Poonawalla Fincorp Limited Q2FY26-27 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to Poonawalla Fincorp Limited Q2FY26-27 Earnings Conference Call. We have with us today, Mr. Arvind Kapi - Managing Director and Chief Executive Officer, Mr. Sunil Samdani - Executive Director, Mr. Shriram Iyer - Chief Credit and Analytics Officer, Mr. Harsh Kumar - Head, Artificial Intelligence and CHRO, and other senior management officials.

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 this 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 Shabnum Zaman, Company Secretary of Poonawalla Fincorp Limited. Thank you and over to Ms. Zaman.

Shabnum Zaman: Thank you. In line with good corporate governance practices, please note, this presentation may contain forward-looking statements regarding the company's future business prospects, strategies, estimates, and profitability, but it is important to note that these statements are based on certain expectations, assumptions, anticipated developments, and are subject to various risks and uncertainties.

The actual results may differ significantly from what is stated in these forward-looking statements. Risks and uncertainties related to these statements include, fluctuations in earnings, our ability to manage growth, competition, economic conditions in India and abroad, changes in law, rules, and regulations relating to any aspect of the company's business operations, general economic, market, and business conditions, attracting and retaining skilled professionals, as well as government policies and actions.

Now, I would like to hand over to Mr. Arvind Kapil, Managing Director, and Chief Executive Officer of the company.

Arvind Kapil: Thank you, Shabnum. A very good evening, everyone, and welcome to our Q2FY27 earnings call. Thank you for joining us.

As we step into the festive season, let me begin by wishing all of you and your families a very happy and prosperous times ahead. I'd like to open with the statement of where our institution stands. This quarter, in my view, marks an inflection point in establishing a self-sustaining earnings engine through the structural improvements across four key dimensions. We've delivered disciplined AUM expansion while enriching NIM and fee income optimization. Concurrently, continuous credit quality refinement coupled with collection infrastructure has driven credit cost lower, translating into a structural lift in our return-on-assets (ROAs), accelerated by a maturing AI and digital-led, these foundational gains, in my view, reinforce the compounding power and long-term sustainability of our franchise.

Now moving on to our quarter specific numbers.

AUM at the end of Q2FY27 stands at ₹74,008 crore. The new products we've launched have contributed 28% of the disbursements this quarter versus 26% the previous, and 24% the

previous to that. They continue to scale steadily and add to the predictability of our future earnings.

As I said in my previous calls, our growth isn't just about chasing volumes, it's about raising the margin per unit. We therefore track **six key performance vectors** very closely and they continue to move in line with our plans and expectations.

The first, our **portfolio yield** has increased by approximately 45 basis points over Q1FY27. So, it's now at 14.08%, demonstrating effective transmission of previous disbursement yield onto the portfolio yield. Our disbursement yield by itself as well has further expanded by approximately 20 basis points over Q1FY27, driven by our product mix. Just a quick reminder that this follows on top of approximately 50 basis points expansion in disbursement yields we had reported last quarter.

Now moving on to the next point. Q2FY27, if I take **NIM plus fees**, that's expanded by 16 basis points to 9.26% from 9.10% in Q1FY27. We have now sustained net income of over 9% over three quarters reflecting our structural choices on product mix, customer segments and channels.

Noteworthy, in my assessment, would be our **credit cost this quarter**, which has declined by 25 basis points from 2.4% to 2.19%. Our GNPA for Q2FY27 stands at 1.2% versus a 1.37% the previous quarter.

While these are outcome metrics, we track the quality of our incremental cohorts very closely as lead indicators. **The 6 MOB 30+** of the most recent cohort is approximately now 0.35%, approximately 32 basis points lower than the 0.67% that we had last quarter, which is by itself 41 basis points lower than the previous quarter. This keeps a firm downward bias on our credit cost. I wish to emphasize at this juncture, these 6 MOB 30+ numbers are computed excluding gold loans, demonstrating the true nature of our credit calibration and collection performance.

Opex-to-AUM for the quarter stands at 4.15%. It reflects pre-investments that we have frontloaded; collection capacity, AI investments and our gold loan branch rollouts. This quarter movement sits within the 10 to 25 basis point range we had guided for. As a result, we've achieved ₹375 crore in profit after tax, recording a 22% growth quarter-on-quarter.

Our ROA has moved up to 2.18%, reflecting a 20-basis point improvement over the previous quarter, and approximately 149 basis points improvements over Q2FY26.

Beyond these numbers, I want to spend the next few minutes on **five aspects that define this quarter,** which I believe will define the quarters ahead.

First, robust product traction and expansion of our distribution. Our quarterly performance reflects high-quality growth across our entire product portfolio. A key driver of this performance is the seamless market adoption of our recent product launches. Each of them continues to build scale quarter-on-quarter and distribution footprint continues to strengthen.

Few highlights, probably to give you some sense of the ground level field.

