POONAWALLA FINCORP LIMITED

Q2 FY24-25 EARNINGS CONFERENCE CALL

October 25, 2024

MANAGEMENT: **MR. ARVIND KAPIL – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER**
MR. SUNIL SAMDANI – EXECUTIVE DIRECTOR
MR. SANJAY MIRANKA – CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, good day, and welcome to the Poonawalla Fincorp Limited Q2 FY24-25 Earnings Conference Call. We have with us today on the call Mr. Arvind Kapil, Managing Director and Chief Executive Officer; Mr. Sunil Samdani, Executive Director 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 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. Arvind Kapil, Managing Director and Chief Executive Officer of Poonawalla Fincorp Limited. Thank you, and over to you.

Arvind Kapil: Thank you. A very good evening to all of you, and welcome to our Q2 earnings call. I wish all of you and your loved ones a happy and prosperous festival season ahead.

I've now spent around 4 ½ months as an MD and CEO of Poonawalla Fincorp, and I've got a chance to fully detail out the operating strategy of the organization. I will, therefore, begin by updating you on the details and progress made since the last call.

To reiterate, our vision is to create a sustainable and predictable retail lending business that scales 5-6x over the next 5 years. So, I mentioned 5 to 6 years and I'm cutting that to 5 years at 4 ½ months down the line. I'm quite clear that we can, my confidence on this looks far more clearer. This is on the back of creating a stronger customer finance brand and respectable customer service, the two very fundamentals to begin. I continue to be extremely bullish on the Indian retail macro. There's a significant value creation opportunity by serving around 400 million creditworthy customers in India, of which around 50% are still underserved.

Delivering on this vision will require significant investments in the quality of our people. That's most important. New businesses, new distribution points and strengthening our capabilities across collections, as I mentioned last time to you. Advanced analytics, extremely important, it's going to be cutting edge in almost every department that we run and customer engagement.

Let me provide you with a brief update across all these dimensions.

I thought it will be more prudent for us to be more detailed this time, so that all of you get a first-time glimpse of what the plans are. All of this has been thought through, planned and we will systematically execute.

Let me start with our **people**.

Happy to report back to you that we've made offers, which are made to almost 95% of the envisioned leadership hires, all the senior management have already joined us. So, in 4 ½ months, you've got the top management and almost the second layer beyond that has also joined. Barring one, CTO that we're expecting in the first week of December, who is also a fantastic resource, almost everybody else is on board, as I talk to you and is already full scale in the work-in-progress and this team in my limited view should be among the top teams by any standard when you compare with the industry.

If I were to give you a quick glimpse on this, if you take the Chief Credit and Analytics Head, Shriram, ex-HDFC Bank, you've got the Chief Business Officers, Vikas Pandey and Veeraraghavan Iyer, ex-HDFC Bank, top notch resources, who were introduced in our last call. We have a couple of new seasoned leaders across data science, collections, risk, audit, both internal and compliance. They've already joined us from pedigreed institutions.

To give you a sense, Bhaskar Pandey joins us as CRO, Chief Risk Officer; ex-HDFC Bank, 23 years plus, you've got Bholananda Behera, Chief Compliance Officer, who joined us with 27 years of experience. You've got Nitin Sane, ex-Citi and then ex-HDFC Bank. He's joined us from De Lage Landen-Rabobank Group, Netherlands with over 20+ years of experience. You've got Jasvinder Saini, who has joined in Risk Analytics, one of the finest resources. Anil Hospattankar joins us to lead collections with 30 years of experience with Yes Bank.

Let me quickly take you through our plans for the new businesses.

As we scale up our customer franchise, we want to go deeper in our focused micro-markets rather than just go broad across India. This will enable us to get operating synergies, I believe, understand and manage risk better and ensure our brand promise is delivered in the communities we serve. While we've always had the forte in self-employed segment as well as Tier-2 geographies, we've had a limited product portfolio to serve the segment.

I strongly believe there is a need to expand our offerings in order to get multiplier benefits from our catchment areas for example, improved productivity of our branch and people network, improve our cross-sell ratios. Remember one thing, this management team is very well versed with the cross-sell strengths that's going to start getting added to our existing portfolio plus the new ones, to further lower our customer acquisition costs and manage yields per customer, hedge our portfolio from diversification and substantially increase the granularity to the entire business.

As a result, from a product portfolio that I announced last time, existing, you have 4 key products, that's small ticket personal loan i.e. STPL, LAP, business loans and pre-owned car. We want to broaden our offering to 10 products. So, what I'm really saying is that we want to build 6 additional offerings, and I'm talking about a whole lot of work is already underway in this. The budgets have been done; the people are getting hired. But I'm putting the launch by Q1FY26, just to be a little more precise in terms of our delivery on precise numbers from thereafter.

So, I had shared with you Prime PL, which is already, by the way has taken off much before we had thought-of and is scoring pretty decent numbers already. You've got consumer durable; the process is underway to start. You've got shopkeeper loans. You've got used commercial vehicles. The people have joined in. The business heads have joined in.

You've got 2 new businesses that am adding now after adequately thinking through and increasing the granularity and the strength of the offering. That is going to be gold loans and education loans and both of them as well will be launched around Q1FY26.

