POONAWALLA FINCORP LIMITED

"Q1 FY2024-25 RESULTS CONFERENCE CALL"

JULY 22, 2024

MANAGEMENT: **MR. ARVIND KAPIL – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER**
MR. SUNIL SAMDANI – EXECUTIVE DIRECTOR
MR. HIREN SHAH – HEAD- STRATEGY, BIU AND INVESTOR RELATIONS

Moderator: Ladies and Gentlemen, Good day, and welcome to Poonawalla Fincorp Limited Q1FY2024-25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Hiren Shah, Head of Strategy, BIU and Investor Relations. Thank you, and over to you, Sir.

Hiren Shah: Thank you, Steve. A very good day to all of you, and welcome to the Q1FY2024-25 Earnings Call.

At the onset, I would like to welcome on board our new Managing Director and CEO, Mr. Arvind Kapil, who has joined us on 10th June 2024, has an impressive 25+ years of experience in banking.

Mr. Kapil needs no introduction. He is a stalwart in the financial services industry in India, who brings with him wealth of knowledge and expertise in consumer banking space. He has introduced ground-breaking innovations such as industry-first 10-second personal loans, alongside digital loan against securities, digital loan against mutual funds and digital auto loans.

Mr. Kapil has done his:

- Advanced Management Program from Harvard Business School,
- Master's Program in Management from Global Enterprises jointly from IIM Bangalore, UCLA Anderson and SDA Bocconi and City University,
- Master's in Management Studies from Bharati Vidyapeeth Institute of Management Studies and Research, and
- A Bachelor's of Engineering from K. J. Somaiya College of Engineering, Mumbai.

His expertise will enable us to capitalize on opportunities to drive growth and enhance our market position.

To discuss strategy and way forward and the quarterly financial performance, I have with me our Managing Director and CEO - Mr. Arvind Kapil, our Executive Director - Mr. Sunil Samdani, other senior management officials, and myself, Hiren Shah- Head of Strategy, BIU and Investor Relations.

Now, let me hand over the call to Mr. Kapil to discuss the future strategy and way forward in detail with y'all. Over to you, Sir.

Arvind Kapil: Thanks, Hiren. A very Good morning, everyone, and thank you for joining us on the Earnings Call.

My name is Arvind Kapil, I am the new MD and CEO of Poonawalla Fincorp. I am in the process of taking over. The result this time are based on past assumptions.

Having said that, first and foremost, I would like to thank, the outgoing MD, also express my gratitude to our employees, our customers, our esteemed investors and partners for their trust and support in the organization.

Let me begin by introducing myself. I worked with HDFC Bank for over 25 years, and I thank them, first of all, for the invaluable experience and growth I have achieved during my tenure with them. I have seen the bank become a very strong institution. It was a great experience wherein I have got the opportunity to launch various industry-first digital and physical products and I owe a big gratitude to both Managing Directors, Mr. Puri and Mr. Jagdishan.

Before moving to Poonawalla Fincorp, I was handling close to ₹7.5 lakh crores of advances. At the outset, it is also a good time to thank the Board of Poonawalla Fincorp and Mr. Adar Poonawalla for the exciting opportunity I have here.

My endeavour is to make Poonawalla Fincorp a preferred choice of customers for their financial needs. It can be done step-by-step and process-by-process with the right foundation and building blocks and with a long-term perspective.

Let me now take this opportunity to introduce our new management team members to you and the depth that we are creating. Starting with Shriram Iyer, who's in my limited view, one of the best guys in the industry on Credit, Collection and Analytics. He comes with an experience of over 25 years in credit and processes, which adds immense strength to Poonawalla Fincorp in terms of capabilities on risk, credit collection plus attracting and retaining the right talent, which is an extremely important aspect as we build on the foundation from here on.

Added to that, we now have two Chief Business Officers (CBOs), Vikas Pandey and Veeraraghavan lyer who come in with over 22 to 25 years of experience in retail lending across products, businesses, geographies, cultures, partnerships and experience of scale. They have in-depth knowledge of building quality portfolio, and their strength lies in the ability to cross-sell. And we all know that as we start building, start setting the building blocks and start attracting cohorts of customers, we will have to build our skill sets for better efficiencies in the cross-sell of the model so that the efficiency goes up.

We also have a new Chief Human Resource Officer, Harsh Kumar, who comes from another bank with over 25 years of experience. He comes with strong tech skills and a mindset especially to add value even in our AI-first initiative. Very rarely do you get HR heads who have an ability for AI-first.

We have recently appointed seasoned professionals for the jobs of Head of Compliance, Head of Internal Audit and Chief Risk Officer.

Above mentioned new management team members have managed various economic and financial cycles, thus having the strength to create **sustainable, predictable and productive** businesses. They have in-depth knowledge of identifying businesses and scaling it up, which is the value I believe they bring to Poonawalla Fincorp from now on.