Prime Personal Loans, our digital prime PL, 24x7, a first of its kind, now contributes to 42% of the PL disbursements compared to 38% the previous quarter, providing us significant operating leverage. This increase in share comes on top of a growing book. Our average monthly disbursement stands at about ₹577 crore, having grown by 8% quarter-on-quarter.

If I take **gold loan** for example, our quarterly disbursements grew to ₹1,066 crore versus ₹875 crore in the previous quarter. Growth has been driven by a combination of expansion and maturing of existing branches. We launched 90 new gold loan branches this quarter alone, bringing our gold loan network to 550 branches from 460 at the end of Q1FY27. We remain on track to add a total of approximately 200 new branches in this financial year.

If I take **commercial vehicles**, despite the background of the global fuel prices uncertainty, we ended Q2FY27 with an average monthly disbursement of ₹127 crore. On the distribution side, we scaled up to 1,250 channels partners, up from 1,100 in the earlier quarter and expanded our geographical footprint to 90 plus locations across 13 states. This gives us a strong foundation for continued growth of this segment.

If I take **education loans**, average monthly disbursements have grown to ₹218 crore. We have significantly strengthened our origination capabilities expanding our consultant network to 700 partners. Our instant sanction platform continues to drive digital adoption in the education loan segment with around 35% of sanctions now processed fully digitally.

Our **consumer durable** franchise has successfully scaled to 20,000 dealers across 360 locations, resulting in a total quarterly disbursement of ₹606 crore over the ₹433 crore in the previous quarter. We are now beginning to see expansion in relationship of our earlier cohorts through cross-sell of other loans.

The second important point I want to highlight at this juncture is that our margins and our scale are expanding together.

Crucially, our top line expansion is not coming at the expense of profitability. We are experiencing margin expansion alongside balance sheet growth. In the same quarter in which our AUM grew by approximately 10%, our NIM plus fees improved, our credit cost decreased, and our ROA crossed the 2% mark. Even after frontloading significant investments into collections, which we believe is yielding very good results, and our new branches, our Opex-to-AUM remains within the range that we are happy with.

Third important point at this juncture, which I'd like to share with you is risk calibration and improving asset quality**,** which I believe is the most important thing for a finance company. Our portfolio is seasoning very well, and the metrics are very encouraging across all buckets. We've registered a broad-based improvement across Stage 1, Stage 2, and Stage 3 assets during the quarter. Stage 1 has improved by 26 basis points to 97.9%, Stage 2 has improved by 9 basis points to 0.94%, and Stage 3 has improved by 17 basis points to 1.2%.

Our Stage 2 portfolio improvement is a clear validation of our risk management capability. It reflects precise credit calibration paired with high efficiency collections and lower roll-forward rates, achieved through genuine, organic calibration without curbing the growth. Collections

continue to move from strength-to-strength, consistently delivering higher resolutions across markets and building a strength for us.

Fourth important point is the deep tech, AI and automation executed at an enterprise scale.

To give you a quick sense, our technology transformation accelerated significantly this quarter. We're not merely experimenting with Artificial Intelligence, we're operationalizing it across the enterprise now, and across all departments. We've identified 42 new AI use cases this quarter, taking our total AI projects count to 143, of which 84 have been successfully implemented. These projects span across every core function of the business, and it is also increasing the enhanced knowledge levels across all departments.

This quarter, we've deployed agents at enterprise level scale across our digital loan funnel. Agents in the form of chatbots, video bots, and voice bots can converse seamlessly with customers across application funnel. Total disbursements generated through AI chatbots and voice bots have been increasing every month, and we're very excited about that.

The fifth important point, our multi-product cross-sell engine.

Yes, our cross-sell engine has been set up, and is now beginning to fire. Adoption across our product lines has commenced in line with our strategic roadmap. As cross-sell penetration deepens across our existing customers, it will serve as a continuous multiplier for unit economics and operating leverage. The logic is simple. We've built a growing customer franchise, a set of products that serve different needs of the same households or business digitally. The cost of acquiring a customer is paid once, every additional product that the customer takes from us improves the return of that cost.

In summary, finally, this quarter marks a very firm step in our journey towards sustained, predictable, profitability. ROA has strengthened to 2.18%, NIM and fees have expanded, and disbursement yields continue to rise.

Credit costs, GNPA, both have moved favorably with improvement across all three stages in a solid manner. All elements we envisaged are moving in line with both our plan and every word we said thus far, and we're clearly moving from strength-to-strength towards a solid foundation of risk-adjusted returns.

Thank you for your continued trust and partnership.

With that, let me hand over to Shriram to walk you through our credit performance and trajectory this quarter.

Shriram Iyer: Thank you. Thank you, Arvind. Good evening, everyone.

Over the past few quarters, our strategic focus on risk-first underwriting and dynamic portfolio calibration has transitioned from an operational framework into visible compounding results. What we are seeing today is not just incremental asset quality control, but a fundamental

outperformance driven by the tight interplay between our upfront credit selection and enhanced collection efficiency.

