



“Ambit Capital Private Limited Conference Call with Mr. Adar Poonawalla”

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**MAIN SPEAKER: MR. ADAR POONAWALLA – CHIEF EXECUTIVE
OFFICER, SERUM INSTITUTE OF INDIA/CHAIRMAN
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**MODERATOR: MR. ASHOK WADHWA – GROUP CHIEF EXECUTIVE
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Moderator: Ladies and gentlemen, good day and welcome to Ambit conference call with Mr. Adar Poonawalla. As a reminder, all participants' 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 '*' then '0' on your touchtone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Ashok Wadhwa of Ambit Capital. Thank you and over to you, sir.

Ashok Wadhwa: Thank you. Welcome Adar. Ladies and gentlemen, I'm delighted to introduce Adar Poonawalla who really needs no introduction. Adar on the call today we have representatives from Birla Mutual Akash is there, IDFC, White Oak, Nippon, and we are expecting representatives from Max Life to join in. I am not sure whether they already have. But if they have, welcome, if not, I am sure we will welcome them in due course.

Just want to brief all the participants on this call that this call is for approximately 30 minutes today. So, if you can prioritize your questions to Adar, we would be delighted and I am sure he would be delighted to answer all your questions. Adar, if it is okay by you I will start with the first question.

Adar Poonawalla: Yes sure Ashok. Firstly, hello to everybody. I would have in fact love to have met you on a Zoom call face-to-face so we could see each other. But I think it has been arranged this way. Perhaps in the future, we will have a video conference where it is easier to, you know, be able to communicate and look at each other's faces. It makes it much easier. But however it is, Ashok, please go ahead today in this format, and in the future, we could perhaps do a Zoom call.

Ashok Wadhwa: And Adar, if the vaccines are as effective and as efficacious they are then perhaps we will bring people to Pune and get them to sit in the conference room.

Adar Poonawalla: Yes, absolutely. Why not.

Ashok Wadhwa: Yes. So Adar, I will start with the first question. And then I will let the participants really say what they want to ask in the next 30 minutes.

The first question really that many people have asked me is given that Serum has such a prominent position in the vaccine business, perhaps the best and the biggest position in that business in the world. And given the importance of vaccine, as we have all known through this unfortunate pandemic, I mean, what motivated you to step out and look at financial services? I mean, why financial services? So perhaps that is a good starting pointing.

Adar Poonawalla: Yes, that is a good starting point, especially since I have not had the opportunity and pleasure to interact with all of you before. You know, a couple of reasons behind this thinking. I saw a

couple of years ago, which is when we actually started Poonawalla Finance, which some of you may know, was my privately owned NBFC that was in the lending business, which did quite well. In fact, made a Rs. 35 crores to Rs. 40 crores profit in 2019. And then, of course, when we got this listed company opportunity with so many different business areas and things, it was an obvious move to get involved there.

The reason why I chose this sector was that we were also finding that what do we do with the treasury income that Serum has been generating on an annual basis? What is a good way to deploy it? Of course, one is investments, small diversifications, acquisitions in our own field. But then again, there was still a large cash surplus of capital that was always there. We were struggling to find safe, good ways of deploying, and of course, combine that with the fact that business will always give you better returns in terms of valuation and profitability, as opposed to just pure investments, you know, bond or stocks.

That is the view I took, and why did I choose this sector is because of course, four or five years ago, NBFCs was the thing, you know, until a couple of them stumbled and fell over and had their own issues because of mismanagement. I just felt that there is a tremendous gap between the demand and supply, where you have got India that is growing at an unprecedented pace, and you are going to even see more growth. I do not think anyone will debate that with the middle class, lower class all, you know, your small businesses, everything and I felt that, especially with the other NBFCs sort of having to close down to a certain extent for various reasons.

And this demand, we always wanted to do something for the masses. And this was a way where we are also helping and maintaining with our ethos of helping the masses, and doing and making a product, or a service, which caters to the masses. We have always been in the volume business. And we understand that in the volume business, if you manage it well, you know, that is always better than just being in a niche business where you sell something or provide something at a very high value and a low price.