We are glad to have a combined team of seasoned bankers and existing talented resources in the company for optimized utilization and creating a combined massive expertise from here on. I am excited about that. I see this depth adding requisite strategic direction in terms of the right product mix, which I think is very important for us, to create the right balance of risk and governance, and most importantly building a culture of collaboration, integrity and excellence in an uncompromised way.

Our franchise has built strong experiences in distribution and underwriting across these 4 segments. It is my prerogative to now build the organization for scale and get the foundation ready for long-term 5 to 10 years as a clear line of focus from hereon.

As I look back at my own career, this is exactly the time I took over HDFC Bank retail assets portfolio probably 12 years back and scaled it to where it is today. I am confident that we will build Poonawalla franchise to greater heights with the management team, the combined strength that we have in place now on.

As part of the best practices followed by various established large companies in the industry, from now on, we will follow a prudent measure to share indicative guidance on overall AUMs, probably for the year and for a 5 to 6 year perspective so that we have an idea on what are our building blocks, what are the businesses that we are talking, what is the kind of scale we are talking because then the scale accordingly desires the right kind of strategies in the first 1 or 2 years.

Let me take another two minutes here before I step into the precise strategies on the macro environment and correlate it to the retail credit especially from our perspective, maybe.

India obviously continues to hold its momentum in growth terms even as the global economy has shown mixed signals. India recorded highest ever GST collection and it is exciting for us to be part of the economy that's showing this kind of trajectory right now. You can see the UPI transactions are clearly soaring one way up, probably to ₹20 lakh crores mark, on a very progressive growth engine there as a country. While it is difficult to make short-term predictions, I think there is enough confidence that India will continue to outperform the global economy at large.

Driven by growth in consumption expenditure, especially digital consumption, increasing multiplier benefits from capex and the government focus on exports and capacity building in key sectors. All these indicators are positive for retail lending in the country as we typically see high correlation between GDP and the growth in health of retail lending. Therefore, despite the high double-digit growth of retail lending over the past decade, there is still significant headroom for further growth, and this I am talking as an industry.

Specifically, for Poonawalla Fincorp, I think the market share, if we put in the right focus of a strong foundation from now on over the next 1 - 1.5 years, Poonawalla Fincorp in my limited view, should see market share growing year-on-year for 5 to 10 years and we could be in a very sweet spot.

The numbers at a macro level also clearly show that penetration potential remains material. For example, individuals having one or more lending products is estimated at 230 to 250 million. The total number of individuals in the age of, say, 18 to 60, that can be lent to are in the range of almost 400 million-450 million, having income over and above the cost of necessities, and that's important for us.

With elections behind us, we are optimistic about the economic stability with continued growth.

Having said that, now let me take you through my strategy over the next 5 to 10 years.

The last 40 days since I have joined, I am in the process of taking over and realized that for scalability, a few things that you immediately pick up when you join. First and foremost, I see the need to strengthen our collection infrastructure and framework in line with our long-term strategy. Because if we have got to run and start talking in the range of around 5x to 6x the book size on a 5 to 6 years period, and we are talking about a growth of probably, instead of 4 to 5 relevant products you are talking about almost doubling those product range, we are talking about a fairly large company and a long-term perspective.

For the first two quarters, we believe it's important to consolidate the existing businesses by reviewing in-depth processes, risk management, governance and portfolio. Risk management in any finance business and especially the pedigree with which I have had an experience to work with is going to be a key focus area. Hence, we are closely monitoring the unseasoned STPL portfolio, which was launched in the quarter 4 of the previous financial year. Going forward, this portfolio will be calibrated, both from the credit policy as well as collection standpoint.

Our idea is that every existing business, we will calibrate both on credit and collections and build strength. It could take a quarter or 2, but that's fine. It is important we are absolutely certain what product mix we are going to build our foundation on.

The team and I are committed to transparency and hence, we have enhanced our disclosures with respect to asset quality and liabilities in our presentations that we have uploaded.

From now on, this one I think is very important for me, and I am reiterating i.e. from now on our fundamental guiding philosophy for all businesses and these are not just words, they mean a lot to me, **it has to be predictable, it has to be sustainable and has to be productive.**

So, we plan to create a predictable, sustainable model. So, when I choose a business, I need to be sure what I can do with investments, and set foundation;, it shouldn't be too complex to figure out that probably two years later, three years later, what is the sustainable profits that are going to roll in, what is the sustainable distribution investments that are going to roll in, and it should get far more easier to build building blocks thereafter.

So, we plan to create this model starting with the first year AUM growth, my limited estimate shows, we have just joined the quarter already past, but I think we are estimating around 30% to 35% year-on-year growth because the product mix is very important to kind of set the stage right for the first year and maintaining a ballpark AUM growth, I feel of 35% to 40% over the next 5 years.

I believe this will help us build a retail business, the way retail businesses are built. They are not built over a day. They are built step-by-step. They are built process-by-process with solid risk management, with the mix of right products, and we want to achieve 5 to 6x of AUM in 5 to 6 years. We are ambitious on this figure, and we are determined to make it happen.