What truly sets our asset quality performance apart is not just static underwriting, but our agile closed loop architecture. We execute a dynamic comprehensive credit calibration cycle based on changes reflecting in the sourcing funnel and early risk indicators. Ground level underwriting signals and real-time collection intelligence are fed directly back into our risk decisioning engine. This feedback loop creates an unmatched operational synchronicity, allowing us to refine policy parameters dynamically, catch early-stage behavior before it turns into default, and double down on high performing sub-segments.

The direct quantitative validation of this high-frequency calibration is evident in our slippage metrics this quarter. Our Stage 1 slippage ratio improved by 16% quarter-on-quarter, while our Stage 3 slippage ratio delivered a matching 16% quarter-on-quarter improvement.

By continually sharpening our underwriting lenses dramatically, we are converting real-time field data into predictable, lower credit costs and structural balance sheet resilience. When you look beneath our headline asset quality metrics, the true strength of our portfolio lies in the quality of our fresh originations. Our early risk indicators provide compelling proof that our disciplined risk architecture is working right at the front door.

Specifically, our 6 MOB 30-plus indicator for Q2FY27 has dropped to 0.35%, a marked improvement over the preceding quarterly cohort. This isn't just a static data point, it reflects a deliberate, structural elevation in our origination filters. Because each new vintage enters our book at a better credit quality, the downward slope of early stress is flattening sequentially.

As these pristine new cohorts mature, they infuse the broader balance sheet with higher resilience. What we are witnessing today is a compounding benefit of high-quality origination flowing into a progressively more seasoned, predictable, and structurally resilient credit portfolio.

Let me highlight the key trends.

- The GNPA has shown a sequential improvement to 1.20% in Q2FY27 versus 1.37% in Q1FY27. NNPA has improved to 0.61% in Q2FY27 versus 0.7% in Q1FY27.
- Quarter-on-quarter improvement across Stage 1, Stage 2, and Stage 3 asset composition continues in the current quarter, underscoring our calibrated growth approach and robust debt management framework.
- Stage 1 composition in Q2FY27 is at 97.86% versus 97.6% in Q1FY27.
- Stage 2 composition in Q2FY27 is at 0.94% versus 1.03% in Q1FY27.
- Our Stage 3 composition in Q2FY27 is at 1.20% versus 1.37% in Q1FY27.
- The quarterly credit cost has improved to 2.19% for Q2FY27 versus 2.40% for Q1FY27 versus 2.51% for Q4FY26.

One of our strategic outcomes for risk is as high-quality new vintages age, they enhance overall book maturity and predictability, proving that our asset quality gains are structural rather than transient.

The calibrated underwriting secures quality at the front, our collections and recovery engine ensure resilience across the lifecycle. We view collections not as a reactive back-office operation, but as a core capability driven by data, technology, and targeted execution.

To that end, we are actively scaling our investments in a two-pronged collection strategy.

First, on the technology front, we are deploying advanced predictive analytics, dynamic behavioral segmentation, and AI-assisted decision-making. By analyzing real-time payment patterns and early bounce indicators, these models route accounts to the most efficient resolution channel instinctively, whether that is intelligent automated reminders, dynamic digital payment links, or tailored nudge flows.

Second, technology is paired with specialized human capital. We are structured dedicated expert manpower teams, segmented by product category, stage bucket, and delinquency cycle. Whether it is a early-stage digital nudges, high velocity mid-stage resolution, or specialized legal and field recovery for late-stage buckets, every product vector from LAP, gold loans to salaried PL is managed by teams built specifically for those risk dynamics.

This dual approach, AI intelligence and precision at scale, combined with specialized field expertise, is driving sharper resolution efficiency, lower roll forward rates, and protecting our net credit cost as our balance sheet continues to scale. To conclude, the structural decline in our credit cost reflects a fundamental improvement across all the stages from improving Stage 1 and 2 assets to accelerated Stage 3 resolutions.

With our latest origination cohorts demonstrating superior 6 MOB performance, we are truly moving from strength-to-strength, and our confidence in the resilience and quality of this portfolio is on a high.

Thank you so much, and I hand over to Harsh.

Harsh Kumar: Thank you. Thank you Shriram. Good evening, everyone.

Today I'm excited to report continued momentum in our enterprise AI program. Last quarter, I described what we are building as an AI brain for the enterprise. This quarter, let me make that picture more precise, because it truly reflects how the architecture has matured.

We are not building one single brain, we are deliberately building multiple specialized brains, sitting on one common governed layer, we have ensured that our intelligence is not dependent on a single point of failure. Think of it the way our people experience it. What a user sees and works with is an AI operating system, the interface. Behind it, the specialized brains do the thinking, and that is the engine. Governance is the nervous system that keeps every action safe and within bounds and a flywheel underneath makes each new capability faster and cheaper to

build than the last. Every project we deliver adds to this system, which is why our AI capability compounds rather than fragments.

We measure progress on three things: AI literacy across every department, measurable impact from every deployment, and an ever-wider range of problems we solve.

Everything that follows is that system getting smarter. As we speak, our AI portfolio has grown from 101 projects to 143 projects across every core business function.