Let me quickly take some time to briefly talk about the rationale for each of these businesses and how they'll complement our existing product portfolio and enhance our competitiveness vis-a-vis, our peers. We should be growing at a much faster rate and far more granular.

Quick sense on **consumer durable**, like I discussed last time, is going to be a key pillar for growing our customer franchise. India's consumer durable sales in a year is close to around ₹ 8-lakh crores and only 30% is financed today. That itself shows to you what an opportunity it can be for the company. As a result, consumer durable financing is seeing a 25% plus growth year-on-year. The Tier-2 and Tier-3 locations have been growing fastest at 35% plus year-on-year and not surprisingly still present immense penetration potential. Our strategy will be anchored along with these geographies with a focus on younger early salary customers. Our underwriter will be backed by robust credit decisioning and fraud models, given the experience of our data science and product team.

Quick sense on **Shopkeepers loans**, India has 13 million Kirana stores today, with 3 million mass retailers and family stores, where the turnover can be anywhere between ₹10 lakh to ₹5 crores, formal financing penetration is less than 20%. It's a fantastic opportunity for us. Playing in this segment requires strong digital-assisted models and sharp credit policies, and we have the bench strength and past experience. We will work on both digital and physical. We've captioned this model earlier in my previous organization, and I do see significant opportunity to build a sustainable shopkeeper finance book.

Let me speak about **Gold loans.** As we know that gold is one of the largest and safest form of collateral today to lend to the rural and informal sectors in the Tier-2, Tier-3 geographies. I mean gold loans in our portfolio becomes extremely complementary to our catchment areas. While gold is approximately ₹7 lakh crores plus market, we intend to play in mid-lower ticket size segment in Tier-2, Tier-3 geographies i.e. 40%-50% of the market. Gold loan branches do require specific infrastructure, however they're quicker to breakeven especially paired with other complementary cross-sell business that we've built strength on. Remember one thing, this team, I'll repeat, is well-seasoned in that area. I'll cover this in our distribution strategy.

Personal Loan Prime may seem a crowded space, ₹13 lakh crores market growing at approximately 26% year-on-year, however in my 20 years of experience of leading this business tells me that there are significant pockets of prime customers that are underserved in deeper geography, over 3 lakh ATS and that presents a great opportunity for us. We are already scaling this up from insignificant levels to decent quantum month-on-month and growing at a rapid scale. I'm very optimistic on the yields and the business prospects of this. Our play in this segment will be driven by open market, physical sourcing and a strong digital-assisted journey with robust scorecards to scale.

Used Commercial vehicle is another very interesting business. There are close to 11 million commercial vehicles in India that typically change 2 to 3 owners in a life cycle. 40% of the stock is in the prime 5–10-year vintage where funding penetration is less than 40%. The current used commercial vehicle finance market is around ₹1.9 lakh crores today and has grown at a steady rate of approximately 13%. These locations in the semi-urban India are aligned well with our current physical distribution strategy. Our strength in self-employed underwriting will help us serve the small fleet operators and first-time buyer segments.

Education loan. I'm going to be focusing on that as well. It could make us a good household name. It's a fast-growing segment with 17% year-on-year increase and AUM almost close to ₹1 lakh crore a year. While most of the portfolio has been targeted at international students, there's a clear shift in the trends, increased demand in the segment beyond various segments of the institutions. Education loan, like I said, will enable us to amplify our household brand efforts and building across retail segment. I'm confident that adopting these complementary businesses and leveraging the right data and analytics can help us build a diversified portfolio with predictable and sustainable cash flows and calibrated risk levels.

The whole plan is that when 4 businesses are broadly going to 10 businesses and building it over 4-6 quarters, can substantially add a very positive upside in the next 1 ½ years on the building blocks.

On the **new distribution points**, a few comments.

It's my firm belief that the segment we cater to, requires us to have meaningful presence on the ground, both from a sourcing and collections perspective. As a result, we will prudently expand our footprint. We presently stand at approximately 101 branches, and we are going to expand our footprint by 400 branches over the next year in tier-2 and tier-3 locations consistently with our strengths. So, what I'm saying is I will be launching 400 branches additionally in the coming financial year. The whole work has already begun and there's a whole lot of work happening on that. From the first quarter itself of the coming financial year, you'll see us moving into that. These will be gold loan branches, but there will be heavy cross-sell focus into our core businesses of business loans, LAP and shopkeeper loans. It will have a fair flavour of digital as well, and as a result, we expect a breakeven in these branches to be 12-15 months ballpark.

1) Our new capabilities, if I were to summarize quickly, there are 3 areas that we are doubling down on from a capability standpoint that will serve as the foundation for the franchise.

I've mentioned last time to you, 1) **Strengthening collections**, we've significantly strengthened our collection organization, bringing seasoned professional, Anil Hospattankar, Head of Collection joining us from Yes Bank with over 29 years of experience in the industry. We see our collection strategy across 3 clear dimensions. I'm laying it out for you so that it's much easier for you to assess because with every passing month, we're almost leapfrogging in the way we're getting controls.

I'm laying up the 3 dimensions. The use of **advanced analytics**- We've already built advanced portfolio segmentation, risk categorization scorecards for most of our portfolio. We are augmenting them with both on us and external data across the life cycle of customers, pre-delinquency to delinquency to recovery. That's what they have done on the ground over the last

60 days. We're putting in place algorithms to help us decide on the right strategy for the customers. We will be fully live by December.