This is another important aspect in my mind, I thought it's time probably we share that thinking, I want to create an arithmetic mean projection on profitability. I don't understand the stock market, we are like engineers on the building blocks of business. We understand businesses, this much I can tell you. But I would rather have an arithmetic mean of profitability from the third year onwards after we set the foundation in the first one and a half years.

Mirroring close to the AUM projections, the idea is to create, again, predictable, sustainable business for years to come. We want to make it a stronger institution with definite.

A quick sense of the 4 businesses that I have in my mind to venture in with high focus in addition to the existing plans of consolidation and growth, let me begin the first one.

Consumer Durables.

One of the fundamentals to scale consumer finance business is to have a large customer base, which could be running much faster than the growth rates of the customer that normally the company ran. Consumer durable opens many doors for us of the middle-class India. This will help us in a large funnel of credible customers to lay a foundation for solid work on digital and analytics thereafter. This is one of the important fundamental strengths. As part of this business model, this gives us huge visibility since remember, it's a point-of-sale business. It is also known industry-wide to create a strong high-yielding cross-sell model from the second year onwards. The basic concept remains very simple. High repeat loan cross-sell is the best way to enhance and sustain healthy margins. But to do that, you have got to launch products where your customer acquisition goes at a substantially accelerated rate and we actually become a much larger franchise on the customer base. In the second year itself, probably end of second year, we expect substantial strength from this business.

Coming to the next business, we are keen on **Shopkeeper Loans.**

We believe that this business happens at the point of the Kirana store, and we all know that Kirana stores have been in existence for a long time. And it's not that you actually need a customer-facing outlet to meet them. You can actually have your teams right in the city and operating out of a fairly hygienic and nice place, but the point of contact can be at the Kirana stores and you can start engaging with them. It needs teams across geographies to capitalize. In this product as well, we would evaluate by the way, both physical and even digital options.

Now coming down to the next one, which is strengthening of **personal loan prime**.

Now remember, STPL is not prime personal loans, the way I understand it. What we want to strengthen is, can I get the corporate, top 100 to 200 corporates in India? Can we be the preferred choice of these customers? Can I have this quality of families walk into Poonawalla Fincorp and we can become a preferred choice. We have our strength of digital. We have a management depth, which will create policies and digital, which would add a lot of strength there. We are agile. We are building agile technologies and AI. We believe it's a good time for us to walk on this area, both physically and digitally for prime customers. This also will help enhance our quality of customer intake of better quality.

The next business is **Used Commercial Vehicles**.

We will start building it by incubating it for the first 8 months and we will gradually expand. As a matter of fact, a lot of these businesses, we will incubate for 4 to 8 months and gradually build the building blocks to test the processes and technology before we fully launch them.

All the above new businesses will have a bias to healthy margins and healthy portfolio quality. On distribution, almost all of them, we will use physical and digital distribution to the extent the law of land allows.

Please note, that our investments to this business will be biased to the first 4 quarters, and that's very important so that like I shared with you, not only the AUM starts lifting to a different quantum, also the businesses start generating the revenue lines as we proceed forward. This also includes investments in collections and technology for laying the foundation, including the new management team. All these incremental businesses, adding to the existing 4 to 5 key businesses, will create a stronger franchise within the next 6 to 8 quarters.

I have already covered the macro indicators. But in India, we believe there is a huge opportunity for credit growth and substantial base of 250 million plus new to credit and of course, underpenetrated customers. In my own experience, we find that the cohorts take multiple loans on the cross-sell of these products once the loyalty sets in, which will add a substantial amount of advantages on the efficiency side. I may be repeating a point here, but I think that's an important area for us to remember, that's the strength that we want to very deliberately add.

Having a large customer base across different segments obviously becomes a huge strength. That's the foundation required for our sustained growth over 5 to 10 years book growth and, of course, predictable, sustainable franchise, for profit generation in my limited understanding in an arithmetic mean form.

Winning across these products and strengthening the existing ones will require investments in multiple capabilities. Let me summarize them quickly.

Investments in collections, which I have already covered, is an imperative one for a stronger franchise that we want to be. Key differentiator between a successful and not so successful customer finance business is the collection efficiency. Approximately 3% to 4% improvement in resolution rates from my experience eventually leads to 15% to 20% difference in accumulated net credit losses. So, in the collection strategies, we want analytics-driven treatment strategy. We want to focus on embedded digital payment channels to give you guys a feel, having a modern digital interface between the field agents and the tele-callers to build efficiencies, having segmented approach for a different set of customer segments, AI-powered natural language processors, NLP for customer interactions, omni-channel communication stack. The reason I am specifying all this is because there is need for all these to be strengthened.

AI, artificial intelligence, will be another very important strategic investments for us. whether it's personalized targeting to credit and fraud models, whether it's building a robust data pipeline, which is near real-time on insights, one of the very important areas we will have to invest in because this will be the strength for our digital on the go.