Of these, 84 are now live in production, and 59 are underway. We delivered 34 of these in this quarter alone, our fastest quarter yet. What matters is how?

Over the last few quarters, our focus has shifted from building individual AI solutions to building the platform that lets us create solutions repeatedly, safely, and at scale. This is platformization.

Our agents and components are now reskilled, retooled, and reused rather than rebuilt each time. A capability built for one problem becomes a reusable asset for the next. Every connector, every workflow, every governance control is built once and used multiple times over. You can see it in this quarter's 34. Some came through last quarter's pipeline, others were conceived and delivered within the same quarter, because they were built on platforms like MyBot rather than from scratch and that is the operating system taking shape, and the flywheel we spoke about last quarter now accelerating. Each new project begins ahead of where the previous one ended, because output is growing faster than the resources behind it. This shows up as a genuine operating leverage.

Let me come to our guardrails, because governance is what earns us the right to operate at this speed in a regulated environment.

Last quarter, I took you through our AI governance and security framework. I'm pleased to report, it now runs as a fully operational governance and testing engine. Every AI deployment passes through the same standardized lifecycle in 3 layers

First, before we go live, our red teams stress-test every solution, attack scenarios, security and data risk, business continuity. So, it's production ready from inception itself.

Second, at deployment, every solution ships inside our security and compliance framework with governance checkpoints built into the deployment workflow itself.

Third, after go-live, we monitor performance, reliability, and emerging vulnerabilities continuously with automated response and a dedicated hallucination containment framework of adversarial testing, secure data sourcing, and inference controls. All of this operates within RBI's 7 sutras. Innovation and governance scale together, they are not competing priorities for us.

Let me take you through where this showed up in the business. I'll take a few examples, but each one, a new skill that added to the brain.

First, customer acquisition and conversion.

Across our digital lending funnels, Instant and Prime Personal Loans, we have deployed conversational agents, chatbots, voice bots, and video agents. They engage customers through the journey, answer queries, and help them complete their applications. As adoption grows, the volume of disbursements influenced by AI-led channels keeps rising month-on-month. AI is truly becoming an active revenue contributor, not only a productivity tool.

A new advancement this quarter is our voice bot dialer, which reaches out to and holds a natural conversation with stakeholders at scale, internal or external.

Second, MyBot, which has taken its first real step from a knowledge assistant to an agentic platform. When we launched it, MyBot's job was to give an employee access to knowledge spread across our systems and documents. Today, through an agentic integration layer, it also acts. It invokes workflows, completes routine tasks, and service requests on a user's behalf within clearly defined guardrails. What encourages us most is adoption. This quarter, several departments built and deployed their own action-oriented agents on MyBot themselves, on the same govern platform through the same checks. Business users are becoming AI builders, not just consumers.

Third, our AI marketing factory, 14 specialized creative agents generate content across campaigns, channels, products, and segments. More than 2,200 assets to date, increasingly weighted towards video with over 140 videos produced. The outcomes are what matters.

AI generated campaigns are delivering 1.5 to 2 times higher click-through rates, supporting outreach to more than 15 lakhs customer leads every month at more than 60% lower cost than traditional agency models.

Let me close with where we go next. The last phase of our journey was about breadth, proving value, building the platform, getting AI into every function. We now have that breadth. The next phase is depth. AI in hands of every employee and every role, embedded in every core process as a daily partner in how work is done, and decisions are made. That is how we move from deploying AI solutions to becoming an AI-native enterprise.

I look forward to reporting further progress next quarter. Thank you everyone.

Now, I would like to hand over to Mr. Sunil Samdani. Thank you.

Sunil Samdani: Thank you Harsh and good evening everyone. Let me take you through the financial highlights for the quarter.

- The Asset under management stood at ₹74,008 crore, reporting a strong growth of 10.4% quarter-on-quarter, driven by continued momentum in retail products.
- On the liability side, as part of our debt strategy, our focus on long-term borrowing continues. The share of borrowings from long-term sources stands at 88.92%. This number was 88.52% in Q1 of FY27.
- Our net interest income, including fees and other income continue to grow healthy, standing at ₹1,589 crore for Q2 of FY27. This is up 12.3% quarter-on-quarter and 75.6% year-on-year.

