"Poonawalla Fincorp Limited

Q4 FY 2022-23 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Poonawalla Fincorp Limited (Poonawalla Fincorp) Q4 FY 2022-23 Results Conference Call. As a reminder, all participants' lines will be in a 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 this conference is being recorded. If you wish to ask a question any time during the conference, please press star one on your touch-tone phone to join the question queue.

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

Hiren Shah: Thank you, Vikram. Good evening, everyone. Thanks for joining this conference call. It's our pleasure to welcome you all to discuss Poonawalla Fincorp's business and financial performance for the quarter and the year ending March'23. To discuss all this in detail, I have with me our Managing Director, Mr. Abhay Bhutada, other senior management officials and myself, Hiren Shah. Now I would like to request our Managing Director, Mr. Abhay Bhutada, to brief you all about our company's operational and financial performance along with the development for the quarter and the year ending March'23. Over to you, sir.

Abhay Bhutada: Thank you, Hiren. Good evening, everyone. I welcome you all to the Q4FY23 Earnings Conference Call of Poonawalla Fincorp and trust you are all doing good. This is the first full year under new management post-acquisition by Poonawalla Group. During the year, we successfully transformed the organization in line with our Vision 2025. The transition has been nothing short of a spectacular performance, as we hit the right chords on business, technology, people and processes. The same is reflected in the way the business has shaped up, resulting in consistent growth across the metrics of disbursement, AUM, asset quality, profitability and return on assets.

Our financial strength and efforts in transforming the organization have been well recognized as we have recently received long-term credit rating upgrade to AAA from CRISIL and earlier we received from CARE. During the year, we started the value unlocking process of our housing finance subsidiary and the same is expected to conclude soon, subject to regulatory approval.

This year's robust performance has ensured that we are on a strong footing and ready to leap forward to the next level of growth journey. Coming to the quarter gone by, I'm happy to share that we are right on track, in line with guidance we have given in the previous quarters. We have recorded the highest ever quarterly disbursement, strong growth in AUM with best-in-class asset quality resulting in the highest ever PAT and highest ever ROA in Q4 FY23.

Let me take you through the key standalone financial numbers for this quarter and the financial year ended 31st March 2023. Our AUM has grown by 37% YoY, 16% QoQ to ₹ 16,143 crore. Focused AUM stood at ₹ 15,198 crore up 73% YoY and 19% QoQ, which is now 94% of our total AUM. We continued to wind-down our discontinued book and its AUM now stand at ₹ 945 crore, this is total AUM. On-book AUM is ₹ 640 crore down 68% YoY and 21% QoQ and we are expecting maximum book will get run down over a period of next one to two quarters.

On the composition of our total AUM, Business Loans including LTP is the highest at 28% followed by Pre-Owned Car which is at 17%, Personal Loan and LAP 16% each and Supply Chain Finance at 7%. With this, we are constantly focusing on to maintain a secured unsecured ratio of secured 40% and unsecured 60%. We are focusing mainly on the prime customer segment with Bureau score of 700 plus having credit tested history. Considering the huge database available, we decided to stop new-to-credit customers two quarters back. Secured to unsecured ratio of the total AUM as of now stood at 49 to 51 as of March 2023.

Our AUM is well diversified geographically across MSME and consumer segment with multi-scoring channel. During the last quarter, we reported our highest ever disbursement of ₹ 6,371 crore, which was up 151% YoY and 89% QoQ. Entire disbursement was organically sourced and has grown over 3x on YoY basis. We stopped buying acquisition of any other portfolio three quarters back. Disbursement under Direct Digital Program constituted 81% of the total disbursement in Q4 as compared to 66% in the previous quarter. Direct Digital Program ecosystem has accelerated the disbursement and expanded the customer base, lowering the cost of customer acquisition compared to traditional distribution model.

Our Gross NPA is at 1.44% down 185 bps YoY and 25 bps QoQ. Similarly, Net NPA is at 0.78% down 52 bps YoY and 11 bps QoQ. The provision coverage ratio stood at 46.2%. Our restructured book now stands at ₹ 122 crore only, which is 0.8% of our total AUM out of which 51% is in 0 bucket. The excellent asset quality is driven by our chosen customer segment, high credit bureau score portfolio, superior collection infrastructure, close monitoring of early warning signals coupled with proactive credit policy changes.

Our cost of borrowing was at 7.9% for Q4FY23 primarily due to recent 250 bps rate hike by the RBI in multiple tranches. Despite the growth in the cost of borrowing our net interest margin has improved to 11.3% during the quarter, which is up 87 bps YoY and 59 bps QoQ. For the full year, NIM stands at 10.7% as compared to 9.8% in FY22. Going forward, we expect on a steady state basis, we will be able to maintain NIM level of about 10% as per our existing guidance also. The cost to income ratio has come down sharply by 861 bps from 56.7% in Q3FY23 to 48.1% Q4FY23, which includes higher ESOP cost.

Operating profit for the quarter stood at ₹ 212 crore, which is up 84% YoY, 36% QoQ. For FY23 operating profit was ₹ 612 crore, which is up 35% on Y-o-Y basis. Our return on asset was at 5% for Q4FY23 up 178 bps Y-o-Y and 53 bps QoQ. For FY23 ROA was at 4.4% as compared to 2.7% for FY22. Profit after tax for the quarter stood at ₹ 181 crore, which is up by 103% YoY and 20% QoQ basis. For the FY23. PAT stood at ₹ 585 crore reflecting an impressive 100% growth as compared to FY22. Shareholders' funds grew by 12% during the year ₹ 6,425 crore. Capital adequacy ratio stood at 39% as on 31st March 2023, which is much above the regulatory requirement.

Now let me take you through our business strategy and the way forward.

As mentioned earlier, recently CRISIL upgraded our long-term rating to AAA, which is a revalidation of our business strategy and execution capability aimed towards building a strong consumer and MSME lending franchise. This puts us in the ivy league of AAA rated NBFCs and should further accelerate our growth journey as India's most trusted, profitable, and leading Fintech NBFC. Our business model leverages our strength of low cost of funds and low operating costs. The low cost of funds is primarily driven by our strong credit rating and brand lineage with our low operating costs is driven by our successful transition of the organization in terms of technology, digital along with change in the customer segment and the product offerings.