Keeping a strong governance to ensure compliance and privacy norms, investment in talent, platform and machine learning that can improve the number of models and efficiency. These are just to give you guys a flavor of the things that I personally will be involved in.

On the tech stack, to differentiate based on AI and personalized targeting, probably ability to streamline and integrate with partners BIU-based analytics deployment, ability to keep elements of the stack modular, which we all probably know and so rapid changes can be done and it's more agile. Finally, investments in the new management team, which I have already specified is because they are the seasoned people, having seen different economic cycles.

Finally, to quick summarize.

In the first year, we will build the foundation with higher investments in collections, technology, launching the new businesses. We expect AUM growth of 30% to 35% in the first year, and we will focus on 35% to 40% for the next 5 years, starting second year. Third year projections of profitability will be closer to an arithmetic mean mirroring close to AUM growth. We aspire to scale AUM by 5x to 6x in 5 to 6 years on a business model, which is, again, predictable, sustainable and of course, productive, our fundamental guiding philosophy for all businesses.

It is very important that these one and a half years investments are upfronted to lay a foundation for us to be a long-term player from now on. All our perspectives will be long term from now on, on the basis of, predictability, sustainability and productivity. This will help us build a retail franchise. Again, I will specify step-by-step, process-by-process with solid risk management and mix of the right products. All these 4 points are extremely important and not just mere words.

I am excited to begin this journey at Poonawalla Fincorp.

I would like to now hand it over to Sunil Samdani to take you through the update on the Q1FY2024-25. Thank you.

Sunil Samdani: Thank you, Arvind, and Good morning, everyone. Let me take you through the quarterly financial and operational highlights.

- The assets under management stood at ₹26,972 crores, reflecting a growth of 52% year-on-year and an 8% quarter-on-quarter. In terms of AUM mix, the MSME finance contribution is at 35%, followed by personal and consumer finance at 28%. Loan against property and pre-owned cars at 17% and 14%, respectively. We continue to maintain a balanced secured to unsecured mix of 49% to 51%.
- Our net interest income, including the fees and other income stood at ₹676 crores for Q1FY25, which is up 42% year-on-year and 5% quarter-on-quarter.
- While our cost of borrowings remained flat quarter-on-quarter at about 8.16%, the debt-equity ratio went up from 1.9 to 2.1x quarter-on-quarter. This resulted in increase in interest expense.
- We continue to grow our pre-provisioning operating profit at a healthy rate, up by 47% year-on-year and 6% quarter-on-quarter at ₹432 crores. This was driven by productivity improvements on the back of technology enhancements, bringing in higher level of operational efficiency and the same is also reflected in our opex-to-AUM ratio, which stands at 3.86%, down 13bps quarter-on-quarter.
- Despite the high interest rate scenario, we have been successful in keeping our cost of borrowings at similar levels quarter-on-quarter through a dynamic treasury management with one eye on cost of borrowings and the other one on liquidity and the asset liability management.
- Talking further about liquidity, we remain comfortable with positive cumulative mismatch across all buckets and a surplus liquidity of about ₹5,200 crores as of 30th of June 2024.
- The total borrowings at the end of the quarter was ₹17,121 crores, of which approximately 70% of them are on variable rates, whereas fixed rate borrowings are relatively shorter tenure. This places us well to take advantage of lower interest rate environment envisaged in the future.
- We continue to maintain a healthy asset quality, the gross NPA further improving to 0.67%, down 75bps year-on-year and 49bps quarter-on-quarter, while net NPA is at 0.32%, down 44bps year-on-year and 27bps quarter-on-quarter. However, it is pertinent to note that we have stopped co-lending which also include some elements of FLDG commitments during Q4FY24 and we have started booking self-originated business. This book is unseasoned and needs to be monitored.
- We focus on continuously improving our risk framework. As Arvind earlier mentioned, we will also be investing into building a robust collection framework with manpower, technology to ensure strong gatekeeping throughout credit life cycles of a customer with us.
- Coming to profitability, the profit before tax for the quarter was up 46% year-on-year and about 1% quarter-on-quarter at ₹390 crores. The profit after tax at ₹292 crores was up 46% year-on-year, however, down 12% quarter-on-quarter, mainly on account of onetime tax benefit of ₹41 crores, which we had got in Q4FY24.
- Our capital adequacy continues to be well above the regulatory requirements with CRAR standing at 31.57%, of which Tier 1 capital is at 30.09%.

With respect to **technology and digital capabilities,** our technology stack today is a major enabler to business with end-to-end customer onboarding without human intervention. 40% of our new origination is through STP (Straight-through-processing). And even for the origination of the remaining business, there is a significant use of technology, which is instrumental in improving our productivity. The key initiatives for Q1FY25 includes the complete UI/UX revamp of the web and mobile app, the implementation of enterprise data lake platform, the contextual communication in web and mobile app. As mentioned by Arvind earlier, we will continue to further invest and strengthen our technology and digital track primarily focusing on AI.