Scientific customer and resource allocation is being done and customer engagement. We have significantly augmented our agency capacity. I think that itself can add immense value over the next 60-90 days, and we're bringing in seasoned debt management professionals to manage the markets. Let me give you precise timelines, 80% of the required capacity will be in place by Jan '25 and 100% by March '25. You can well see that work is happening on a war footing on multiple dimensions.

Investments and adoption of digital technology and collections - whether it will be roll out an intuitive in agent-friendly collection app, multiple scans, UPI features for EMI repayments, multilingual bots in probably 10 languages, we are already live, by the way, over the last 60 days and digital communication enablement to build timely payment habits. We are building out modern, sophisticated collection tech capabilities. That's our priority.

2) AI-driven credit decisioning and risk management. All the 10 products that we're kickstarting and we spoke of, have to be necessarily driven on the back of a solid risk management infrastructure and scientific decisioning. Remember one thing, what gives us courage to take 4 products to 10 products is a solid management team and over and above a very solid risk management and collections team. Our aim is to build a granular book that is differentiated by specific credit policies for specific segments. As a result, we have defined product and customer segments, **risk-adjusted return on capital** to granularly assess risk reward choices. We will have approximately 10 to 15 sub-segments within each product. We are creating risk separation by using alternate data over and above bureaus.

What I'm really doing is giving you micro details of what my guys are doing, that's what I have asked them to share with me precise steps. So, it gives you a first-hand sense of the detailing that we're getting into.

We're leveraging behavioural data. We are using data from **DigiLockers and other digital public infrastructure, the data sources, the point of sale and micro market level data and cash flow data via account aggregation,** very important. It should give us a 10%-20% higher lift in predictive algorithms. We are fairly investing in that to give us the cutting edge in a few quarters. Set-up advanced portfolio monitoring techniques that can improve credit costs by another 20-30 basis points. We're granularly analyzing productivity and its impact through the door quality along with keeping a track of macro and micro indicators that might indicate a slowdown or temporary shortfall in specific sectors in geography.

The idea of getting into these small details is to give you a ground-level feel on what's happening at an operating level.

Building a team of cutting-edge AI professionals along with strong capability in infrastructure, having hired some seasoned professionals to boost our current data science team, that's what we have done on the risk side. We're now investing in overhauling of scorecards from traditional models to AI and ML models.

This is being worked upon by Jasvinder Saini, Shriram Iyer and Bhaskar Pandey. Personally, they're getting into these areas because this could be cutting edge for us and size of the balance sheet versus these initiatives, we could probably be the best in class in this in a couple of quarters down the line.

We will have a stack of models across customer life cycle, right from classification and regression models to predict income to multi-bureau models and partnerships, alternate scoring models. This isn't easy to build. You can build this today because you've got a management team which has that bench strength, to create different swim lanes, to ensure risk accuracy is not just compromised while providing a seamless experience to customers.

Fraud prevention is another area where we will heavily lean on AI/ML. We've achieved initial success in identity test patterns and documentation tampering behaviour in our digital lending portfolio. We will continue to use a combination of graph-based technologies and Generative AI to drive higher fraud prevention.

To ensure all of the above are scalable, we are also building the right data marks and solutions along with modular API capabilities with third-party integration. We will soon be partnering with one of the leading institutes of India to ensure we get a highly talented pipeline of machine learning operations and data engineers to build these use cases.

3) Ramping up digital and performance marketing for our customer engagement is another very close to my heart. If you know my past background in digital, that probably will quantify why this area is so close to my heart. We will have a large customer lending base coming in over 2-3 years. Our aim is to ensure 50%-60% of our customers are repeat franchise customers. This will enable us to have a reasonably healthy margin, risk costs and create solid customer cohorts. This will be the building block strength of ours. To enable this, we are building a marketing technology infrastructure. Our focus going forward will be to monetize these capabilities via AI and scientific performance marketing, search engine optimization or search engine marketing, organic traffic builds and engage our customers meaningfully over the web and customer app. It will be a high priority for us. We're doing a fair amount of work on that.

By Q4FY25, we will go live with our revamped website as powered by a modern architecture and personalization capabilities. As we build our new businesses, our app will also provide seamless service and interaction, including meaningful features that will enable us to engage with our customer base.

Collectively, adding new people, new businesses, distribution points, new segments and also capabilities across AI, collections, digital marketing will mean incremental investments over the next 6 quarters. I thought it might be appropriate for me to give you on a ballpark basis because we've done a fair bit of budgeting on that, we do expect the number to be more about ₹50 crores per quarter over the next 6 quarters. These investments are going to be foundational and will provide a multiplier benefit to our growth and profitability in subsequent quarters.

Having walked you through the details of our fundamental strategy, I will continue to keep the group posted on our progress in subsequent calls.

Let me now focus a conversation to our performance this quarter.

We are firmly on track to deliver our **AUM growth** as promised in our last quarter. What has changed is the mix of our incremental business, and that is the priority for us as well. We will change the incremental mix more towards being more granular, risk savvy and incrementally solid customers. We've driven our purposeful scale-up of our commercial lending businesses on the back of the strong cash flows and tailwinds that we are seeing across our markets.