Given our deep technology inclination, we have been able to create a truly digital organization where the benefits of technology are visible, with increased manpower productivity per employee. We achieved 151% increase in disbursement while reducing the headcount by 53% over last one year. This inverse equation clearly classifies us as India's most profitable and leading fintech NBFC at scale in terms of our digital capabilities. However, unlike fintech who target high risk customers due to their high cost of funds, Poonawalla Fincorp target low risk customers complemented by its low cost of funds. This means while we give user experience of a Fintech, we focus mainly on prime and super prime customers, which makes us stand out from any other NBFC.

This low-risk segment play aided by with low Opex, helps us get better risk adjusted return as the competitive pricing offered gets reflected in the lower credit cost. This positions us uniquely by being a lender of choice for the customer, which offers user experience, agility of a **Fintech**, the customer understanding and practical approach like an **NBFC** and the fair pricing and transparency of a **Bank**. This model has further strengthened with our business strategy, which focuses on risk mitigation as a starting point. Our focus on segments defined, credit tested customers, digital data collection, rule based underwriting and graded approach to loan exposure is all aimed at getting better risk adjusted return.

The strategy further clearly defines the optimal mix of secured and unsecured portfolio is at 40 is to 60 along with a tenure mix of short-term versus medium & long-term loans is at 20%-25% is to 75% to 80%. This is not only a move towards addressing a growing market but also focusing on the right risk segment and further leveraging it for cost of capital advantage and a driver of higher profitability. All this can be seen at work, in our Q4FY23 results with consistent business growth, best-in-class asset quality and finally resulting in highest ever ROA of 5%.

We are confident that as we further execute our strategy the way we have been doing it over the last six quarters, we will continue to deliver a superior ROA going further. In the last quarter, we have given guidance of manpower and branch consolidation as we focus on a tech led and branch-lite model. There has been a significant reduction in our manpower from 5,184 as of March 2022 to 2,452 as of March 2023. The group structure at the top has been done away with as our housing finance business gets carved out as a separate entity, subject to the regulatory approval.

Also, we have consolidated our business in the top 100 branches to increase our digital business penetration across all our product lines. This makes us future-ready to deliver on our stated guidance of AUM growth of 35% to 40% and profit growth of 30%-35%. We continue to grow and diversify ourselves across all product lines. In Q4FY23, we have made steady progress as we scaled up our supply chain finance business as well. This business line helps us to penetrate deeper into the MSME ecosystem as we tap the downstream and upstream financing for various corporates and to add another dimension by offering short term financing.

We continue to build a well-diversified book across various product lines, tenures, and segments to manage our risk better. Short tenure book now constitutes 20% of our total book and this is in line with our guidance provided of approximate 20%-25% earlier. This also helps in our liability strategy, as we further optimize our borrowing mix. Short tenure loans are also driving customer acquisition for the future. The credit underwriting parameter have been optimized based on learning from the short-term loan thereby helping maintain best in class asset quality.

At the same time, we will maintain secured unsecured ratio of 40:60. The new book built over the last 20 months continue to perform well as we continue to leverage the experience of having done these products earlier within our group. We have benchmarked our performance against the industry data through the credit bureau and I am happy to share that we have one of the best performing portfolio in the industry as per the bureau data.

This external validation further enhances our confidence in growing along with a healthy asset quality. We continue to increase our digital agenda across product line as well as customer life cycle. We have completed about 50% of the digitization agenda as discussed and as we move ahead, we have a digital journey now fully available across all the unsecured product lines. We have also done digitization across customer service. In customer service we have moved 94% of the service request coming through a faceless channel and branches are getting limited to only 6% that too because of the legacy balance book.

Out of 94% of the service request, 79% of them are being serviced completely digitally. This is in line with the trend that we had anticipated and further strengthen our belief in our strategy. We are leveraging WhatsApp for giving a complete "do it yourself" journey and the results have been very promising. We now intend to take WhatsApp ahead across the entire life cycle for our customers. As an organization with an employee-centric culture, we have been building a strong team for the future and driving productivity across the organization.

The productivity improvement is well reflected in our increasing disbursement and AUM while the headcount continues to reduce. This is truly reflective of the real digital tech-led model that we are creating and focusing since day one. The scalability of the business that we have seen over the last two years uniquely positioned us for a much stronger growth going forward. The productivity improvements and control in manpower cost is also seen clearly in the reduction of operating cost over a period of last two quarters and going forward, it will further reduce.

With strong roots created over the last two years and exemplary execution capability, we are now confident that we will continue to deliver across the business metrics of growth, profitability, and asset quality. We continue our relentless focus on building a strong technology-led and innovation-driven retail franchise.

Thank you everyone. And now we can start the questions and answers.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Take our first question from line of Samir Bhise with JM Financial.

Samir Bhise: Thanks for the opportunity and congrats to Abhay and team for a fantastic quarter. Just wanted to ask some numbers. In terms of the Opex, what was the ESOP cost for the quarter and for the year?

Abhay Bhutada: ESOP cost for the quarter was around ₹ 29 crore and for the year it was around ₹ 150 crore.

Samir Bhise: Okay, I mean adjusted for that the normalized Opex should have been roughly ₹ 6.5 billion?

Abhay Bhutada: Yes. So, for example, if you see for the entire year the Opex was around.

Samir Bhise: 803. Yes.

Abhay Bhutada: So, you can reduce ₹ 150 crore.

Samir Bhise: And how does one look at the credit cost line for next year? I mean this year we've had the recoveries from the return of portfolio and the provisions that reversed. How do you see it next year? And I have another question in conjunction with that.

Abhay Bhutada: Yes, so credit cost as we guided earlier, it will be the range of 0.8 to 1.2. But since the new book is performing really well, so current year you can assume credit cost will be less than 1% on the entire portfolio.

Samir Bhise: So, obviously our growth has been quite phenomenal over the last 8 to 12 months. What I wanted to ask is given what's happening on the interest rate scenario, obviously we have not seen that kind of an impact on the liability side. But if you see generally in the environment, any segments where you are seeing some bit of slowdown. And secondly, we also gather from our channel checks that some of the unsecured products have not seen that kind of lending rate hike as one would see given the quantum of rate hike that have happened from the regulator. So, what is your sense on the environment going ahead, given that we are very confident about growth for FY24?

