branches would be located in very different geographies, so do we expect to see a lot of branches be closed and the new ones being opened up according to your new customer segment and then lastly if you could give some background on how big the Poonawalla Finance balance sheet is or the credit cost delinquency, ROA, etc., just we know that eventually this is going to be merged into Fincorp entity that would give us some idea? Thanks that is it from my side.

Vijay Deshwal: Thanks Prashanth for your question, I mean very valid one that how do we look at the rundown of the discontinued book. Over the next 30 months, Prashanth and the rest of the participants this discontinued book would have run down by almost 90%, large part of it over the next two years itself; however, at the same time I can give a confirmation that this book is giving us good recoveries and we do not have any immediate plans to sell it down unless we come across very highly compelling value proposition, which we feel that on NPV basis is something that we need to really wrap it up. But given that we have strong collection franchise on the ground, we will allow it to run down in due course and recover the maximum from this book possible. On your second question of Poonawalla Finance book so we really do not right now discuss about Poonawalla Finance because it is a separate entity altogether and we will let you know in the subsequent quarters as and when the progress happens on that; however, what I can confirm it to you is that it has a book which is best in the industry, this is something that I can leave you with a thought.

Prashanth Sridhar: But the idea is to eventually merge both the NBFC would that be right?

Vijay Deshwal: No, we will not merge the entity for Poonawalla Finance...

Prashanth Sridhar: I mean whatever AUM is there on finance would move to Fincorp is that correct?

Vijay Deshwal: Yes, the AUM will move here, and I can say that 85 plus DPD is zero as of now in that book and I will maybe hold back my further sort of endeverance to comment on anything on that book.

Prashanth Sridhar: Sure, fair enough, Sir and what about the branches, so when you do self-employed to salaried, would you close all these old branches and then open new one and that would be kind of opex heavy, right?

Vijay Deshwal: So, we are looking at rationalization of the branches so it would not really, sorry I will come back. Prashanth, do you want to understand about the branches of Poonawalla Finance, or you are looking at an answer for rationalization?

Prashanth Sridhar: No, for your current entity for Poonawalla Fincorp, you meant to say you are switching from self-employed to salaried I am assuming the branches also would have to move right or it that wrong?

Vijay Deshwal: I will take it into two parts, one is that we will continue to do the businesses that we do well, we will also have a tilt towards the segments, which we were not covering at all earlier, so there will be a movement towards those segments and there will be healthy mix of what we were doing earlier plus what we will be doing afresh and there will be a mix of physical plus digital there. There will be some rationalization of the branches, not all our branches were rural or semi-urban, but there was a large tilt towards the semi-urban and less urban, so we will look at rationalizing these branches over the due course and we will keep you posted on that development in the subsequent quarters.

Abhay Bhutada: Just to add on that for the current branches, what was missing in Poonawalla Finance were the branches, and at point of time, I think the count was only nine in terms of branches rest was a digital model, but as you rightly pointed out, we are focusing on digital and other things, what will we do with the branches? The reason behind Magma acquisition is the collection infrastructure, readily available branches and we wanted to focus on phygital model as well because few of the products will require a physical presence; for example, for pre-owned car we will require physical presence and for micro-LAP and affordable housing we will require physical presence. Then for small business loans, to go to the customer, meet them and understand; as it is cash flow-based lending, for personal discussion with these kinds of customers, we need physical branches. Then for cross sell of insurance you will again need a physical setup up to a certain extent. Overall, for the collection also if you see all Fintech's, they are struggling with the collection infrastructure. Here also in Poonawalla Finance, though we started with three unsecured products, but later on we thought of Magma acquisition because of the branch ready infra available. So, there will be a rationalization of branches, which will be helpful for us in terms of collections, cross sell of insurance, affordable housing, micro-LAP, small business loan, pre-owned cars. And as you are aware in the Q3 and Q4 we are launching consumer durable and a few other products; so, we will require such kind of setup in the infrastructure. Thank you.

Prashanth Sridhar: Thank you so much. Just one doubt, when you say pre-owned cars would it be a commercial segment or Ola, Uber type drivers or is it more retail?

Vijay Deshwal: Actually, we will only not be doing that what you just said, we will not be doing commercial we will be doing everything else.

Prashanth Sridhar: Thank you so much and best of luck.