In line with our vision to be the most trusted financial services brand, customer service is pivotal to our operations, and it continues to get disproportionate mind share of our management. As per our latest customer satisfaction survey, Net Promoter Score or the NPS as it is called which is a leading indicator of customer brand loyalty, is at all-time high of about 72% across all moments of truth i.e. sales, onboarding, service and exit. Customer insights and identified opportunities of process improvements are being addressed and are a part of continuous improvements.

Our CRM has been customized to provide a 360-degree view of customer interactions across all touchpoints to all key functions, whether sales, operations, customer service and collections. This ensures consistency, continuity and the focused customer interactions.

Adoption of IVR and bots have further improved our turnaround time, resulting in increased operational efficiencies and customer delight. In our continuous endeavour to increase digital collections, we have introduced QR code and virtual account numbers, which has further brought down the cash collections.

On the people front, during Q4FY24, we were certified as a Great Place To Work (GPTW). I am delighted to share that we have been recognized among the Best Place to Work in the NBFC sector in 2024 by GPTW.

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

Moderator: The first question is from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal: Good Morning everyone, thank you for a very detailed presentation and opening remarks. Arvind Sir, I had one question for you, I mean you come from HDFC Bank close to 25 years, and they have always kind of prided themselves on distribution focus, collection focus and something similar we are looking to do here as well. So, I mean 40 days into the organization, while you acknowledged a couple of times that you are still taking a transfer, trying to pick things up, what are the weaknesses that we identified during this last 40 days, which is where we are now talking about strengthening the distribution, strengthening collections? The entire senior management team have seen a rejig where you have hired your colleagues from HDFC Bank joining you now. So, I mean what are those areas that you have identified where the organization was weak and where we need to strengthen now?

Why I am asking this is, I mean, after we acquired Magma, we were running down or closing down branches, reducing the strength of collection personnel, and now we are doing this to opposite. We are talking about expanding distribution. We are talking about strengthening collections, again, which is I would acknowledge a good thing, a very good thing. So, if you could just throw some light on that?

Arvind Kapil: Sure. First of all, an excellent question, I must confess. I think you have touched on multiple things. Let me make an effort, if I miss something, you could repeat it, and I could cover it. I just jotted down.

First and foremost, I would not like to look at it as a weakness when I mentioned about collections. My collections infrastructure, technology, AI is as focused as an Arjun's eye on building a 5 to 10 year franchise. I think when you want to make it as a machine which probably, let me take you back in history, if you remember HDFC Bank at Aditya's time, for 20 years, that's the pedigree with which I have come. Those are my learning grounds. So, I have seen a very high sustainable profit for many years. I have seen that happening because they were planned well in advance. The foundations were run well in advance. A lot of homework was done in much initial years in a thorough way. Also, I think the reason I started with the new management team is, it's different having capabilities and it's very different having a seasoned management team combined with an existing brilliant team that there was here. So, I think all of us are building it as a long-term franchise. When you build a long-term franchise, I am very clear, it's not an experiment for us. We come with that kind of scale. We are very clear on what should be the next building steps. These are not something which are new for us. So, I think from existing strengths, we are going to build step-by-step.

Now, a very precise answer to your question, if you noticed, I have also put it on, in my sheet already. I think there is one business STPL that we want to closely review and closely measure. I think it is an interesting business. But for a quarter or two, both on credit and collections, I have asked my team to review it more closely. I think that could be just a minor area where we need to tighten ourselves and work on it closely with credit and collections. But overall, most of my comments should be viewed in the context of 5 to 10 year building blocks of a larger organization. And that's what I specified. It is long term in nature and there are multiple small, small strengths I see at Poonawalla Fincorp today and those strengths, I am going to calibrate, and over the first 2 quarters, like I specified, we want to consolidate and that's what it's going to be. As a matter of fact, we are going to go into each strength that they have. We want to optimize those trends and add digital fragrance.

On physical distribution, if you notice, there are 2 or 3 businesses I have added- consumer durable because it really accelerates my customer franchise and starts building a solid entry and is the fastest surest way to enter into a large customer base of middle-class India. That's really the foundation for a prosperous India for the next 5 years or 10 years. So, I want to accelerate that as an investment because you are well aware that investment in the first 2 years actually multiplies your returns in a more consistent manner and with a much more bullwhip effect. That is exactly our aim to do because you are creating a compounding energy by creating the building blocks now instead of trying to play it very safe.

Because this whole management team is fully well versed, it's not an experiment for us. We are very clear on what we want to do and we are very clear on the risk management philosophy we want to live with. We are in a lending business where we will lend where we can manage risk. Wherever we think we don't have expertise to manage risk, we will accordingly fine-tune the product mix and build what we can sustain. Because at the end of the day, we are responsible to all stakeholders. We have our own reputation very clearly on the line, and we truly respect that ourselves. So, I hope I gave you a sense, on building blocks of the branches, I wouldn't like to look at it previous vs. now. This management depth has substantial experience, we have seen all the strengths. If you remember, I have personally launched cutting-edge digital products which have worked. But despite that, I fully respect the physical infrastructure which can make business sense because it's India we are talking about, which probably has multiple demographics, multiple lines of opportunity in business, and I am not going to leave any opportunity, where I see margins because we are in a business.