Abhay Bhutada: Basically, if you see our base is very low at a standalone level. We are at ₹ 16,143 crore. We have diversified all the product range at an early stage. Considering the growth in across all the products, the target segment of customer is very different, and that book is performing really well. So, we have passed on the rate to the customer in few of the products. But as on that, since we are able to maintain the ROA margin, the NIM margin, I think the segment which we are targeting, the logic here is the choice of lender, choice of rejection. And we have started raising funds from CP recently in last two quarters.

So, right now the focus was on a bank loan. Now with the recent upgrade of CRISIL to AAA, that will add additional further borrowing. We can expect further optimization of 25 bps to 30 bps. And if you see, despite of 250 bps hike by the RBI in the repo, there is a, last March to this March, hardly there has been increase in our cost of funds from 7.5 to 7.9 only. So, we don't see any challenge in this environment. Our debt equity is very low at a standalone level. Within one to two months, we are expecting post tax of around ₹ 3,100 crore from the sale of housing. So, considering all these things, and we don't expect any on that front.

And in fact, in the rising interest scenario, when most of the NBFCs with the leverage of three and above, four and above, are struggling with the tight liquidity or the higher rate of interest. Here, because of the low leverage, because of the brand lineage and everything, we are getting advantage, because in most of the banks still per party exposure has not reached to that level. So, I think ten out of eight or nine banks, they are enjoying the lowest rate in the sector. And we are keeping enough liquidity. And with this CP and NCD, which we have started recently, which will further help.

So overall, coming back to your question, I think we don't see any impact on our segment of customers which we are targeting. We don't see any impact on our margin. And in fact, we see one quarter down the line, 25 to 30 bps further optimization on the borrowing cost.

Samir Bhise: That is helpful. So, all in all, if you kind of maintain the margins around current levels, probably all through next year, you will have lower Opex as well. Is it fair to expect probably maintaining this 5% kind of an ROA next year, which probably would transform to almost, I mean, doubling of, slightly less than doubling of profits for next year as well?

Abhay Bhutada: So, if you see, we have given the ROA guidance of between 4% to 4.5%; for the entire year, it was around 4.4%. So, I think whatever guidance we have given, we will be able to maintain that we are confident. And straightaway, if you see this ₹ 3,000 crore, which we will receive, on average 7.9%, which was cost of funds, around ₹ 240 crore, we will get as a straightaway interest saving. And ESOP charge will be less in the current year and whatever 50% branches and manpower we have reduced, you will see the overall, in terms of percentage, reduction of Opex in the current year also.

So, I think you are right. We will be able to maintain ROA above four, we will be able to maintain NIM above 10. But yes, there will be a huge increase in terms of profitability in the current year, because of multiple factors and less credit cost and good growth in the asset quality. So, right now, there is no issue in terms of growth or asset quality. The focus completely is on profitability and with this short-term tenure, if you remember two or three quarters before, we have given much higher guidance that we will have to be able to control the growth and this is what, we faced last quarter, we are getting because of the segment, we have given this time in the investor presentation also, along with some illustration. What are the real problems in the segment which we are targeting, what is the opportunity size? So, considering that, I think a lot of short-term loans we have started that will give additional profitability. We stick to our guidance, but yes, whatever you said, you can expect a good amount of profitability in the current year.

Samir Bhise: Okay, this is helpful. That's all from my side for now. Thank you and all the best.

Abhay Bhutada: Thank you, Samir.

Moderator: Thank you. To take the next question from the line of Abhijit Tibrewal from Motilal Oswal, please go ahead.

Abhijit Tibrewal: Good evening and congratulations to you and the team for a very strong quarter. So, a couple of questions. The first one is, if I kind of look at the DDP number that you give out, if you could just explain the sourcing mix more predominantly, what proportion of your disbursements or the AUM today is kind of coming either through partnerships or through the DSA model? That's the first thing if you could kind of just explain.

Abhay Bhutada: So DDP, if you see, total is around 81%. And as per our existing provided guidance also, the secured 40-60 we have already guided in terms of the DSA. As a part of we have achieved the maximum level, so we'll be able to maintain DDP around 80%, remaining 20% through the DSA. And again, under the digital overall direct program, what we see out of the total AUM, we'll be able to maintain 15% partnership in the current year. And because there is no credit cost, there is no Opex, there is no acquisition cost, and that is helping us to cross sell. But going further from next financial year onwards, we'll be able to maintain 10% partnership, 70% remaining portion and 20% DSA. So that is the breakup, Abhijit.

Abhijit Tibrewal: So, going forward, it will be 10% of the AUM which will be contributed by partnerships?

Abhay Bhutada: Yes, in terms of AUM.

Abhijit Tibrewal: And another thing I want to ask you, I mean, in terms of partnerships, even in the last analyst call, we had shared a few names like CARS24, KreditBee, UGRO Capital. Are there any new partnerships that you have entered into in this quarter?

Abhay Bhutada: No, so we have entered into two or three partnerships. But as I said, these are all for the short term to onboard the customers and to support the digital ecosystem. But again, it is not getting added to the AUM growth as such, because the AUM growth of the future years will not be more than 10% via partnership. But we are not going to add much partnership going further. We added two or three small or midsize partners where we see synergy. There is an opportunity to cross sell.

Abhijit Tibrewal: And while we are at this, I mean, I also had a question on the sharp expansion that we have seen in the yields. Again, when I say yields, I'm calculating it as interest income divided by the average loans which are there. So, I mean, almost 100, 110 basis points kind of an expansion. Is this partly explained by the short-term loans that we've been doing more extensively over the last two quarters?

Abhay Bhutada: Yes, two-three things, of course, because one, because of the short term. And new product on the consumer side, on the small personal loan side, which we have added, that is giving us good IRR and good processing fees as well and cross-sell income as well.

Abhijit Tibrewal: Got it. And Abhay, last quarter you had shared for different product segments? What is the IRR and what is the kind of credit cost you are seeing in the respective segments? So, small business loans, consumer loans, pre-owned cars, small personal loans, what are the kinds of IRRs that you could share that?

Abhay Bhutada: So, same, we continue with the same numbers. There are no changes in the guidance.

Abhijit Tibrewal: Got it. And then, in your investor presentation, there are two new slides that you have shared this time around. One is more on an illustration that you have given on a typical customer segment. So, if you could just delve deeper into that and more specifically, where you have highlighted that there are no prepayment charges and no hidden charges. If you could just explain that, I mean, is it across all the product segments that you are in or is it on particular products where you don't charge any prepayment penalties to customers, which is typically the case, I would say, in most other NBFCs.