I mean, high price and low volume. So, we have always preferred the high volume, lower margin business, and again catering to the masses. So, this was sort of ticking all those boxes. And that is why we said, or I sort of took the decision to do it. Of course, firstly, with the privately owned, self-funded with our own capital NBFC called Poonawalla Finance. And then when this opportunity presented itself to sort of leapfrog into a with a larger, you know, Rs. 15,000 crores AUM and listed entity, which was trading at a very good value at that time. We said, okay, this makes some sense, and we went ahead. So, I hope that puts the whole thing sort of in perspective.

Ashok Wadhwa:

Thank you, Adar. Ladies and gentlemen, any questions?

Moderator: Thank you. Ladies and gentlemen, if you wish to ask a question, please press * followed by 1 on your touchtone telephone. The next question is from the line of Dhaval Gala from Aditya Birla Sunlife. AMC. Please go ahead.

Dhaval Gala: Thank you, Mr. Poonawalla, for your time. Couple of questions. First, you had very strategically or thought about having two positions, which was Group MD, and a CEO.

Now that this unfortunate event has happened, how do you look to put the damage control? Or how do you look to change the structure? And also, if you could talk about the current management team you have built over the last few months at Poonawalla Fincorp? So that is my first question, and I will ask the second half.

Adar Poonawalla: Sure, let me answer that, and then you are feel free to, you know, ask me anything else you would like after that. We can take one question at a time to answer. So, I will tell you, it is a very good point. Why we have these two positions was in fact, as you know, Abhay Bhutada was running Poonawalla Finance for me.

And it was an obvious shift for him to during the transition do this. In fact, I was anyway planning to sort of have him take a backseat once we hired, you know, the new CEO, the CFO, and we filled so many other positions also from outside, what was originally Magma. Vijay Deshwal is a good business head, which was taken from ICICI, and we feel he is doing a good job and we will review his performance also.

But, you know, if we have got a good CEO driving the business and the different business heads, I think that is sort of good enough as far as having the company being run on a day-to-day basis. The MD's position was really more of a transition, you know, to even help me get a grasp of things, which now I sort of have, and I will keep sort of being more involved than just a Chairman's position in the company as time goes on.

Of course, as you know, my priorities at the moment has been scaling up vaccines. But now, as I get more time, I can dedicate seriously to, you know, exploring how to improve and grow the different business areas and include adding new different business areas for the company. And, you know, with regards to your point on, we have taken up a nice CFO, with 15 years of experience. He was running a very big portfolio, you know, what he was doing, and we will in so many other positions.

And of course, I am very happy to take some suggestions, of any, you know, additional things we could be doing, going forward. And I am happy to take that from our investors. I think what we will do with the MD's position is yet to be seen, and just on this subject, which was an unfortunate subject. Let me just assure everybody that of course, I was also a little shocked when I heard this news. But upon my preliminary investigation, and I will just be very wary of what I can say.

And I cannot say for obvious reasons of compliance and ethics and whatever, but I have looked at what has happened. Of course, we are conducting an independent investigation ourselves also. But very soon, this entire matter will be cleared in the positive way, and whoever has done anything wrong will, of course, face their justice.

And, you know, Abhay will also be cleared of what he has done, because he actually has not done anything, as far as the lawyers and others who have, you know, given me the reports. Of course, in terms of corporate governance, the first action we had to take was, whether someone is guilty or not of an alleged crime is that they have to step down until the inquiry takes its time, and then whether they come back or not, of course, we probably will not reappoint him just now.

But there is no need, as we have just discussed, to have him as the MD. So, I think the company can very well run with the new team, and the old team that is there in all the different areas that we have recruited. And I think even this rather unpleasant situation will be behind us. And fortunately, even with the SEBI inquiry, there is nothing on the company, it is more, you know, it is going to be business as usual, we are going to be, you know, giving loans and collecting loans.