My aim, end result is to make business with healthy margins and which stays sustainable for many years, post I am gone. I am very clear on that, and that's what I am here for. For me, reputation of mine and management team comes first. Poonawalla Fincorp needs to become a preferred choice for customers, and our credibility will come first. So, I hope I gave you a quick sense of my point.

Abhijit Tibrewal: Yes, this is very, very reassuring. Just one follow-up there. While you talked about, I mean, building distribution, if you can also throw some color on how we are looking to ramp up our physical presence? And another thing, Sir, that you spoke about in your opening remarks was predictability, so I mean, if I just look at our, I mean, margins today or NII to be more precise, I mean, this quarter, despite cost of borrowings not going up, they were stable Q-o-Q, this is probably, I would say, in the last maybe 7 to 8 quarters, the smallest Q-o-Q growth that we saw. So, just kind of trying to understand how do we bring more predictability in our earnings given that you yourself spoke about that STPL is 1 product, short-term loans is 1 product that maybe we might be doing a little less or closely monitor it? So, that is the second question.

Arvind Kapil: First of all, fundamentally, I will explain to you the fundamental concerns that I understand, which will throw some light into what the thinking is and then I will hand over to Sunil and our CFO, Sanjay Miranka to probably add value to your precise question.

First, let us understand if you have 3 to 4 businesses and in that if you are trying to play with one business contributing bulk to your ROA, I think the first step, which I see is that it's very important we launch tried-tested, stable, sensible margin-oriented businesses between digital and physical, and that's what I have covered in my starting speech. So, you are almost doubling ballpark range of businesses. So, you might land up putting more investments in the first 4 quarters on multiple things to gear up for it because you are well aware, finance businesses without a strong collection is not the way normally and a strong collection has huge value in terms of the way you proceed ahead also, both ways. And whether it's technology, whether our ability to connect dots, whether it's AI, whether these businesses, I don't want to delay in launching this because we are well experts in these businesses. So, it's not something new for us. And so, I think what the stats will be, Sunil, you want to give a fair sense?

Sunil Samdani: Yes. So specifically, to your point, referring quarter-on-quarter, you are aware that Q4FY24 was the first quarter where we started onboarding customers outside the co-lending arrangements, which essentially means -- and the basic difference between when we take customer on our book outside co-lending is we look at long term. The average tenor of our customers that we onboard today is more than 1-year in a small ticket personal loan, which in a co-lending arrangement used to be shorter tenor. It could be 3 months, 2 months, 6 months as well. So, when you have a longer tenor portfolio build, while it helps bringing in stability in the book, the amortization of the fees also happens for a longer tenor. And so, while the fees percentages are fixed as a percentage of disbursements, the amortization of which also impacts our NIMs, and that essentially is the slight difference that you see quarter-on-quarter.

Abhijit Tibrewal: Got it, Sir. Understood. This is useful and later during the call, if you could just address that given that we will be in investment mode over the next 4 quarters and I think during your opening remarks, Arvind Sir, you said that from third year onwards, the profit growth should start mirroring the AUM growth. So, I mean how should we look at profitability over the next couple of years?

Arvind Kapil: I am expecting that thereafter, you will see a much more predictable and sustainable. That is the reason I use these words and you should have an arithmetic mean my friend, otherwise, I mean as a CEO, I and you have to be on the same page, otherwise how do I give you these returns until I am very clear it can come.

Moderator: The next question is from the line of Avinash from Emkay Global.

Avinash Singh: Two questions. The first one, of course, you have kind of given an elaborate explanation, but again, I am coming in the backdrop that the product suite that you offer or like planned, it is still relatively limited and it's kind of an ambitious growth. And this is coming in the backdrop where I think the RBI governor has repeatedly kind of trying to flag that, I mean exorbitant growth particularly in the retail unsecured, so in this kind of a backdrop, the 35% to 40% sustainable growth for the next 5, 6 years. I am just speaking on the point of view that right now, you do not have a mortgage or a new vehicle loan, these are typically the kind of anchor products for the prime retail customers. So, in this regulatory backdrop, RBI has a fixed kind of focus towards having a moderate growth in this segment and in overall retail unsecured and all. So how, I mean you see this?

And the second one would be more of a legacy and not really for you. Last year, we had taken the kind of around ₹900 crores to ₹1,000 crores provision in all this legacy books. Now, how that has been utilized and how that has been running down because what happens here is that the credit cost that comes in these quarterly numbers will be kind of impressive, but the kind of a write-off number that comes into Annual Report, that's totally out of nearly 4% of AUM. So if you could provide some color on that, what has happened with your stake, a specific provision that was created and where sort of our legacy book extends coming between the write-off and all this?