And the second slide that you have given is on the opportunity sizing, where you have shared the bureau data in terms of live customers. So, are we using some bureau scrubs to understand what is the potential that we have? And along with that, if you could share what is our current customer franchise like so that we can kind of, I mean try to see what's the opportunity like, versus where we are in the customer franchise today.

Abhay Bhutada: So, if you see on the slide number 22 of our investor presentation, overall, we have tried to explain on that illustration, where is my lender of choice. So, if you see the parameters, loan amount, flexibility, or the collateral free loan, quick turnaround time, process, interest rate, no hidden charges. So, based on our previous NBFC Poonawalla Finance's two-years' experience, again, two years of Poonawalla Fincorp's experience, when we realize why the customer is coming to us and why we have an edge over other NBFCs, why we have an edge over other Fintech. So, it's a combination of so many things. For example, Mr. Abhijit, with the same illustration, if somebody wants a loan at a lowest rate with no hidden charges. But 100% digital process and with a zero-prepayment charges, what are the options left in the market? Either traditional bank, traditional NBFC or few of the larger NBFC, those who claim as, with fully digital capability or the fintech NBFC and again Poonawalla Fincorp as again, the Fintech NBFC. So, here in terms of whether you have a flexibility loan amount? Yes, the answer is yes. Whether we are able to provide collateral free loan? Yes. In the illustration, we mentioned the customer score is 783 and his expectation was for eight lakh loan and collateral free, quick approval and considering strong profile and cash flow, he was expecting the digital mode and the low rate and quick approval.

So, low rate, flexible. So, when he explored all the options, then he got to know, right now there are no options available. If you go to any of typical fintech, the IRR, everybody is aware, anything from it can be 30% to 50% kind of IRR including processing fees and insurance. If it is with NBFC, again, the interest rates are much, much higher as compared with bank. Traditional NBFC, again, that same problem continues. Traditional bank, of course, top three, top four private banks and one or two PSU banks, they are able to offer that kind of rate. Again, small finance bank will not be able to compete in each of the products.

But if you see all the parameters, what most of these things, we are targeting a credit bureau customer, 700 plus with zero DPD, zero overdue, we don't take any deviation. So, considering the huge database available, considering our AUM growth, low base, for next three to five years, what is the market opportunity available? For such kind of customer, first time somebody as an NBFC is thinking like a Fintech, taking a call, practical call like an NBFC, niche product, niche market, practical understanding of the product, cash flow-based lending. At the same time, somebody is able to offer rate of a bank. Why this is possible? Because of the lowest cost of fund, low operating cost, of course, you need to exclude the ESOP cost and the legacy which we are consolidating. But overall, if you see the operating cost is pretty low on the newly generated loan, if you bifurcate. So, on the basis of that, you are targeting a low customer, acquisition cost is, again, low, so low acquisition costs, low cost of fund, low overall Opex. We're targeting a low-risk customer, prime, super prime, which is, again, data-driven lending. And again, that is giving you the low credit cost that is reflecting in GNPA and NNPA while most of the GNPA and NNPA, what you're seeing is because of the again, the balance legacy book. And you are getting a higher risk-adjusted return.

So here, I think there is a huge market opportunity available, coming back to your question. And that segment is huge. Right now, any person with 700, 730, 750, 780 for this kind of segment, if you want quick loan right now, then you have very, very limited options available, if you want with no hidden charges, zero prepayment and a better rate and in complete transparent manner.

And again, complete 100% digital, starting from e-application, e-NACH, e-agreement and later on to everybody is giving all the customer service and all, but there are very limited options available. So, I think it's like a further disruption of the existing disrupted market.

Coming back to the second question on the opportunity sizing, which is bureau based, so total life consumer, on the basis of the bureau data we have mentioned, is 219 million. On the basis of that, one account of around 61% and 2+ accounts, 39%. Out of that, because of the low base, we have very, very limited presence available at this stage because we do not want to grow anything beyond 40%, 45%. We have given a guidance of 35% to 40%, we want to stick to that.

So, considering that, we have consolidated the branches and the manpower. So, this bureau opportunity is available. And again, we have a choice to focus on, again, a good customer by additional data point like TDS, GST, so many other data points, whatever are available, they are merging in terms of our business loan and few other products. So that is giving additional advantage. And when you see the multiple trade line of the customer, there was no option available to lot of customers. And again, there is no requirement to focus on new to credit. That is not my focus segment. Maybe once we cross maybe ₹ 50,000 crore, ₹ 60,000 crore, we will start.

We did in initially two or three quarters. But later on, we stopped because of high disbursement, because of enough choice of rejection, there is no need to focus to that segment. And we have created market for ourselves, we behave like a bank, we created a structure like a bank, and we targeted a customer like a bank.

Abhijit Tibrewal; Thank you. And in the interest of time, on the Opex bit, in your opening remarks also, you talked about optimization, both in terms of employees as well as branches during the last two quarters. Even on an absolute basis, we have seen your operating expenses moderate, is this optimization complete? And from next year onwards, the Opex reduction will predominantly be the decline in ESOP cost, or is there still further scope for optimization in employees in FY '24?

Abhay Bhutada: I think there is a further scope for one or two quarter. And in terms of growth and other, in terms of overall percentage, it will get reduced by 1% minimum more. And over and above that, there is a drastic reduction of around ₹ 70 - ₹ 80 crore in terms of ESOP cost as well. Because anyways, we have given ESOP cost, next year will be almost negligible. So current year around ₹ 70 - ₹ 80 crore will be reduction in terms of ESOP cost. And further ₹ 30 - ₹ 40 crore reduction in terms of other costs. So, in terms of percentage, it will be very, very less. Almost 1% to 1.5% less.

So, in absolute term, I just want to highlight in absolute term, the overall Opex was ₹ 102 crore for FY23. So, despite of 35% - 40% growth, which we are targeting the current year, overall Opex, including ESOP charge in absolute term, will remain at the same level of ₹ 800 crore. It will not increase.

Abhijit Tibrewal; Got it. This is useful. Thank you so much and wish you and your team the very best.

Abhay Bhutada: Thank you.