So, you know, this is not really going to affect the business and the fundamentals of the targets, and the plans that we have set forward. And we have already explained what we are going to do. This is just, you know, something that will take its course, and in a few days will also be resolved. So, I am very comfortable on that. And I wanted to personally share that and assure you on that. And if it was not, I would have said, you know, that look, I am a little uncomfortable. Let us see what happens.

But I am very comfortable on, you know, the process that is going to take place. And of course, I cannot divulge anything more, for obvious reasons. beyond that.

Dhaval Gala:

From the team perspective, you are very well on course, and or do you think there are more hirings which are supposed to be happening? I am not asking only for the group MD post, but in general and do you think that you means, Abhay had a vision means what he shared in the public calls, as well as meetings which we had about growing the business over 25% to 30% over the next few years very easily?

Do you think that is doable? And do you think you need to basically, any new lines of businesses or new businesses we want to acquire within financial service?

Adar Poonawalla:

Yes. So, I mean, look, we will see, as the opportunities come. I think the team right now is very well equipped to handle the business heads. And you know, we have got a head of risk, we have got audit, we have got the CFO, we have got all the important positions filled. And of course, if you have any concerns or questions on that, I am happy to, you know, please write to us Ashok or myself on email later on, on any specific things where you feel we could do better

or strengthen ourselves. But I think I have looked at it and, you know, I have had meetings with everyone. In fact, on Tuesday, I plan to have a call, a full head Zoom call, with internally to discuss and review exactly what you are saying. I think right now it is looking okay.

If we do need to expand in any new business areas beyond what we have already announced, sure, we may, you know, recruit some specific people, candidates who have expertise in those areas, but we will keep you informed on that and discuss that with, you know, our key investors like yourselves, going forward and Ashok of course, is someone who you can have as a sounding board also to discuss with and then we can always look at it and address it. Anything else would you like to discuss?

Dhaval Gala:

One more question from my side. So, there was a discussion, generally, because you own close to 60%. You mentioned that there is a significant treasury income, stroke, incomes you keep making from all your other businesses, especially the vaccine of Serum Institute.

There was a thought process that you might look to increase stake and I think the day this news broke out, there was a possibility that in the coming days, the old promoters are looking to sell some stake in the market or some stuff like that. So just to understand you had a thought process that how you want to increase your stake further?

Adar Poonawalla:

Let me tell you, yes, that is a very good point. In fact, the irony was that we were discussing where the older promoter would overtake, you know, take a step back from even his position and sell off his stake because that was the idea.

But, of course, this incident happened and then we did not want to confuse the market by doing any or having any other transactions. So, we kept that on hold. And I am always happy to increase my stake. But again, we'll have to decide whether how much float and, you know, stock to keep for investors and retail investors to also have, I do not want to have a position where I go to say 70%, or something, and there is very little in the market for people to trade and grow.

And I want other investors to also, you know, enjoy the growth story. So, since the company does not need more capital, it would not make any sense to me, of course, do any more primary issues. But again, from a secondary issue point of view, for the old promoter to sell, I would be delighted if and we can talk about this later offline with Ashok, that if the old promoter wants to sell, we can offer it first to, you know, all of you and some select investors, where I could put in a small amount and, you know, the bulk of it could be taken from the rest of the investors, so that you all can enjoy the upside going forward.

I have no real appetite to take more. I mean, the moment we could have taken a bit to support the stock price, but I did not want that to also be there as a factor. And I do not know how that would have been seen by the market, given the timing of the situation. So, I think, look, I am open to it. The old promoter is willing to sell his stake because he like his liquidity to happen.

And if all these investors today who are on the call, and some other select investors want to take a chunk of that along with myself, or, you know, the bulk of it coming to the investors, I would be delighted if we can make that happen. So, Ashok I think offline, you can have that discussion, because the old promoter is ready for it.

Dhaval Gala: Okay. Sir, last question from my side.