Incremental business disbursals among the existing 4 businesses, let me give you a sense of the two businesses to begin with. **Business loan and LAP**. It's been around 4 ½ months now and we've already started growing at approximately 50% in business loan and 65% quarter-on-quarter, respectively. I thought probably, this will give you some sense of what this team after joining in at various points of time in the last 4 months, can pick speed. At the same time, in LAP, we have improved our pricing as well. So, it's not just that the LAP has grown at around 65% quarter-on-quarter, we've increased our pricing by 25-30 bps. We've expanded our presence in 40 new cities. The idea of just sharing this with you was just to give you a ground level feel.

We've curtailed down as well. Among the 4 businesses, there is **STPL business**. I've given you a hint in the first 40 days. With our experienced seasoned eyes, we felt it needed calibration. We've curtailed now our disbursals in the STPL high-risk business, we have curtailed down to $1/5^{th}$. So, whatever we were doing in STPL, we're down to approximately 20% of that disbursals a month. Despite that, you notice we showed a 5% sequential growth, which means the rest of the business have to start growing at a much-accelerated rate and which we managed to do even in the first 4 months. Over the next few months, we will test multiple customer cohorts on STPL in terms of credit quality, pricing, average ticket size and then use our digital marketing machinery to scale up the disbursements. But it's very important we get the calibration absolutely bang-on right.

Coming from the 2 ½ decades at HDFC Bank, I have been brought up with the philosophy of prudence when it comes to risk management. It's very important that the balance sheet remains financially resilient to any foreseen or unforeseen surprises. I must clarify here that adequate provisioning for me is not merely a regulatory or accounting exercise, but a tool to ensure we are building a strong balance sheet through risk management, we walk the talk. I've been always telling you; we will be solid in risk management. When I say we will be solid, it only means that we have to walk the talk as a management team, which is fundamentally important as we embark upon sustainable, predictable and transparent long-term strategy.

Post a thorough data-driven review of our STPL book, we have decided that an increase in provisions is warranted to ensure we are able to hedge against the unseasoned nature of the book and macro environment that we are in. We are fairly confident that this onetime action combined with calibration of our product mix for incremental businesses will strengthen our balance sheet without doubt and enable us to sharply focus on multi-year, multi-product growth trajectory and deliver an AUM and a profitable number over the next few quarters.

With this, we are confident that we are done with our credit assessment of the entire portfolio and have adequately provisioned on the entire book. This financial resilience that we have created in the balance sheet will help us build a very strong franchise from hereon.

At the cost of repetition, let me reiterate. We are very clear, we are building a long-term franchise that will deliver 30%-40% AUM growth for the next 5 years. We are firmly on track to achieve it. At the same time, we are going to ensure that the business lines that we get into are absolutely sustainable, and we remain prudent and calibrated in our risk management approach.

Before I hand it over to Sunil and Sanjay to walk us through the detailed financial performance this quarter; This festive season, we wish all of you a very Happy Diwali. This quarter, in my view, will mark a very positive turning point for this company. We have made provisions for STPL book with a clear intent of better risk management and financial resilience. We are strengthening our balance sheet for the long-term strategy and just to summarize with this management depth, which I believe is one of its kind in the industry and our strategy is one of its kind of building a franchise of 6 additional businesses, we're confident that we'll take these 10 solid businesses to growth trajectory. I do believe firmly, this will be the transformation of Poonawalla Fincorp, ballpark, I would treat it as 4-6 quarters both in terms of diversity of customer segments, which we will build and add value to the franchise, multiple distributions that we create at a rapid scale both physically. Like I said, we are launching 400 additional branches from 100-odd, plus on the website we'll transform the game. Recalibration of overall risk, substantially lifting the AUM is something that I see year-2 onwards, as a foundation for recalibration of much better profits starting the beginning of third year.

Thank you very much. Let me hand it over to Sunil.

Sunil Samdani: Thank you, Arvind, and good evening, everyone. Let me now take you through the quarterly and financial operating highlights.

- Our assets under management stood at ₹28,396 crores, reflecting a growth of 40% year-on-year and a healthy 5% quarter-on-quarter. Now this is despite the moderation in STPL book due to credit recalibration. In terms of AUM mix, our MSME finance contribution is 33%, followed by personal and consumer finance at 28%, Loan against property and pre-owned car at 19% and 15%, respectively. We continue to maintain a balanced secured to unsecured mix of 51:49 with secured mix improving 225 bps quarter-on-quarter.
- Our Net interest income, including the fees and other income was ₹645 crores for Q2 FY25. This is up 22% year-on-year.
- The onetime Opex and the ongoing investments in technology, distribution and people impacted the PPoP, which is pre-provisioning operating profit during the quarter, which stands at ₹279 crores as against ₹432 crores last quarter and ₹346 crores same time last quarter.
- During the quarter, we incurred a one-time Opex of ₹71 crores along with a one-time additional provisioning of ₹666 crores for the STPL book. This provisioning reflects our commitment to prudent risk management practices.
- The NNPA was stable at 0.33%. Our GNPA stands at 2.1%. This increase in gross NPA is on account of higher slippages in the STPL portfolio.