Moderator: Thank you. We take our next question from the line of Nikhil Rungta from Nippon India Mutual Fund. Please go ahead.

Nikhil Rungta: Yes, hi sir. First of all, congrats on a great set of numbers and thanks for providing the breakup of AUM this time. In the AUM breakup, you have indicated the business loan, LAP, asset-backed finance, and supply chain finance details. So, if you can just highlight any specific industry in that which we are catering to, or what would be the major industries we would be lending to?

Abhay Bhutada: Basically, these are all formal income segment, credit-tested customer. We have a list of negative industry, caution list of industry. We don't focus real estate. We don't focus developer funding and a lot of other negative industry list is available with us. So, excluding these 15 to 20 negative and caution list industries, we are focusing on. So, if you go one-by-one like business loan, loan to professional, we are targeting CA, doctor, company secretary, business loan. We are targeting all GST database and small business loan, again, selective. The formal income segment, pdf banking, bureau tested, and those who are paying other dues on time, on the basis of their cash flow. So, no real estate, no wholesale. This is a pure retail franchise. In Pre-Owned Car, again, self-employed as well as salaried customer. In personal and consumer, majority are salaried customer, again, few of them are self-employed. Loan against property, again, we give very low-ticket size. And asset-backed finance, this is a DA book which we acquired initially, if you remember, last to last year and first quarter of the last year. And supply chain and other products, they are into SME.

So as such, whatever negative industry are common, for most of the top three NBFCs or top three or four private banks considering the bureau data, considering the past industry, that we have excluded. But the more focus is on cash flow, industry trend, and those, again, taking a complete call on the customer, apart from the industry.

Nikhil Rungta: Okay. And Sir, you already touched upon our cost of funds. So, it has been increasing. It's at 7.9% now. Where do you think it will stabilize, or do you see it moving further ahead?

Abhay Bhutada: I think maybe because of the major increase in last two quarters, you can assume 10, 20 bps increase in the first quarter. As I told you, we started raising funds at around 7.25% - 7.3% recently via CP. The rates will further get reduced post-CRISIL rating of AAA. So Q2 onwards, you will see cost of fund will get drastically reduced by 30, 40 bps for us because of the higher focus on the short-term loan because we'll have to match short-term lending with short-term borrowing as well. And another thing, Nikhil, maybe in one or two quarters, we'll try to pre-close, pre-pay our high-cost borrowing, which is still at around 10.5%. Still, we are carrying Magma's existing legacy borrowing closer to ₹ 1,000 crore.

Nikhil Rungta: Okay. So last question from my side. Recently, we have seen RBI getting cautious or making banks cautious on unsecured retail lending. So why is it so? And your comments on the same because we are also primarily into that type of segment. So where is it coming from? Are we seeing some sign of issues in the industry or any specific reasons for that?

Abhay Bhutada: I think what is happening is the target segment is different. Just if it is an unsecured loan, doesn't mean everyone is targeting the same segment. As I told you, in the sector also, we have one of the best asset qualities, even if you compare with the top two or three NBFCs. And right now, we are at par, or I must say we are one notch better than even the top four private banks. It doesn't mean that if somebody is a bank, or top NBFC, they are only targeting a good asset quality. Because here the focus is completely credit-tested focus.

What you're talking is about a segmentation issue. And they have a pressure, and you cannot just copy everyone that everybody's focusing on unsecured loan to increase their margin. We have this understanding since the existing NBFC in the current. So, we started with the approach of start small and grow big. And we are very much cautious here also, if you see LAP, pre-owned car, and other products also we have increased. And that's why we are giving guidance of secured, unsecured, 40%-60% loan to professional, GST-tested customer, bureau-tested. Even if you see the opportunity 1.5 crore closer to GST data available, how many customers we have, almost less than 1%. So here, if you see on the entire 1.5 crore GST database, 60%-70% people are paying on time.

Out of that, how many, they have the trade line if you see the bureau scrub data. Out of that, what is the market opportunity available? And our approach from day one was a long-term approach, customer stickiness, loyalty, customer-centric solution. They're not here for a short term. So, from that perspective, I think the segmentation issue is a big issue. We cannot just give same treatment to all the lenders.

Even during the entire banking system, for example, if you see the bureau data of personal loan, business loan, you cannot just check what is 30-plus, what is 90-plus. You need to see cooperative bank, regional, rural, small finance, private, PSU, then your foreign bank. Then again, you need to exclude fintech separate. Again, the top four fintech separate, the top five NBFC, then the traditional NBFC, then the regional NBFC. So, you need to do the apple-to-apple comparison and on the basis of expected credit loss from the bureau and our own data, I think we are pretty much confident, despite the segment which we are targeting, it is much, much better than the secured loan of few of the target customer, of few of the banks. So that is our own segment. Because most of the customer, it's not about only formal income segment or bureau data. Either they have own house, or they have their own factory setup. They have the business vintage; they have the bureau vintage as well. And they have a strong cash flow. And the best part is the opportunity to total addressable market. In each of the progress, we have done the gap assessment. The segment which we are operating, there is a huge opportunity available. And it is just a focus on risk adjusted return rather than just the IRR approach.

Nikhil Rungta: Perfect, this is quite helpful, sir. Thank you so much and all the best for the future.

Abhay Bhutada: Thank you, Nikhil.

Moderator: Thank you. Take the next question from the line of Harshvardhan Agrawal from Bandhan AMC. Please go ahead.

Harshvardhan Agrawal: Hi, Sir. Thanks for the opportunity. So, there's two questions. One is, I wanted to understand about our defocused work. Because if I remember correctly, our earlier target was to run down the book by June-23. But now in the opening comments, I believe you said that it could take one or two quarters more. So, any specific reason as to why you pushed back this target?

Abhay Bhutada: We have not changed any target. It is as per the actual repayment. So out of this, the one to two quarter includes the current. Because if you see, out of the legacy book, we are trying to do maximum whatever is 30-plus, 60-plus we did enough write-off for the last year. And we are trying to focus only and only cleaning up of the legacy book. But more than 50% book is in the zero bucket itself. And remaining, we are trying to clean up. So, you can assume it will be closer to zero around September, and we are trying to sell that, again, that legacy book. So, we're not changing any guidance. It will be, by end of June, again, it will be almost around ₹ 200 crore, ₹ 300 crore. But before September, it will be closer to zero.