Ashok Wadhwa: Can we move on to somebody else because we have limited time? We can ask, give somebody else an opportunity, if you do not mind?

Adar Poonawalla: Yes, please.

Moderator: Thank you. The next question is from the line of Nikhil Godika from Lotus Wealth. Please go ahead.

Nikhil Godika: Sir, we would want to talk a little bit more on the forward, you know, from here. So, whatever has happened has happened. Now, where do we see the steps in the business? Because Abhay was one of the instrumental persons when it came to Poonawalla Fincorp. I mean, sorry, the private company. Now, how do we see, you know, post sales moving out, the leadership stabilizing, and the business back on track, the way it was envisaged?

Adar Poonawalla: No, absolutely. See, I will tell you the three, four pillars and areas which I have given the direction to the entire team to execute is the following. Bringing down the cost of funds, which you have seen has already happened and will continue to happen. We have got a better rating. I want to diversify both not only my product portfolio, but also where we borrow from, you know, different asset classes.

Now that we have got this rating between both short-term, long-term borrowing commercial papers, you know, other things, so this will bring down of course the cost of borrowing so that we can improve our profitability. That was one area that I had, sort of always talked about, that everyone should concentrate on doing and that is being executed.

Of course, the other thing was looking forward, we have shut down and want to shut down certain areas, which were not giving us the right risk-adjusted returns, and geographies in which, you know, the former Magma company was operating in, you know, certain areas of India have different levels of risk in terms of defaults and other things. So, we want to clean up all of that.

And, of course, the new products in, you know, personal loans, professional loans, consumer finance, concentrating also and building our insurance company, as you know, it is not just that I am focusing on the NBFC, I am looking at building the insurance company as well and how the two can work together, you know, to further leverage each other's strengths, selling each other's products, which I think happens, you know, with Bajaj and so many other groups, which have insurance companies as well.

So, there are a lot of exciting things to come going forward. And I know, unlike in my private company in Serum Institute I can give specifics on what exactly the growth will be. I cannot say that for a listed company. So, all I will say is that we are going to of course grow in everything from product portfolio, cost of funds, areas that we are going to operate in revenues, profits, obviously and grow on a quarter-to-quarter basis, which is obvious.

So that focus is there. And this is what I wanted to tell all of you face to face that, you know, it is business as usual. Just little unfortunate incident is not affecting or going to affect the business and the vision at all. In fact, it is expedited my direct interest and involvement in the business, which perhaps was sort of more at the chairman level. Because we, you know, we had Sanjay Chamaria as still as Vice Chairman, we had Abhay Bhutada is the MD, we had all these guys sort of doing it.

But now in the absence of Abhay, I am going to take a direct interest and drive it the way I have driven Serum Institute and take, you know, direct interest in a lot of these areas to manage the risk and the growth. So that is what I wanted to assure you.

Nikhil Godika:

Just one more question. On the private business and on the listed business, how do we see the synergies playing out?

Adar Poonawalla:

So, I think I have made it clear earlier, even in a public interview that Poonawalla Finance is slowly transferring over the loan book to Poonawalla Fincorp. Poonawalla Finance will never be a competitor, and will stop the lending business come December, January, as soon as it sort of hands over the loan book, and transfers it over to Poonawalla Fincorp, which has been happening already on a monthly basis. I think that was already made. Or maybe you missed that part earlier. But and Poonawalla Finance will just remain a private vehicle of mine for my investments or whatever.

So, I assume that clarifies your thinking that there is going to be no conflict and all activities of the NBFC lending business and Poonawalla Finance. In fact, it will only own real estate, which is, you know, the new office, which has been constructed in Pune the new headquarters, and it will just lease that out at commercial terms to Poonawalla Fincorp. That is all it is going to be doing.

Moderator:

Thank you. The next question is from the line of Anand Bhavnani from White Oak Capital. Please go ahead.