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

Abhijit Tibrewal: Thank you for taking my question and first, kind of congratulate you for what you have achieved with the erstwhile Magma franchise and thank you for giving out such elaborate or exhaustive details around your business strategy. Sir, please do not misconstrue me if some of my questions come across as unpleasant, What I am primarily trying to do this to get more comfort and understand what is your level of comfort now and the visibility that you have after all the reorg that has happened in terms of processes, underwriting and collections, so two or three questions here firstly, you have moved your headquarters to Pune, so how has this been received by the existing Magma team, are they comfortable moving to Pune headquarter or are you seeing some kind of an attrition in the current deal?

Vijay Deshwal: Thanks for this valid question and I can only say that I have got so far in the entire management team. Including me, MD, CFO, we have got a tremendous support from the entire erstwhile Magma team. In fact, somebody asked me about few weeks back that what was one of the most pleasant positive surprises that you saw and I confirmed at that time also the one of the most pleasant positive surprises is that the willingness and the positive attitude of the team to really go through this integration, also there is a huge positive confirmation by a large part of the senior and middle management team because we have a huge branch network, you need to appreciate, not everyone was sitting at Kolkata or Mumbai, and people are now looking at growth opportunities, professionally, personally and in fact I have with me, Mr. Mahender Bagrodia who heads the collections, he has been 25 years with Magma, so I will request him to actually speak more on that instead of I trying to convince.

Mahender Bagrodia: Good evening. I think you know the background that Magma moved head office three years back from Kolkata to Mumbai, so it was not a Kolkata based company when we did this transaction. Now if you see the background in Magma, we were struggling largely because of the cost of fund what we discussed and the transaction happened because of the trouble which we had in Magma, now if you see the entire employees of Magma they are coming under roof of a very big group and that is a big motivation for all the people coming under such a big group and the new opportunity which they get not only for the existing customer profile they were experts at but now they have the entire market that they can actually dominate, so internally within Magma people I will say people are quite motivated and many of the senior leaders as we speak have already moved to Pune.

Abhijit Tibrewal: Sure, Mahender, Sir, that is useful. The other two questions I had was around, I mean from what I understood the erstwhile Poonawalla book that we had was largely to loans to professionals and personal loans and we had about two years kind of experience giving out this purely digital loans, how comfortable are we in terms of the seasoning of that, book, in terms of the performance of that book, the kind of credit cost that we show in the book, to really tell that now that we are implementing this in the re-branded Poonawalla Fincorp, the results are what you are expecting, so the last question may be I just add here and you can answer both of them together. In the past, like you know right I mean predominantly three products at the Magma's table which was vehicle financing, unsecured MSME loans as well as affordable, while affordable I think we had reasonable comfort in affordable loans, vehicle we are largely vacating the space, we are probably continuing only with pre-owned vehicles what is the thought process around making this unsecured SME piece more secured going forward and the other question is what are the gaps that you identified when you took over the erstwhile Magma team and which you think you would have fixed them in the last let us say two or three months and now you have a reasonable comfort that going forward especially the asset quality performance that we saw in the past is going to be very different in the future, thank you, Sir?

Vijay Deshwal: I will request Abhay to take the first question and then I will take the rest of the two, if that is okay?

Abhijit Tibrewal: Yes, Sir.