- Our PCR, which is the provisioning coverage ratio during the quarter, improved from 52.53% to 84.47% quarter-on-quarter.

Coming to our liability profile.

- Our cost of borrowing was lower by 6 basis points quarter-on-quarter at 8.10%. This is despite the tight liquidity environment that we were in. We have been successful in reducing our cost of borrowing through a dynamic treasury management with one eye on the cost of borrowing and another one on the liquidity and the ALM.
- Our debt-to-equity ratio was 2.26x. We remain comfortable with positive cumulative mismatch across all our buckets and the surplus liquidity of ₹5,710 crores as of September 30, 2024.
- The total borrowings at the end of quarter were ₹18,107 crores with approximately 71% of which are on variable rates. Whereas the fixed rate borrowings are of relatively shorter tenure, which places us well to take advantage of the lower interest rate environment envisaged in the future.
- Our capital adequacy continues to be well above the regulatory requirements with CRAR standing at 29.22% of which the Tier 1 capital is 27.75%.

Let me now take you through some of the technological initiatives that we've taken.

With implementation of centralized **Enterprise Data Warehouse (EDW)** and the data lake, PFL is now future-ready on any new business segments with high-volume compute platform and the single source of truth with near real-time data. This will benefit cross-sell campaigns, reduce turnaround time at a lower total cost of ownership and faster query compute performance. This will also enhance the data team democratization and the data-driven culture in the organization.

We have partnered with an Account Aggregator that will further enhance our credit assessment and operational efficiency, which will help in managing the risk.

We have built an **AI-based delinquency and collection management** system that effectively improves collections. Our collection stack is a cutting-edge solution built on a modular low-code, no-code platform.

We have integrated top-tier technology to enhance workflow execution, including the dynamic field allocation based on location and a robust legal paintwork, and a multilingual voice and chat box for efficient customer communication. Our goal is to modernize the existing collection stack through seamless upward and downward integration, while maintaining the current user interface, ensuring high user adoption.

On the customer service front, we have **implemented an integrated communication hub and an auto authentication of customer** basis the registered mobile number. This will help our caller give a 360-degree portfolio view while talking to our customers.

We have launched our first **GenAI based voice bot and email bot**. Our voice bot now proactively engages with the customer, providing important loan details through welcome calls such as disbursement amount, EMI, due date, broken period interest, etc. About 35% of our inbound customer calls are handled by our voice bot whereas the outbound welcome calling, 100% of it is done through bot. These topics that generates a high volume of inquiries at the call center are now explained automatically by the bot.

The email bot that we have recently introduced shall provide in phases.

1) the instant response to our customer queries 24/7,

2) categorize and scan the incoming emails to identify the topic and the urgency,

3) prioritize email, ensuring that the urgent matters are handled first,

4) bot drafts and send the response to routine inquiries, reducing the workload on customer service team and speeding up correspondence time.

Our Net Promoter Score (NPS), a key indicator of customer brand loyalty, has consistently stayed above 70% throughout Q1 and Q2 across all critical touch points, which is sales, onboarding, service and exit. We are actively addressing customer insights, identifying opportunities for process improvements as part of our ongoing commitment to continuous enhancement.

Thank you, everyone, and wish you all a very Happy Diwali in advance.

I would like to now open the floor for question-and-answer session.

Moderator: Thank you, sir. We will now begin the question-and-answer session. We have the first question from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: So, the first question would be from where I left last quarter, I asked Arvind about the provision buffer that was created last year and of course, I mean, we got answer from your other colleagues. So, nearly ₹700-odd crores of our provision on this STPL that you have created and then last year, when Poonawalla has received money from that housing book divestment about ₹1,200-odd crores of that prudential buffer was created. So, what has happened to that? Where is that buffer utilization today? Because with that kind of a buffer and again, this kind provisioning to be done, this raises the sort of very serious quality over the kind of a book that was underwritten over the last 12- 18 months and in terms of what your confidence as far as provisioning on the entire book is concerned, that book is almost that you have inherited. How comfortable are you in the kind of asset quality and will this provisioning be sufficient for that? So, my question is two-fold, okay, of course, your confidence going forward in the existing book and the updates on what happened to that buffer that was created, how will you utilize what and where it is now? That's for the first.

Second one would be more on, of course, as you sort of rightly highlighted the team that you have now hired to build a franchise for the future next many years. The question is, how are you finding at the ground, branch and all levels of how they are responding to this entire change in style, change in the top management. For the top management, sort of how you see that the longevity within the organization because, this kind of a transformation at times could be very frustrating because results take time and your incentive sometimes linked to share price, again, that will again take time before your share price start to reflect this. So, somehow the team also start to get frustrated. So, how sort of do you see this transition playing out? And how confident that okay this team is going to stay?

Arvind Kapil: Okay, a quick one. I got two of your questions. Let me quickly cover the two parts and then hand it over to Sanjay to give you a perspective on a certain area.