What is happening is we have closed these 200 branches. Though we are getting EMI on time, from 300 branches, we have reduced it to 100. We are not giving any top-up to these customers. So, nothing to worry, and we are getting EMI on time. We have done enough. This one point, whatever, NPA we have right now, this includes the NPA of the legacy book also. And the PCR is, again, 46%. There is no stress or any issue in terms of legacy book. But there's no change in the guidance. This is as per the customer's repayment schedule.

Harshvardhan Agrawal: Okay. So, as you put it, maybe ₹ 200 - 300 crore, we will try to sell down. So that will lead to maybe a one-time gain in whichever quarter that will happen?

Abhay Bhutada: So that will not have any P&L impact as such, because if it is a 0 DPD or up to 30 DPD, I don't see any discount we will sell. I don't see any premium we will get. You can say it at par. We are trying few of the CV, CE, tractor, the old legacy book, if we can sell via some slum sale route. But otherwise, it will get closed anyways before September, most of the book. But there is no stress also, and there is no hurry also, because that is, again, giving good yield also. The average yield on that book is 16%. So, there is no economic loss as such.

Harshvardhan Agrawal: Got it. Now sir, the second question is about the digital partnership disbursement. So, as you mentioned, it's around 80% of our disbursement. So, who are the major partners through which bulk of this disbursement is happening? Because I believe we have only three or four partners on this side. I believe one or two partners will be contributing the bulk of this.

Abhay Bhutada: So, there is no as such one or two partners. It is a mix of secured and unsecured. So, it's a mix of multiple partners. But as I told you, the focus is on direct, and we are able to source a lot of customers digitally. So, there is no specific importance given to them, only for the disbursement. And the overall AUM is around less than 15% of the total AUM as of now. And going further, it will be less than 10%. So that was the initial strategy, and we have already guided, if you see, in the last quarter itself.

Harshvardhan Agrawal: So, what you're saying is around 15% of the current AUM is coming through the digital partners, is that the correct understanding, around 15,000 or 15%?

Abhay Bhutada: Yes. So, if you see total AUM of ₹ 16,143 crore, so approximate 15% is through the digital partners, wherein we don't have any acquisition cost. We don't have any credit cost because of the FLDG. And we don't have any Opex as such. So, it's completely digital. We are able to onboard the customer. We are able to test the customer. And going further, we are going to cross-sell on this customer. I think question on the ₹ 16,143 crore, is the break-up in terms of AUM. And going further, I was guiding that it will be less than 10%.

Harshvardhan Agrawal: Right. Got that. So just to understand one thing here, so this 15% of the AUM, this translate into say, somewhere around ₹ 5,000 crore of disbursement for this quarter is that understanding, correct?

Abhay Bhutada: No, I am talking about AUM. I don't have the disbursement number right now maybe our Investor Relations Head will give you offline all the detail I am only talking about the breakup of the AUM and how the breakup will look like in future.

Harshvardhan Agrawal: Perfect, sure. I will get in touch with the IR Head. Thanks a lot. Thank you.

Abhay Bhutada: Thank you.

Moderator: We take the next question from the line of Dhaval Gala from Aditya Birla Sun Life. Please go ahead. Mr. Gala, please go ahead and ask your question. We seem to have lost the line of Mr. Gala. Sir, please go and ask your question again.

Dhaval Gala: Hello?

Moderator: Yes, please go ahead.

Dhaval Gala: Sorry I was not able to hear sorry so thank you for the opportunity. Congratulations Abhay and Poonawalla Fincorp team on great set of numbers. I just wanted couple of data clarifications one you presented very well on slide 12 about all your different segments of loans. If I could get similar disbursement data from similar segments whether it is business loans, pre-owned car personal loans, LAP, so would be great to look at trends?

Also, I think there was a question which I wanted a little more deep dive on which was on the slide 24, which is about opportunity sizing. The question is that I do not see material growth in the segment what we are looking at. So, for us it would be more I mean I am saying not growth mean growth is largely around 20% mark, other than few unsecured line items where the growth rates are little higher.

So, I wanted to understand if you can explain little at greater length that how Poonawalla Fincorp can benefit out of this in terms of either it is a market share gain strategy or market increasing strategy as well.

Abhay Bhutada: Thank you so much Dhaval. Coming back to your first thing, sure next quarter onwards we will try to incorporate the disbursement breakup as well the product wise, that is one. Second in terms of this opportunity sizing bureau base, we are trying to mention the total opportunity available for us, why we have discontinued new to credit two quarters back and what is the overall addition every year on a bureau side and why we are focusing the ever-expanding consumption base, consumer base unsecured loan.

So, this is completely as per our strategy of 40:60, we want to make it, considering the ROA ROE. And we have enough capital, we are already well capitalized, now we are over capitalized post sale of housing and there is a huge opportunity available, which we explained multiple times; the segment which we are targeting though it is unsecured, but that book is performing better than the secured and in terms of cash flow, they are better than the secured customers.

If you see overall whatever data points, we get from their GST from pdf banking from their lot of other data like additional ITR and depends on the customer to customer. So here also, this is as per the strategy, we are doing almost ₹ 250 crore per month kind of disbursement in loan against property, ₹ 200 crore per month in pre-owned car, so already, we are in top two or three, if you do apple to apple comparison; we are operating loan against property at 40-45 branches, we are at number one because we don't do wholesale and real estate; if you see pre-owned car, we are at number one if you do apple to apple comparison. Even with our 100 branches, if you compare with other player at a PAN-India level, then still we are at number two or three, so at a such a short span of time despite of not doing new to credit.

So I think we have done with, there is no worry to increase the secured book in terms of mortgage or in terms of pre-owned car but in unsecured loan there is enough opportunity available lot of Fintech, respect for everyone wherever they are, we respect them, because their cost of fund is 14%-15% so that's why the segment, which they are targeting because of the higher credit cost, the IRR goes to about 30%, 40% right and they are not able to leverage more than two times, their dependencies on other co-lending partner. Again, they are focusing short-term loan, banks don't go for a short-term loan due to operational issues, integration issues so many other issues.