Arvind Kapil: All right. So, we could gather some bit of your question. Let me make an effort on the first part, and I will request Sunil and Sanjay to chip in on the second part.

On the risk management, like I said, the risk management has to be looked at holistically across all products to assess this and the entire organization. So, over the next quarter -- the quarter we have entered, I am going to put in a lot of time in that.

If you look at consumer durable, it's considered as a secured product. If you look at commercial vehicle, if you think sustainable business models, which are sustainable even from a healthy margins perspective, keeping in the mind of the way we have built the foundation so far. If you look at even loans against property, which I didn't cover here, but we probably right now only operate from 35 locations. So, aim is to probably go 2 to 3x in the geographical expansion immediately. And for further details after 60 days probably, I will be in a better position to give you more insights on how we are going to build that. And that's the reason you see the first 4 quarters.

Yes, on the governance in RBI, I think when they talk about risk management, my understanding is it's equally important to enrich and move up the ladder on the quality of risk of unsecured as well. It is not just about as simplistic as unsecured and secured and secured become literally secured. There are a lot of unsecured businesses like, for example, I mentioned 100-200 India's corporate, which probably are the most educated, the best paid employees of this country, and those customers we don't have today in Poonawalla Fincorp. I am going to target those customers digitally and physically and imagine these customers will be one of the best profiles of the customers from there on because there will be a younger crowd and they will be the growing India from hereon. And this is the India that makes money on the salary side. So apparently, it's still called unsecured, but as we start calibrating, the first theme is even in unsecured and secured. I think it's important to lift the quality of risk management in unsecured with very significant steps. That is what we are doing, Sir.

Now over to your second question with me, Sunil and Sanjay Miranka, both of you can quickly give him a sense on where we stand on that.

Sunil Samdani: So, on the legacy book and the discontinued book, we still have about ₹350 crores, which is outstanding and in addition to that, there is a DA book which we had acquired that's about ₹770-odd crores.

Avinash Singh: And that the connect between the write-offs that comes with the annual report and where are we with this ₹900 odd crores, ₹980 crores provision that we had created from this acquired legacy book when we had sort of sold housing finance, and we have sort of used this ₹980 crores kind of a buffer, where that stands today?

Sunil Samdani: Yes. So typically, about 80% of our write-off pertains to this book that we are talking about.

Moderator: The next question is from the line of Nischint from Kotak Institutional Equities.

Nischint: Thanks for taking my question. Actually, I have 3. First one is on the STPL book. Have you seen any red flags in your STPL book? And how are you dealing with it?

The second one is slightly more long-term in terms of how do you really look at the business composition whether it's going to be secured versus unsecured, you have particular number in mind or let us say, high ROE, low ROE business mix that you have in mind?

And the third one is slightly more short term is on the cost of funds, where we have seen almost stable cost of funds on a sequential basis. So, if you could give some guidance on that? And more importantly, what proportion of the 66% of bank loans are linked to EBLR or repo.

Arvind Kapil: Okay. Again, I will take the first two and request my colleagues to take and give you guys some insight.

Quickly on STPL right now, the reason I singled it out was because I clearly see in the 35 to 40 days a sense I have to be honest with you, I need to deep dive more on it to be more precise. It could be early stages. But I do have a sense that we need to tweak some credit policies, and we need to beef up our collections abilities. As I speak to you, we have Shriram who joined in a week later than me and within the first 20 days itself, we have seen some promising results already. So, I think my perspective on that is that if we can make it a strong viable business, it will be a strength we add. But the reason I singled it out is because you will see me talk the way I see things and the way we build businesses in fair transparency. So, the idea is that over the next 1 quarter itself, we should see significant strengths emerging out of it and that's the aim. We might also evaluate at all times, showing businesses in our balance sheet with STPL with much more details as we go along.

As far as risk management, you mentioned to me if I got your question right, what is my perspective on risk management in more detail. Like I alluded to it a little while back, the easiest thing is to say is secured and unsecured whereas if you realize that the unsecured also has various categories of risk tolerance. And that's a very important criteria because I have seen with our past experience on an extremely large scale and in that time also, there were regulatory advisers to probably review and over years, we have seen that certain quality of unsecured business is actually surprisingly show much lower risk than even some of the secured businesses.

So, my priority will be risk management of a solid order which we can manage both with credit as well as with collections and build a book which we all can be proud of. I am very clear on this. I am not here for short-term gains at all. I am here to build something which I can look back and feel good about. That should give you a sense of where we come from and what I want to do. But there will be some bit of calibration, some bit of work required as it is 30-40 days. I can't have a perfect finger on the point yet.

Nischint: No red flags or concerns on the unsecured --?

Arvind Kapil: Right now, these are not concerns. These are more observations to make it better. And remember one thing, this book is unseasoned, that's why I singled it out, not because it's showing concerning flags. See when you have a 20% to 25% of the business, which is probably when the co-lending stopped and they started probably in Jan or Feb, 4 to 5 months ago. I think it was important in the earnings call to probably make a mention of it. That is about it. There is nothing else that we have visibility of right now, which we will deep dive and check.