- The net interest margin, NIMs for the quarter at 9.26% is an improvement of 16 bps quarter-on-quarter and 86 bps year-on-year.
- The cost of borrowing for the quarter stood at 7.76% versus 7.72% in the previous quarter.
- Opex-to-average AUM was 4.15%, which shows resilience despite ongoing investments in branch, technology, collections, and AI.
- The pre-provisioning operating profit during the quarter was ₹877 crore, up 11.8% increase quarter-on-quarter.
- Credit cost improved 2.19% in Q2FY27 as compared to 2.41% in Q1 of FY27. This was 2.67% in Q2 of FY26.
- Asset quality continues to improve sequentially, with gross NPA declining further by 17 basis points. It stood at 1.2%, a reduction of 39 bps year-on-year and net NPA at 0.61% is a reduction of 9 bps quarter-on-quarter and 20 bps year-on-year.
- Our provisioning coverage ratio stood at 49.14%.
- This resulted in a profit after tax of ₹375 crore during the quarter, which is up 21.8% quarter-on-quarter.
- Our debt equity ratio stood at 4.3x at the end of the quarter.
- Capital adequacy ratio continues to remain healthy and comfortably above the regulatory requirement at 18.68%, of which the Tier 1 capital is 17.15%. This gives us enough headroom for our growth.
- Liquidity coverage ratio at 194% as of September 30, 2026, against the regulatory required 100%.
- On the liquidity front, we remain comfortable with positive cumulative mismatch across all buckets and a surplus liquidity of ₹6,526 crore as of September 30, 2026.

Thank you, and now I would like to open the floor for question-and-answer sessions.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Suraj Das from Sundaram Mutual Fund. Please go ahead.

Suraj Das: Hello. Hi sir. Thanks for the opportunity. Hope I am audible. Two questions. One on this operating leverage. Sir, you are saying that operating leverage is coming into play with more and more on cross-sell. So, if you can give some more color here in terms of, let us say, where we are in the journey and where we intend to be. Can you comment, let us say on products per customer? So, what is that number now versus a year back or maybe even two-year back when you joined and say what would be our target levels here and when do we reach there? So that is question number one.

Second, in terms of say this product-level profitability, how things are shaping up? I mean, in terms of new products that you have launched over the last year or so, how many are profitable and probably how many will be profitable this year versus next year, so and so forth. And let us say within the older products, how many are giving, let us say, overall ROA higher than the company level? And once let us say all these new products are profitable, how do you see the overall blended ROA? So Yes, I think those are my questions.

Arvind Kapil: All right. Let me attempt. I could partially hear you. I think, there was a fair amount of noise, but I think there were two parts to the question you're asking is, operating leverage has kicked in and how this will probably play out over the next 2 years. I heard you. Next is, you want a net profitability kind of sense of how our products are doing. Let me cover a sense in both of them and then maybe you can add.

See, when you do a substantial amount of launches which we did a year and a half back, you put in an adequate amount of fixed cost to build the kind of operating leverage that I'm talking about now. But remember one thing that you're running operating leverage on the infrastructure that you've constructed with the investments you're doing yet, which is why you see quarter-on-quarter your ROAs are moving up. But simultaneously, we will be investing in gold branches. We are investing in our new businesses, whether its consumer durable to probably double our customer franchise this year, strategically or we want to kick start each of the businesses like education loans, personal loan prime between physical and digital. Our digital part is growing well, that is also gives us both the cross-sell piece from here on, which has started in a small way, but probably quarter-on-quarter will keep expanding, is going to be one fundamental booster for your operating leverage and the second will be your digital journeys, which are very strong when it comes to us. They also create very strong operating leverage for us, because our cost structure there becomes an advantage versus the physical distribution. So yes, across businesses and cross-sell and digital, we are experiencing an operating leverage which should keep playing out. And remember our NIM plus fees, the portfolio and disbursement yield itself creates a winning edge. You have almost minimum, even if I take conservatively, you're well over 200 basis point despite showing an ROA of 2.18%. So, I think it should be very visible where we are playing out.

Even our opex cost on an annualized basis looks moving exactly on course to our plan. But yes, we would be not just investing in products, you should keep in mind we're also very favorably investing to structure our collections cost quarter-on-quarter in a very prudent and the outcomes are also very encouraging.

As far as the profitability, I said, I think if I remember right, I think I mentioned 28% now the contribution of the disbursement is new products. New products is a combination of some which probably break even in a year's time, like gold branches for us probably break even in 13 months. But remember, we are investing in 300-400 branches every year, so that also continues. The existing ones are obviously becoming substantially more productive. But if you want a sustained profitability model, which can be easily predicted for years to come, we are very committed to that model. Which is why not only are we growing our ROAs, growing our operating leverage, and creating a margin expansion on NIMs, on credit cost, as well as on the opex cost. If you look at it annually and quarterly, we're building a structure where all three are moving strength-to-strength.

But remember for that we also invest in AI. There's a fair amount of investments done. And we won't shy away from sensible investments. I want to be very honest about that. It's not about just managing every metrics. It's about creating a sustainable, profitable model that we are committed to.

Suraj Das: Sure. Just one follow-up. If you have the number handy or maybe I can connect offline. What is the product per customer right now versus say a year back or 2-year back?

Arvind Kapil: See, remember one thing you won't have our product per customer journey, like I said, is just starting. Like I told you that we're just about starting our cross-sell journey, which probably every quarter will start moving into incremental to compounding story. So that's a phase we have just started enter, because the first stage is to launch businesses, the second stage is to institutionalize the distribution, third stage is where the cross-sell comes in.