Huge opportunity available on the business loan side, small business loan side, small personal loan side where predominantly few of the one or two private banks, one or two top NBFC's they got the advantage over a period of last 10, 15 years but now since as we explained in our customer diagram, where-in there is my lender of choice on slide 22, since day one we offered zero prepayment and as per our survey we got choice of rejection from multiple customer not only in personal loan, professional loan or business loan or LAP, so in such a short span of unless we reject an out of three or four customers they are not applying for any NBFC and from day one it's like you are competing with top three private banks.

So coming back to your question, I think this is as per the strategy either personal loan short-term, long-term to control the growth, I think we are playing with short-term long-term. But there is a huge opportunity available in the unsecured segment, secured we can grow further, but the same set of customer, the same in terms of repayment capacity of the cash flow to the same set of customers when we see the trade line of any other top NBFC or top Bank. or top bank,

I think with our 100% digital approach, with a low rate (of interest), we are able to acquire the customer and once we (are) able to acquire the customer, I think we are able to cross sell few other products. So, unsecured loans will give a depth of a customer base. Yes, it's an acquisition strategy but also it is in our revenue building strategy as well. And please notice this small growth in secured does not mean growth as ticket size, multiplier works there right. So that's the answer to your question. And our secured loan growth also was more than 25 percent quarter on quarter in terms of loan against property.

Dhaval Gala: Yes, also if you could explain on 81% sourcing through DDP if you could explain how much partnership is, means if you could break that up for us in terms how much is direct how much is digital and how much is through partnership would be fairly useful. And also, if you could talk about the types of partners we are engaging with?

Abhay Bhutada: So, in terms of our total disbursement, direct and digital approximately is at 50%, via partnership, it is at 50%. But because of the short tenure of one month, two months, three months, six months, we take the customer as you said in the short term that is not actually getting added in this quarter's AUM; In AUM, we have not got any benefit if you see QoQ, but yes you can see that number as a disbursement. So, it looks like the disbursement number is on the higher side and AUM growth is only 16%-19% QoQ. So, as customer addition is there, we will be able to do a lot of cross-selling and we have given this guidance in the previous quarter that we are testing customer in a short run, and it does not result in AUM. But yes, we are expecting a lot of onboarding via the short-term route, and we are maintaining again there also 50-50. So, our direct and this digital approach is 50%. Again, partnership also comes under digital ecosystem, but that is again 50%.

Dhaval Gala: So, could you talk about types of partners, risk management around the partners and is there any concentration with any one partner? If you can highlight on the partners, it would be great?

Abhay Bhutada: There is no concentration as such on any of the partner and we have received a first loss default guarantee from all the partners. We have not incurred single rupee loss till date. 90 plus across all the partners has not crossed even 2% and we have a FLDG, most of the FLDG between 10% to 20%. So, we have a joint credit parameter. We have a complete integration. There is no manual intervention.

It is all rule-based and so risk is totally diversified there and will not allow 90 plus to cross 3% across all the partners. Against that, we have upto 20% FLDG available with us. And these are all short-term, so there is no long-term risk here and unless 90 plus crosses 10%, then there is a risk. But that situation will never arise because, we have almost completed five, six cycles as these are all very, very short-tenure nature of loan. And again, in this also, we have a lot of secured also. For example, loan against property, pre-owned car, so many other products are there, two-wheeler loans. So, this is again under partnership also, the segment which we are targeting more than 25% is secured.

Dhaval Gala: Sure, sir. The last question, how much outstanding overlay provisions we have and what is the current required ECL provisioning?

Abhay Bhutada: So, ₹ 46 crore is the extra provisioning left overlay. 46.2% is the PCR. And there is no issue on that front, and we are yet to receive this, the balance takeoff of insurance at Jaguar. So approximate ₹ 90 crore we are yet to receive in this quarter, in the first quarter of this financial year before June. And the next will be, we will receive around ₹ 3,100 crore net of tax from the sale of housing.

So, though the new book is performing really well, but as I said, we'll do slump sale of the balance legacy book, and we can create additional management overlay. But as right now, there is no need as we speak. Because the new book, I think, considering the previous experience of the same group, Poonawalla Finance's, two to three years of experience, and these two years in Poonawalla Fincorp, so a lot of customers of 24 months, 12 months, 36 months, technically we completed more than one cycle. And despite of 12 MOB, 18 MOB, 24 MOB, but the segment was different. So, we cannot just compare with any other player. We don't see any credit cost there. So, considering that, and Dhaval we do a lot of aggressive write-offs, you are aware at 90 plus in unsecured. So, there will not be any surprises on that front.

Dhaval Gala: Sure Abhay. Congratulations and all the best. Thank you.

Abhay Bhutada: Thank you so much.

Moderator: Thank you. We take a last question from the line of Tejas Mehta from Max Life Insurance. Please go ahead.

Tejas Mehta: Thanks Abhay for taking my question. Just a couple of things I wanted to understand. One is, can you give segment wise NPA data as well? It will help us understand.

Abhay Bhutada: Sure.

Tejas Mehta: Okay, so should I reach out to the IR for this, or you'll get the data right now?

Abhay Bhutada: Yes, so for example, the 90 plus for business loan is 0.5%. Loan to professional personal loan is 0.3%. So overall unsecured loan 90 plus is just 0.5%. Pre-owned car, the 90 plus is 0.8% one of the best in the industry. And if you see loan against property 90 plus is zero, there is no case. We started this 18 months back, the book is performing really well. Then as I told you, 90 plus, overall, of the partnership is just 0.5%, though I said 2 to 2.5% approximate, because we are in a FLDG there 10% to 15%. But as we speak, it is only 0.5% across all the partnership against which we have full coverage. And if you see supply chain, there is no NPA. Then how the NPA is coming that around 1.44% level, because if you see there are discontinued books available. And again, the legacy, which we continued POC, SME and DA book which we acquired initially there, the overall 90 plus is around 2.4% against the credit rating estimated loss was around 3%. So that is again in this. So, because of this DA book, which we acquired long back, there 2.4% is 90 plus discontinued legacy is around 5.5% and discontinued total is around 15.7%. So, average comes to around approximate 1.5%.

Tejas Mehta: Got it, so, how much is the NPA on the Magma book of ₹ 945 crore that you have today.