First, we've done risk calibration check on the entire portfolio. So, while you may see provisioning on the STPL book, which I thought was relevant and appropriate to take it to adequate provisioning, which is why we have done that. But the checks have been done on the entire portfolio by our risk team, by internal and external assessments. So, we are done with our provisioning. I want to be very clear on that. There's no ambiguity there. Yes, it is a little bit of, you might call it more precise upfront call, but it's important that we create and strengthen the financial resilience. You can't talk about risk management and then not have the courage to do it where it has to be done. Tough calls are important to make the company stronger and ready for its long-term growth and you can see that we are ready now. The balance sheet is all ready, our multiple plans and courage to launch 6 businesses. In those additional 6 businesses, first of all, there are no people. So, we are building those entire teams, franchise and everything, which will be direct value to the company that we're creating.

For the existing businesses, I shared with you amongst the four businesses, STPL, we are recalibrating it, that's predominantly very biased to digital. On the feet on the street ground, there is business loans and LAP. The teams have really adapted well. There's no frustration, by the way, there's an excitement. When you challenge people, I've shared with you the growth rates are around well over 50% in both those businesses and it's not like the entire team joined on 10th June when I joined. Over the last 4 ½ months, we've been joining over at different points of time and it's a team that managed to click really well with the existing team. I think they are a fine bunch of guys. They've already picked up fantastic speed and adapted well. I think we had some good people that we've hired and would love to share the confidence that we have very, very aggressive plans and challenges when you throw at people, people get excited and motivated. I mean a good example i.e. our own Indian armed forces at the border. It's not that they're the paid the best, but when they're faced with fantastic challenges, the excitement is of a different order. You can well compare that with the way we run things here. When you create exciting challenges, I can see the energy levels are only going up. I think sky is the limit when it comes to business. We are excited about it. I'll be honest with you. When I told you, we will look at the first portfolio in 40 days, I was very frank with you. Now, when I'm excited about the road ahead, I'm equally in the same spirit, sharing with you. That's what it is. As far as the specific provision of the past, maybe we are more conservative for now. Sanjay will give you a sense of it.

Sanjay Miranka: So, out of the exceptional provision, which we've created in FY2023-24, we are still getting ₹259 crores of provision in our books. So, as Arvind rightly said, books are well provisioned. Just to add to the point on top management and how it is transforming the entire landscape. The way our core products, as of now business loan, loan against property, pre-owned cars, the way they have picked up speed with better yields, you will see the results in next quarters and years to come.

Arvind Kapil: And even these 6 businesses have a fair amount of work happening, out of that PL Prime, I think we've already started reaching levels of ₹50-70 crores a month, to give you a sense. It's probably be interesting to see quarter-on-quarter, we are moving quite sequentially rapidly on those. So, if we go into micro detail, we may have recalibrated some of the high-risk businesses, but the ones which we are growing, we're growing fairly fast and rapidly.

Avinash Singh: Okay. So, you said that you are carrying a ₹200 crores provision from last year?

Sanjay Miranka: ₹259 crores.

Avinash Singh: ₹259 crores. Okay, Thank you.

Moderator: We have the next question from the line of Shreyas Pimple from JM Financial.

Shreyas Pimple: So, I wanted to ask two questions. First, on PL book, what is the actual size of the PL book and of that, the STPL book specifically, which is throwing up issues?

Arvind Kapil: Yes. Sanjay, can you throw some light of the first question?

Sanjay Miranka: Yes, the total STPL book is to the tune of ₹6,800 crores, out of which, the book which is belonging to the period prior to this calibration is about ₹5,400 crores and the entire book of ₹5,400 crores is well-calibrated. As Arvind articulated, the disbursement which were to the tune of ₹1,000-1,200 crores monthly, have been brought down post this risk calibration to ₹200 crores in September and only after gaining confidence both on any kind of future flow rates in terms of the overall performance, basis the customer segment, basis the average ticket size, in the measured way we will grow that book.

Arvind Kapil: I think we've got a handle on the calibration but the scaling up, I might take 60-90 days on that particular book because it's important we get it absolutely bang on right, and then I think it will open up a new opportunity for us.

Sanjay Miranka: While at the same time, it would be important to add that the growth is not dependent on STPL. We have well-settled products which are giving the growth.

Shreyas Pimple: Understood, sir. Thank you for the detailed answer. The second question was on the capital requirement, both in terms of debt and equity to fund the feet on street or tech investments that would be required for growth ambitions?

Arvind Kapil: So, I think, I've already stuck my neck out and shared some figures of around ballpark ₹50 crores for these 6 businesses over the next 6 quarters. To give you an indicator, that this ₹300-odd crores in 1 ½ years will set the ball rolling for us for a certain growth rate. Remember, one thing I've also said, 400 new branches which can actually between digital and physical substantially increase productivity. While we invest in digital, very important to get the ground level armies also in India, in Tier-2, Tier-3 cities. We come with a very strong experience. I see great opportunities of fantastic ROA products there. So, if you combine your ground level forces with digital forces, the productivity goes up and business focus is priority for us. You can check my background on digital. We produce one of the best products in the world. So that effort is going to go on.

As a matter of fact, for me as a CEO, I'm going to bet big on AI but I'm going to focus on business. If I can do two big projects, which are game changers in the next 4 to 6 months on AI, you'll hear of it. There are already two projects that are commissioned. I haven't spoken about it. Let some results come in that before we speak about that to you in the next earnings call and it might be more appropriate. Most of the stuff that I've detailed out for you all right now is so that everybody with that note gets a ground level feel what's happening on the ground because a fair amount of work is happening. You will see a more exponential kind of a flavour as we start moving quarter-to-quarter because the experiences of our distribution is very, very strong.