Anand Bhavnani:

Thank you for the opportunity. Sir, in your opening remarks you mentioned that Poonawalla had a financing business and you took out Magma. Now, as you have taken on Magma, you have an insurance business as well. So, do you see that insurance business being scaled up in organically as your original lending business is scaled up to acquisition of Magma? And if you can give us some color on whether those kind of possibilities exist?

- Adar Poonawalla:** Yes, I mean, look, the insurance business we recently had a meeting.
- Management:** Sorry. Just want to clarify to the gentleman from White Oak, Anand, right?
- Anand Bhavnani:** Yes.
- Management:** That application is currently with the IRDA for new capital and IRDAs currently, you know, going through the approval process, yes. They have asked some questions. So, it may be a little difficult to provide more color pending that application. So my submission to you would be as soon as we have clarity from IRDA, I think Adar would be in a better position to answer that question.
- Adar Poonawalla:** But I think Ashok, one general statement we can make on the subject to say that the insurance business is extremely exciting for me. In fact, we are going to grow it and whatever capital it needs, we will ensure that it has it, that is all. And what Ashok has said is that, that process of providing more capital and rejigging and whatever else is the process with IRDA, that we cannot comment on beyond that. And when that happens, it will happen. But that is where we are at the moment. Ashok, is that okay to say?
- Ashok Wadhwa:** That is fine.
- Moderator:** Thank you.
- Adar Poonawalla:** Let us take one more question. And then whatever remarks you have, Ashok.
- Moderator:** Thank you. The next question is from the line of Nikhil Rungta from Nippon Indian Mutual Fund. Please go ahead.
- Nikhil Rungta:** Thanks for this opportunity. Sir, just one question. I believe you would have touched on this question to an extent. Like Mr. Ex-MD was driving the integration process of Poonawalla Finance with erstwhile Magma, and a lot of tech driven things were also supposed to be integrated.
- Adar Poonawalla:** Yes.
- Nikhil Rungta:** So, what extent have we reached in that integration process? And with the exit of our MD do you see this integration delayed by some time?
- Adar Poonawalla:** No, not at all. In fact, that is going on very well. And in fact, that was just a very good question because in the morning, I was just addressing that only with the team. I do not know if you are aware of Mr. Amar Deshpande. But he used to work also with Poonawalla Finance, and he was the one actually driving it on the ground level and he continues to do that.

So, you know, he will continue to do that. And that is all going on very well. Most of it is more or less taken care of. So, there will be no delay on that, you see all the things that Abhay was handling, I have ensured that there will not be a single item that neither I owe any of the other executives will have to then. So, you know, we have split the work in a manner that nothing will be missed or done. So, we have done a very smooth handover already.

Yesterday, between yesterday and today. So, rest assured on that as well. That was a very good question you asked, and we have fully addressed that.

Ashok Wadhwa:

Thank you, ladies, and gentlemen, we appreciate your time on Saturday afternoon, and thank you Adar for providing us this opportunity to provide some of the explanations.

You know, we have always believed that the law in this country stands for what is right. And eventually that is as Adar said facts and figures and data will justify what the truth is so. So, with that, may I say that, we close this call. And if you have any other questions, feel free as Adar said to write to him, you can copy us. And we will happily take the questions up to him. And he normally responds very, very promptly.

That is one thing I have noticed. I can send him a message at 11:30 in the night, and I will get a response back at 11:40. So, thank you. Thank you very much very much gentlemen. Thank you, Adarsh.

Adar Poonawalla:

All right, so it was a pleasure, everybody. And hopefully next time we can meet face to face. That will be much nicer way to interact as well. So, stay safe, and we will be in touch. All the best. And we look forward to a long-term partnership and growth. And Ashok again, regarding any further investments in the company also, please feel free to talk to them offline and then we can have a separate discussion.

Ashok Wadhwa:

Sure. Happy go. Thank you.

Adar Poonawalla:

All right. Thank you. Bye bye.

Moderator:

Thank you. On behalf of Ambit Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.