Abhay Bhutada: I think it is a very good question. As you rightly pointed out, I will say the reason behind Magma acquisition is branch infrastructure as well as the employee strength, and of course we have discontinued few of the products. But in pre-owned car, affordable housing, they were doing pretty well as compared with the market. So, coming back to your question, apart from this vision of Magma acquisition, Poonawalla Finance's experience is one of the reasons behind the Magma acquisition because as you rightly said Poonawalla Finance was "AAplus" rated by CARE. The reason behind why we got "AAplus" at that point of time and as you rightly said the seasoning is just two years; though on paper customers seasoning looks two years, but average bureau seasoning is seven to eight years and there were no disbursements to new to credit. It was clear cut from the pre-approved customer kind of thing, personal loan to super Cat A, Cat A customer. As on today, as we speak despite of COVID wave one and wave two, 0+ DPD there are hardly two or three cases. In professional loans around close to Rs. 600 Crores loan book, zero plus is just 1%. In business loan mostly backed by GST data, TDS, bureau history, cash flow-based lending and PDF banking, the 85 DPD is zero and zero plus is around 4%. So, thanks to the COVID, we got to know, even despite of COVID wave one and wave two, how the book is performing. As you rightly pointed out, same question was asked by the rating agency; the bureau seasoning on an overall basis is more than 19 years, business vintage seasoning is 12 to 13 years; but on paper we have seasoning of two to three years. Because of the lesser cost of fund, 100% direct sourcing, I will say negligible cost of acquisition because in Poonawalla Finance there was no DSA model for personal loan and professional loans - 100% acquisition digitally, no single cheque, no PDC, and as Vijay mentioned about e-NACH, e-Agreement, total digital process, stringent credit parameter and credit policy; the same policy we are going to follow in the Poonawalla Fincorp as well. Poonawalla Finance used to write off all the cases 85 DPD, so there was a pressure on all the teams at the start from on-boarding till underwriting, because you are going to write off at 85 DPD. Here we have decided that all our unsecured products we are going to write off at 90 plus, which we have started from March itself and again in June we have done the same thing; and secured products at 180 plus which are the backed by vehicle and mortgage products at 730 plus. To answer your question, 90 plus DPD was always zero, but if you ask me, we should always check zero plus DPD because Poonawalla Finance was believing first time collection which is the NACH collection; so, first time NACH collection across two products was 99.7% and in the business loan it was around 94% to 95%, so I think that will give you a fair picture. As I am speaking to you, at this point of time these are post-covid scenario figures.

Sanjay Miranka: Just to add half a point there that they cannot be a better situation that 200 years kind of situation which is COVID to test the seasoning and expected performance of any credit book.

Vijay Deshwal: If I understood the second part of the question right was what was the logic of discontinuing some of the wheel's businesses, but largely I would say it was M&HCV and CV and the farm equipment and rural businesses and we decided to retain the pre-owned car finance and we also decided to grow the business loan segment. The primary reason I explained for pre-owned car in detail. I will discuss the business loans why we really decided to retain that despite of being unsecured. See, clearly what differentiates a business franchise in business loan is how strong collection machinery you have on the ground, it is not a business of distribution, it is the business of distribution and collection. Second how strongly do you credit underwrite these customers backed by the data from the bureaus which is already available, and we can clearly see that in each of the micro markets what is the kind of opportunity which exist. There is a large market, however we have to figure out that how many locations we would want to be in and what kind of customer segment we will pick up when they go through our own internal tests of credit, bureau, data analytics and everything backed by a very solid and dedicated unsecured business collection franchise on the ground.

Abhijit Tibrewal: Sure, Sir, that is useful and just last question that I had what are the gap that you identified when you took over this erstwhile Magma team in terms of underwriting or collections and which you think has now been fixed and the asset quality performance would be better than what we have seen in the past?

Vijay Deshwal: Two things, first and foremost we looked at that the business rule engines which were there those had to be really aligned towards the market reality, we found that some of those were outdated, second was the customer segment on which we were focusing what sort of per force not really evaluated through the metrics of opportunity and the credit costs that they will eventually leeway. I am a firm believer that credit cost is decided on the date of customer on boarding and not in hindsight, so these are primarily two of the major things, third thing which we found was lacking, in terms of investment in technology and data analytics, so that is something that we are strengthening, we are investing heavily into data analytics and digital and technology and we are investing heavily into BRE, so therefore again those are the things I would say off the cuff about these things.

Abhijit Tibrewal: Sure, that is very, very useful. Thank you so much for patiently answering my question and wish you and the rest of the Poonawalla team very best.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question, I now handover the conference over to Mr. Kunal Shah for his closing comments.

Kunal Shah: Thanks to the entire senior management team of Poonawalla Fincorp for articulating the vision, medium term strategy and product proposition as well as a very clearly highlighting where Poonawalla Fincorp is headed to and sharing your perspective and thanks everyone for being there on the call on a Saturday. Have a good weekend. Thank you everyone and thanks for giving us the opportunity to host you, Sir.

Vijay Deshwal: Thanks everyone and thanks Kunal.

Moderator: Thank you. Ladies and gentlemen, on behalf of ICICI Securities that concludes this conference call. We thank you for joining us. You may now disconnect your lines.