Sunil Samdani: To your point on the debt or equity capital requirements, we are a very low leverage company with our debt to equity at 2.26x. So, there is enough headroom to increase our leverage. So, we don't see that as a challenge for our projections that we are looking at. Equity, again, it's very high capital adequacy. So, we don't see a requirement to raise equity in near future.

Arvind Kapil: Yes. I think hereon should be very strong, exciting times from a business building block perspective.

Moderator: We have the next question from the line of Parag Thakkar from Fort Capital.

Parag Thakkar: I really appreciate the long-term vision and the execution foundation which you have laid down and I really appreciate that you have hired very good people to take the business from here. The only thing is that, unfortunately, when you take this tough decision of providing in one quarter, I hope that this shocker, which comes to market and which unsettles market, I hope that shocker thing is over now, with this quarter?

Arvind Kapil: Yes. First of all, I think, Parag, it's not a shock. It's something which is prudent risk management and as a matter of fact, absorbing shock. I'm making sure that we have a clear runway ahead, markets can see more clearly, and I can see more clearly the road again instead of playing wishy-washy over and try to postpone. When you have this quality and credibility, I have also pressure to hold the ground and walk the talk. So, I'm very, very clear. If you see my plans, I've gone out of the way to go into very high detail with everybody. A lot of this is not theory. This is getting executed at the ground level. You can well imagine how many companies in the last 10 years you've seen who have got the courage to say we've got 4 businesses, we'll put 6 businesses on the table. I've said that in the first 40 days. Do you see me wavering on that? No. I have not wavered on it.

Within the first 40 days of coming in I could see the problem, I specified it to you, called it out. Then the 4 businesses to be launched. We have gone ahead and stuck our neck out on another two businesses. It's 4 ½ months. You can well imagine the seasoned experience we have been putting it on the table. We've got Serum India behind us. We've got a AAA rating. We've got solid pedigree. We've created a management team, which is probably the best in class in my limited view and between existing and new people, we've got a fantastic team. I'm excited for the road ahead. I think the market should be fully excited that this is the company which is worth its metal. That's what I would look at it. On the stock market, I told you last time also, I don't understand stock market at all. So that's treated as a disclosure. I understand businesses and that you will see we'll create one of its class. I have no doubts.

Parag Thakkar: Arvind, really appreciate your response. Just that I think Avinash also asked the same question on the STPL book, where you have provided so much of the amount and after seeing the entire book, you have done this. So, I hope that this amount or this thing will not be repeated, right? It is one-off and we have decided to write-it-off in one quarter itself, right?

Arvind Kapil: Absolutely. If I can calibrate my business to 1/5 of monthly disbursement, it takes courage to bring it down. Obviously, it's fully recalibrated and I'm accelerating other businesses. In 4 ½ months LAP and business loan are growing 50%-70% quarter-on-quarter, and you can estimate the growth in the coming 1-2 quarters. Obviously, it's all well planned. It's well risk calibrated. I can assure you and we have some very serious strengths which will play out in quarter-on-quarter. This was an important decision. It marks actually a game changer, positive move for the company.

We want to work on various projects like I mentioned in this, and once probably your respective fund managers goes through the details of my conversation, you will realize that I'm investing a lot in AI and a lot of projects. With our experience, we'll create something very exciting within 6 months and that kind of optimism I'm sharing with you when I see it. So, I'm kind of a guy, I'll tell you well in advance how I see the future. If I see the future bright, you will hear it from me.

Parag Thakkar: Yes, sure, sure. Really respect your...

Arvind Kapil: Let me be honest there. I don't understand stock market. Sorry, over to you. Sorry, to interrupt you.

Parag Thakkar: No, Sorry. So really appreciate your comments and really appreciate your honesty, and I would say modesty also and the way you have gathered so many people from very, very highly respectable institutions. So, really looking forward to excellent growth and asset quality also. The only thing which ultimately, I would like to ask, for this is for all of us to know that whatever hit you had to take, you have taken, right? Just answer this question and that's all.

Arvind Kapil: Yes, across the book, taken, done, over and we are accelerating on our pedals now.

Parag Thakkar: Okay. So, now there will be no extraordinaries. The business is as usual now, and it will grow with a very, I would say, prudent risk management as you were running in HDFC Bank, right?

Arvind Kapil: See, that's the DNA that cannot be changed. Our risk management will be little better, we cannot do anything. We can't change that. It's going to be a better DNA and that I can't move it out because we work for an NBFC now. As I said, the growth will be massive. We enjoy great credibility with the existing distribution. Our understanding on creating new distributions is very strong. This is business time now. So, business time is our forte and this management team, by the way, is not just one level below me. We've got guys who are two levels below, now three levels below. This is expanding at a very good rate. We used to have difficulty getting that quality of talent at that pace. Now, I think we have a pipeline of guys who want to join us. I mean I'm not exuding extra confidence on what I see on the ground. People have been kind, and I'm very grateful that people are showing interest in joining us and we are very obliged. But we'll obviously be prudent in all levels because we were brought up being cost conscious. We've been brought up being sensible spenders. We've been brought up being risk prudent. In finance business, risk prudence goes hand in hand. It's being extra prudent. It's part of life. You cannot be compromising that area. That's all I'm trying to say. We know how to do business, that's why the word seasoned. Thank you, sir.