So we've entered that phase and the operating come operating leverage comes out of multiple stuff, like I shared with you. It comes out of the efficiencies of your fixed to volume efficiency, it comes out of your AI cost, it comes out of your entire model of cross-sell, which I just mentioned to you. So, I think our product-per level will be more relevant to figure a year down the line, which is every quarter will keep improving on a compounding scale.

Suraj Das: Sure. Understood. Thank you so much for answering my questions.

Arvind Kapil: Thanks. Thanks for coming. Yes.

Moderator: Thank you. Next question is from the line of Pranay Mehta from Investec India. Please go ahead.

Pranay Mehta: Hi Arvind sir. Firstly, congratulations on a beautiful set of numbers. I think you guys have delivered as promised from day one. Congratulations to you and the team.

I have two or three questions. I'll start with credit cost. Where do you think it'll settle? And secondly, in terms of asset quality, I think you guys have done a phenomenal role. Wanted to understand going forward, how will your product mix be changed? Given 18% I think has come from new products this time on disbursements, so how will that be panning out over the next few quarters? Yes, that's it from my end for now.

Arvind Kapil: Well, thank you so much, Pranay. On the credit cost, we've reached a substantial, I would call it, the first level of milestones of 2.19%, which looks more structural and stable. If you look at various vectors and maybe I'll rope in Shriram in the next minute or so but let me give you an idea that the way we look at credit cost is very strong calibration mixed with very strong collections. And if you look at the four vectors, which is your Stage 1, Stage 2, Stage 3, Stage 2, in my experiential assessment, gives a very strong indicator of the calibration levels despite your volume growth of any finance company. Normally, Stage 2 is very difficult to compress if you're growing at a healthy rate of growth. The only way you can do that is very strong credit quality and calibration. And I think it's very clearly giving us confidence of where we are reaching. If you look at the 6 MoB that we normally give on a like-to-like basis, it's gone down, I think almost close to 0.35% from a 0.67% is a substantial reduction there, almost 41 basis point. It has a very clear downward bias, and I think this itself the reason we took out gold also in that data, because gold has the lowest credit cost generally in the industry. So even without that, the kind of downward trend looks very visible to where we're standing.

So, I think, Shriram, you want to add anything in terms of how you feel about the credit cost?

Shriram Iyer: Yes, I think the credit cost as we stated you've seen the sloping curve, and we expect it in line with what we had planned for. And I guess this will gradually stabilize given the portfolio calibration done and strength of the collection setup. Further, we believe that our portfolio diversification with the prudent mix of secured and unsecured supports inherently lower risk and more stable behavioral patterns. Right?

As the MD just spoke about 6 MoB 30-plus showcasing a strong sequential improvement. One more data point can also give you some kind of gives you confidence that the 12 MoB 90-plus for origination post September 2024 has also seen an improvement of over 53% compared to the portfolio originated 12 months prior to September 2026. So, I think in my visibility we are looking notch better than what we had actually planned for and we expect that this will stabilize.

Arvind Kapil: Coming back to your products, just one more comment. I think our unsecured book is really playing out really strong and giving a lot of confidence on both calibration and collections. But coming back to your question about new products, I don't fully remember your question, but you said that we have 28% disbursement this quarter. Some of the things that is looking exciting for us in the new products is that the digital part contribution is definitely moving up, despite the credit cost moving down, giving us confidence in our filters. It's also giving us the strength that investing in whether it's gold, whether it's education, whether it's loans against property, whether it's business loans, each of the business distribution is growing really well.

Our customer franchise on the consumer durable seems to be helping us almost doubling approximately on versus the previous year. And that's where we'll get the funnel for the kind of cross-sell in terms of the way we grow that from here on. And remember, we are fairly experienced in that part of the game in terms of how optimizing cross-sell and creating that operating and cost advantage from here on that. So that's probably a quick sense for you. Thanks Pranay.

Pranay Mehta: No, that's perfect. Thank you so much for such a detailed explanation, and all the best for your quarters going forward. Thank you so much.

Arvind Kapil: Thank you.

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

Abhijit Tibrewal: Yes, good evening, sirs. Thank you for taking my questions. I'm saying, now that we are in interest rate hike cycle, I just wanted to understand what is the mix of our floating and fixed-rate liabilities, and what is the sensitivity of our cost of borrowings to, let's say, a 50 basis points hike in the repo rate?

Arvind Kapil: Yes, I think Sanjay, you want to kick start and then I'll join in here.

Sanjay Miranka: So, Abhijit, see in a rising interest rate scenario, obviously there can be a upward movement in our cost of borrowing, but couple of things I'll just like to put across; One, I think we are well-placed in a diversified borrowing mix to contain the rise in our cost of borrowings minimum, and which is also visible from the last 3 months of tightening cycle. May not have been increase

in repo rate, but interest rate had gone up in the in the environment, and the increase in our cost of borrowing was minimal.

Second, I think we should be able to pass on the hike, depending on the product and the market dynamics. And third, obviously the change in the business mix, which you are already seeing the result of that. So overall, I think we are well-placed where it doesn't impact our profitability.