Sanjay Miranka: Regarding your question on the cost of borrowing. So, while off-late, there has been increase in MCLR by multiple banks, but we envisage that cost of borrowing broadly will be in a similar range in future quarters. And in regard to external benchmark-linked portion, it is about 20% of the total borrowing, which is linked to external benchmark.

Sunil Samdani: So, between MCLR and EBR, about 70% of our liabilities are variable linked and 30% is fixed rate. And the fixed rate also, what we see is largely capital markets, which means they are shorter tenor loan. So, on the whole, we are well placed given that we envisage a low interest rate scenario going forward. So, we are well placed to take advantage of that situation.

Arvind Kapil: Also, I think I covered it, but just because you alluded to that, we have increased our disclosures with respect to asset quality and liability. I am just mentioning it. Thank you.

Moderator: The next question is from the line of Kunal Shah from Citigroup.

Kunal Shah: So, a couple of questions. Firstly, in terms of the investments which you alluded to and maybe the leadership strengthening. So, any further capability build-up, which you think you would be doing at the senior management level, which we should expect in the near term? And overall Opex-to-Assets, how should one look at it because that would have played as a lever, but now you would be in an investment phase again? So how would Opex to assets pan out here?

Arvind Kapil: Conceptually, getting a good management team also finds revenue streams. That is what I have learned from my experience, but the timing could be quarter here, quarter there. But what is more important in this earning call is our direction of long term. Imagine if I don't invest, let us say, hypothetically, I am quoting a figure, just to drive a point. We don't invest in collection, let us say, ₹60 crores or ₹70 crores or ₹80 crores, whatever is the right figure, I mean when we come to that figure. Now, you can either show an 8% increase in profit or you can show an 8% increase in investment. When you put these collections, you can have the risk appetite of something my seasoned credit guys can take it from here. You can launch these core businesses. You can create a 5 to 10 years of visibility of profitability mirroring close to your AUM projected. That's the line of thinking, Sir, which is more important right now. If I have a 2-year perspective or 3-year perspective, one could think totally different, and this is what we don't have. I am not looking at it from a 2-year perspective. I am looking at it as if I am sitting with you guys in the third year, fourth year, fifth year and you guys hopefully having a smile on your face the way I envisage. So, thank you so much.

Kunal Shah: Yes. And secondly, when we look at it in terms of slightly pull back on the growth to, say, 30%, 35% from the current run rate and this quarter, we actually saw a very sharp build-up on personal and consumers almost going up 30% odd quarter-on-quarter. So, which are the segments wherein you will see the pull back on the growth side from the existing businesses. And when we look at the personal and consumers over here or say, MSME and compared to what you have articulated with respect to shopkeeper loans, how different were they maybe in the earlier business model and how different would it be now?

Arvind Kapil: Sure. STPL- I have asked my team to not accelerate further right now until I get a full 100% control on it. So, I think the plan may have been to accelerate at a much faster rate. I want to get a total fix on that and I think we will. But I need to do that. The other businesses that we are launching on the shopkeeper loans is a very high-margin business. The entire India is at your disposal. We can be the best-in-class in that and I love that business. We have done that in the past. It is not a surprise for us. We have run this business. I started this business, by the way, in the bank, so it's something we are well experienced with. We have Veeraraghavan Iyer as the Chief Business Officer, who ran it personally with his team, and there is a fair amount of experience. There is a difference in having a variant of business loan and having this because this one is like the Kirana store of the generations and families businesses have been there for last 40 years or 50 years, you will find different families running it. It has a very different collection perspective or very different risk perspective with my limited understanding. Just the way every salary segment doesn't have the same risk because it comes under the category of unsecured, and Infosys' employee for that matter and HDFC Banks' employee is well educated. The risk metrics are very different. Similarly, you have very different risk metrics of a Kirana store versus probably a trading business, maybe. And of course, it also has various other factors in terms of entire seasoning and multiple criteria. So, credit rating is there. Broadly, our aim is to build it step-by-step and process-by-process. While these look like words, that's how retail businesses get built and that's the way I have seen it, and that's the way we will build it, Sir.

Kunal Shah: And Arvind, just the earlier question with respect to the senior management in terms of the capability build up, any changes anticipated, any levels which needs to be filled up or maybe changed or something how you are looking at it?

Arvind Kapil: I was expecting you to ask me that I have changed everything almost. So, point is that if we have actually got a combined strength, the fantastic strength of existing management at Poonawalla, which is absolutely respectable, and we have added a few strengths of the bank. I think combined, it's going to be one solid team with one jersey color, which is going to walk in the market and build it step-by-step, my friend.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that was the last question for today's conference call. I would now like to hand the conference over to Mr. Hiren Shah for closing comments.

Hiren Shah: Thanks, Steve. Thank you, everyone, for joining this earnings call with us.

For any further queries or communications, please write to us at investor.relations@poonawallafincorp.com

Thank you.

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