Parag Thakkar: Perfect. So basically, the one-offs have been over. Now, it will be business as usual. The growth will be as usual. You'll be always prudent in terms of providing, which was a DNA of yours when you were at HDFC Bank. So, we'll continue to see that and growing new 6 businesses, scaling it up. Those kinds of investments are absolutely okay with investors. But the one-off thing, which was a one-off thing which you said on the last call that you are seeing with STPL book and now you have provided for it, right? So, it's a one-time thing, which we have already taken.

Arvind Kapil: Yes. We've just created financial resilience, sir. That's all we've done and where it was required, I've taken. Rest of the book, we have calibrated, checked. Everything is within the range that we can manage, and there's nothing. I'm excited from hereon.

Moderator: We have the next question from the line of Kaitav Shah from Anand Rathi.

Kaitav Shah: So, two questions, number one was LAP seems to be the new gold in terms of financing. It's in a pretty good space. Where do you think, in which ticket sizes or markets would you want to create your niche in the first 2 to 3 years for us to kind of look up to or measure you? How should we look at it, number one? Number two, bookkeeping question, what are the outstanding provisions on the book now, buffer that had been created earlier?

Arvind Kapil: You're talking about provisions or the new provisions we have created, or which one are you talking about?

Kaitav Shah: No, the old buffer. We had a buffer of about ₹1,000-odd crores prior to this. So, is it still outstanding? What quantum is it?

Arvind Kapil: Let me give you a more holistic answer. LAP right now is going to be one of this 10 businesses for us. We're going to be focusing on a lot of secured businesses, including for gold, by the way, it will also be gold for us, just for your idea, that's a good ROA business. So, we still believe gold has a lot of shine left and the size we are at, it's going to be a great opportunity for us. We are going to cater to all possible segments that we can take advantage of, which is why on the business side, commercial vehicles, education loans, household names, consumer durable to create a company. When you create solid ROAs from here on, you've got to create customer franchise running faster than the growth rates of companies. So, while our growth rates might be extremely on a positive trajectory, I would still want customer franchise to run faster so that through AI, through cohort groups, through cross-sells strengths that we have management depth of, you can create some serious advantages not just for LAP, for various basket of products.

Even if, let's say, I want to have competitive advantage on the website, for example, which should be irrespective of your balance sheet size. But for that, you need multiple products and businesses on the table to be successful. That's the reason we're launching 6 additional businesses, so that both on the consumer side, commercial side, we should be on a solid platform to offer products right through term loans, overdrafts, various needs of customers. Every customer sees a need to be our second customer and third customer. That's important to understand. That's what we're going to do. If you see, we're very clear. We're marking our niche as very strong consumer finance players and that's important to understand.

On that provision, Sanjay, you want to throw some light on a specific...

Sanjay Miranka: So, our closing provision as on September 30, 2024 at an entity level is ₹1,406 crores, and we already talked about the incremental provision, which we made of ₹666 crores and ₹259 crores of exceptional provision which was created earlier is still there in the balance sheet.

Kaitav Shah: Sorry, can you repeat the last number?

Sanjay Miranka: ₹259 crores of provision out of the exceptional provision which we had created earlier is still there in the books. We are carrying the provision in the balance sheet.

Kaitav Shah: Okay. Right. Got it, and sir, just an additional question, multi-focused consumer NBFC, when we try and move to a consumer financing multi-product player, generally, there are certain costs associated initially that you have to do, and it could be a 2-3-year process if I'm not mistaken. So, are we going to see some heavier costs initially? Will there be some heavy lifting over the course of next 1 year in terms of cost after the benefits will then flow-in, just from an understanding perspective?

Arvind Kapil: See, let's look at it on common sense basis. Any CEO comes. You've got a balance sheet. You take over. Profits will come out of that balance sheet. It's not going to come out of anywhere else. I want to invest ₹50 crores a quarter into the 6 new businesses along with the expenses of rapidly growing the existing ones. The ones we are growing, existing ones are fairly good margin businesses. The ones we are growing existing, and the next 6 also are going to be very good. What is the granular tenor? They are not 10-year loans. They're 3-year loans. So, in 1 ½ years, if you start scaling up, where do you think your calibration goes between your existing and new? Your profits technically, while last time I gave a guidance, should be higher of the percentage of the two, it should ideally get recalibrated much higher. Now, let me be conservative there because what will really happen in 4-6 quarters, we will be a substantial lifter in terms of the recalibration of profit as well. That's the plan and that's why it's important in the first 4 quarters, we do basic amount of investing and investment will lead to wealth creation. That's important right now.

Remember, what I understand of the markets, my limited understanding is it should be more sustainable and predictable. So, as you see us build business, we keep sharing with you the growth rates, how we're building blocks, how we're building it, how we're cross selling it. We'll give you enough feel as we go along, and that's important so that you all will know that we are actually creating a fantastic franchise at a fairly fast pace and that's going to be the strong foundation for us. So, I'm looking at robustness every 2 quarters, 3 quarters on a different scale. It will get recalibrated and then at some point, you'll actually find it will get recalibrated to a high level very soon.

Thank you.

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