Arvind Kapil: Abhijit, two things I'd like to add to that. One is that you should remember that our NCDs are 30%. One-third is clearly NCDs at a very favorable price that we well-planned over the last year and a half, and that's a big strength of ours, that's a fixed-rate.

Second, remember that in terms of the pricing power that I have in terms of disbursement yields, and if you compare it across industry, not only can I pass this 25 basis point, which we've already passed effective a week back, we also if you see the difference, we have a 2.18% ROA, and there's almost a 200 basis point difference between my portfolio yield of 14.08% and my disbursement yield, at the minimum. And if you look at our commitment on the ROAs of June 2028, I think we should be fairly strong on the NIM and then remember our credit cost. We are a company which could probably is margin positive on all three vectors. You can be annualized margin positive on the area I just shared with you, you could be very strong on your credit cost if I look at the next one or two years, and you could have a strength of opex-to-AUM as you build scale.

So, I think we're optimistic from here on and remember we are able to pass on incremental to this and we're fairly retail biased, so I think both on demand as well as our margins, we are looking confident on it as we see it right now, looking at the future.

Abhijit Tibrewal: Got it, sir. Sir, the next question that I had is looking at the last maybe two quarters, we can very clearly see that as a franchise we are now evolving from a high growth franchise into a sustainably profitable and scaled retail NBFC. So, which is where what I was trying to understand is we have been saying that we target a 35% to 40% AUM CAGR over the next couple of years.

If I look at this quarter, we are already growing at 55% to about ₹74,000 crore the AUM. Now, as the business enters its scale phase, how should we think about this trade-off between growth and profitability? I remember you've always said that all the businesses, the newer businesses that you are building, the ROAs between 3%, 3.5%. So, what should be the sustainable ROA that you are targeting over the medium term and how much of this improvement from this 2.18%, 2.2% that you have reported this quarter will come from operating leverage versus further normalization in credit costs?

Arvind Kapil: The way I see the ROA contributors, like I said sometime back, I see on an annualized basis, all three vectors as contributors for the next two years. I mean, do I see the core lending spread as a contributor, that's basically your portfolio yields and your disbursement yields that you're running over the last two, three quarters and the way I'm able to price it on even now, I think your whole lending spread itself is a big strength if you compare it across and if you see operating leverage, our cross-sell is just about started. If you look at our cross-sell and the kind of

investments we're doing in consumer durable and the customer franchise, you can actually have a compounding effect there on the cross-sell coming in over, if I keep a one or two years perspective.

On the credit cost itself, I think we have a fair sense of scope for further moving strength-to-strength over the next one year to two years. I have all the optimism there because of the construct, the investments we've done in our collections, the constant iterative calibration that we do across each product gives us a fair amount of strength. You've seen it across the way we've turned around that base, and I can assure you this is structural, it's not cyclical and a choice of products also gives us strength. By the way, that's going to start playing out. This credit cost is without scaling some of the lower-cost assets that are going to build from here, and those ROAs start kicking in. If you see, some of our new businesses are not at full-blown ROAs. So I mean, we are almost at a stage where your peak will come in probably 2.5, 3 years from now. So, you're going to be in a very different position right now in terms of your ROA contributors. And look at your AUM. Today, we're investing in AI, your productivities are going up, your annualized in between the quarter, you should expect some fluctuations, and I don't think there's anything to worry about that, because I'm not going to shy away from any sensible investments, which I'd like to be very clear. But annualized, our aim is that to create a structural operating leverage, and opex to AUM should become one of the important contributors to ROA, if I keep a two-year window.

So for us, all three are playing out. I just want to put that minor point there. It's not just one of the three, because we've got the pricing, we are fairly strong on our digital side, we are fairly strong on our physical distribution, we're very, very clear how we're building step by step, and we are consistent with what I said two years, one quarter ago to what I'm telling you now.

Abhijit Tibrewal: Yes. Yes, sir. So, what I'm trying to say is, I mean, we have seen a very consistent improvement in asset quality with gross NPA now down to 1.2%. We have obviously been reporting all the early vintage delinquency indicators, the various MOB metrics.

So, I'm just trying to understand this improvement that we are seeing in asset quality, is it reflecting the stronger underwriting and consequently the portfolio seasoning, or do you think this is also to do with the benign credit conditions that we're seeing right now? So, all I'm trying to understand is the different AI/ML models that we have, are they also reflecting declining actual loss rates in the portfolio?

Arvind Kapil: So I think, first, your AI/ML model are adding immense value to remember our proprietary models, which we use to build a very strong, constant iteration to calibrate better. And the filters improve by a very decent margin. The answer is an absolute yes.

Credit quality is improving, because credit quality was fundamentally one of the most important things in our head when we came and we are very clear that we will be very clear on the choice of businesses we do. We're very clear on what our strengths are. We're very clear that credit quality improves clearly with two important vectors. One is the calibration piece, which I think is the engineering skill, if I can use that word, with which all of us came and that's something which we have mastered thanks to the times, AI, and pattern recognition, adding to the strength

of analytics, which probably historically we knew, is definitely adding immense multiplier effect in creating proprietary models, which then become more institutionalized.

Because it's not like having two guys who got it right. It's not having one product which got it right. When you create proprietary models, you've 30 models, you've 35 models, and you're constantly getting them better, your ability to calibrate and improve your origination with Stage 2, Stage 1 substantially gets better. So there's no doubt about that. But we would be moving strength-to-strength on our credit cost from here on.

And the answer to your question on seasoning is yes. We have fairly seasoned for most of our businesses. As a matter of fact, if we see some of the data from the bureau, we find that our quality of prime customers that we have been able to attract at the price point for convenience is looking fairly rich compared to the industry.

Even for consumer durable, for that matter, when I looked recently at the data which said that for the last 1.5 years, we've been doing consumer durable from small to a larger volume. And even if you notice, it's an 8, 9 months loan. So the first 9 months which have got over, we find even the best bureau in India showed us that the customers who have actually finished their loans were almost 40% better credit than probably even at the industry level.

So, I think these are the seasoning indicators that are right there. Obviously, we're 2 years and a quarter plus now that we're showing our results, and we're saying that we're fairly confident from here on as well. There's a fair amount of seasoning confidence that you see Shriram and me talking about.

Abhijit Tibrewal: Got it, sir. That is very useful. Thank you so much, and I wish you and your team the very best.

Arvind Kapil: Thank you.

Moderator: Thank you. We'll take the last question from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: Yes. Good evening. Thanks for the opportunity. Good set of numbers**.** So just two quick questions. One on the asset quality, on credit cost. So, the numbers at 2% credit cost nearly looks good, or rather very good. But also, that, one, that industry-wide, it's a very, very benign credit cycle. Second, nearly 60% to 65% of your entire book is less than 12 months seasoned. So, in this backdrop, and also the last part of this credit cost is, at least back-of-the-envelope calculation suggests it's towards write-off. So what explains that when the entire book has very little vintage, then is still this write-off running at this rate? So, if you can just help us understand this piece.

And second, with this proposed insurance commission regulation, if we assume this current proposal goes through, what kind of impact do you see on your sort of fee yields and what else will offset this? Thanks.

Arvind Kapil: So, your last part, can you just say it again? I missed your last part. I got the first part here.

Avinash Singh: Yes. Last part is on this proposed insurance commission regulations. How do you see that impacting you and if there are offsetting factors or plans? Thanks.

Arvind Kapil: So, I think on the credit cost, I've already shared my views. Our confidence looks high. But Shriram, you want to add something to his context, and then I'll comment on the insurance?

Shriram Iyer: Yes, sure. So, one as I spoke about the 6 MoB and also the 12 MoB 90-plus for the origination which we are done, it's almost 53% better. Importantly, the new vintages are also demonstrating stronger early vintage credit performance, right? This provides us the confidence that the credit quality improvements observed in the matured books are continuing to be reflected in the more recently originated portfolios.

Also, please note that products like loan against property, business loans, pre-owned cars continue to have more than 36 months in our book, and CD, as Arvind spoke about, we had launched 18 months back. Now, we have almost seen 10 cycles of that.

Arvind Kapil: By the way in our hierarchy of products, being in business for 2.5 decades or 3 decades, one of the most relatively riskier ones is the consumer durable in that hierarchy chain.

Shriram Iyer: Yes, and coming to your point on the GNPA write-off, you're already seeing that the slippages have been contained across Stage 1, Stage 2, and Stage 3. My GNPA and write-offs are coming down significantly. And even if you look at our core credit cost impairment trend remains stable at an absolute basis that is also moderate despite approximately over 10% quarter-on-quarter growth on the loan book. I think both from a seasoning of 36 months of most of our products, including CD, we're confident that we will be able to look at our GNPA and the write-offs coming down.

Arvind Kapil: Also, if you look at Stage 2, with a growing finance company, I have never seen Stage 2 getting compressed. You need to get the volumes down to compress Stage 2. There's only one way you can compress Stage 2 in the world, in my limited view, is you can get your calibration right. Anyway, thank you so much.

Avinash Singh: Yes. And on that insurance commission regulations?

Arvind Kapil: Yes, Sorry, my apologies. I think insurance, we all saw the possibility of that fee compression, if I can use that word, if that framework comes alive. But I think, if I look at our model of portfolio yield at 14.8% with a 200-basis point difference between disbursal yields, my assessment is that we should probably be able to comfortably be able to handle the strength of whole lending spreads probably, and operating leverage, and show the full earnings absorption from here on, if at all, even if it plays out. Because we are at a very different stage where there's a fair amount of stuff which can be done.

A lot of strengths are emerging from here on. So I think we could be probably, due to the situation, be in a sweet spot for that.

Avinash Singh: Got it. Thank you.

Arvind Kapil: Thank you. Thank you so much for coming.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question for today. On behalf of Poonawalla Fincorp Limited, we conclude today's conference. Thank you all for joining us, and you may now disconnect your line. Thank you.