Abhay Bhutada: So, that NPA if you see the live POS, one is a legacy and one is a discontinued. So, what is discontinued that CV, CE, tractor, Agri, which we have not continued that book is ₹ 640 crore there you have a 90 plus of 15.7% absolute term is less. Legacy book which we have continued, SME magma was doing and pre-owned car there 90 plus is 5.7% right. So, ₹ 717 crore legacy book, which we continued and discontinued book is ₹ 640 crore. So, 5.7% which is legacy continued and 15.7% - 90 plus is for discontinued.

And that is the reason you see this NPA otherwise, despite of unsecured loan and started second cycle third cycle for most of the customer, where we have given short term, three months, six months, 12 months, and technically, two year completed at 24 MOB we don't see, even not about 90 plus even the 30 plus is one of the best in the industry. That's why I said in my commentary, the recent seminar done by CIBIL itself, whatever data they have given to us, and they've compared ourselves with top three NBFCs and top three private banks and with other players. I think the same thing we are trying to reach out to the market and explain to the market. Though we are doing unsecured, we have the choice to do the secured also. Our base is low, we can grow higher, the leverage is very less, post-sale of housing, the leverage will be less than one. But at the same time, the segment which we are targeting huge opportunity is available. And that is giving us very, very less NPA, and we can always add the risk premium. I always explain in my earlier call also, still we are operating 150 bps lesser than the top two NBFCs. We are almost like a bank, hardly 25bps to 50 bps higher than the bank. So, there is enough scope available to increase the risk premium as and when required. So, there is no issue on that front but considering the reduction of the Opex and other thing, I think we decided not to increase the rate but better to get the choice of rejection rather than diluting our focus of a target segment. So, we have passed on rate around approximate 100 bps, 150 bps to the customer, because our cost of borrowing increased last March to this March only 40 bps.

That too, after the first quarter, again, it will get reduced. Further, CRISIL AAA and if you see, we started raising funds at CP of 7.25%, which we are expecting two quarters down the line that will be sub 7 or below 7. considering that the focus will be more on the short-term borrowing to reduce cost of borrowing and this legacy borrowing, if you exclude from our cost of borrowing, I think we are amongst the lowest in terms of cost of funds in the sector. And next time onward, we will try to give whatever additional disclosure you are looking at. But I have explained you the product wise 90 plus and 30 plus.

Tejas Mehta: So just one more question here. So, on this Magma, sorry, your discontinued book of ₹ 595 crore which you mentioned, 16% is the NPA you mentioned. Is that fully provided? Or is there anything left to be provided there?

Abhay Bhutada: So, if you see overall PCR is 46% at a 90 plus at a stage three. So out of that under the discontinued book, the provision is on a higher side.

Tejas Mehta: Ok, so, once this book goes off in this year, I believe this book will become zero by the second quarter itself. Then you are essentially next year NPA will be substantially, will be comfortably below 1%.

Abhay Bhutada: If you see our long-term guidance, we have given the net NPA and GNPA guidance we have achieved much earlier. But yes, you are right, considering the new book performing really well, I think you can expect further strong improvement in asset quality.

Tejas Mehta: Okay. One more thing I wanted to understand is that, you know, for regarding the customers, if you can give data on your total lifetime customers, how many live customers you have today? And how many added, new customers you added this quarter? If you can share that data, will be good. Probably you can add it to your disclosures from next quarter onwards.

Abhay Bhutada: Thank you so much for your suggestion. I think this time we have added our digital metrics. If you see per employee AUM ₹ 7.6 crore, then profit before tax per employee ₹ 35 lakh. And all the system scalability agreement, eNACH and other things. So, we'll try to add most of the disclosure from the next quarter onwards. Because of the legacy book, lot of people get confused in terms of whether NPA or the branches or the manpower. I think we are done 80%-90%, we are done with that.

So, we'll be able to give you additional disclosure. This time we have tried. So, in the quarter four, we have added, I guess, approximate, if I remember, more than 6 lakhs customers.

Tejas Mehta: And what are the live customers today, total?

Abhay Bhutada: Live customer in a short span of last 18 months, I guess we have crossed more than 2 million. But you will see major from here because as we explained in our investor presentation, now we are in the digital offering side, a lot of, rather than going a physical model at a store, e-commerce loan with a pre-approved offer, lot of top e-commerce, we are in touch with, in terms of partnership. So there, two quarters down the line, you will see a drastic customer acquisition on that front via multiple digital offering and integrating with top 20 offline and online AUM, but completely digital mode, nothing increase in the Opex cost, no manpower, no branches, nothing, completely digital.

Tejas Mehta: Got it. So, the next question is that, if you can help us understand a bit more on the co-lending partnerships that you have, what is the kind of yield share that you have with them? Because you mentioned that you don't have any cost in this model. You basically share the yield with the co-lenders. What is the yield share that you get with them?

Abhay Bhutada: A very, very interesting question. For example, if you see all these partners, they have a partnership with almost out of top 10 NBFCs, they are with six or seven. Then why, like customer is giving a choice of rejection, choice of lender, same thing we have mentioned in our presentation this quarter also, last quarter also, that all our ecosystem partner also giving us a choice of rejection. What is that? So even we are playing there because of a low cost of funds, the average is 7.9%. The average rate is just 13%.

It's not like that we are getting, but there it is completely digital. In 90% of the partners, unless we reject, of course, there's a credit policy on day one, unless we reject, it will not go to any other partner. So, there we are getting a choice of rejection. And that's why we have maintained 90 plus is less than 0.5% against FLDG available about 10% average. I think average yield can increase, but as I told you, right now the problem is to control the growth. So slowly, slowly the focus, we have reduced all the partnership to the short term, except the secured one.

There we are increasing the secured partnership on a very, very selective, we're very choosy while selecting the partner. Because next year onwards, as per the AUM, it will come down to next year, the total partnership AUM 10, then around nine, eight, seven, but because of the multiple benefits, I think it is giving us that advantage of choice of rejection. So, we do not do a BC model zero-100 on it. These are all co-lending. We lend only 80%, they lend around 20%, or in some case 10%, there is a skin in the game. So, it's not like that completely without any risk parameter we are lending.

And these are all top players, wherein they have raised enough rounds of equity recently, and they are in the business since long. So, overall better yield, so if you see customer getting acquired by us and cherry-picking partner, and again cherry-picking of their customer also. So, there also we have right from day one, very, very conservative mindset while choosing the partner. And again, we have a control on their customers, what customers they are onboarding, and which customers they can push to us via this digital ecosystem against our other digital big NBFCs, those who are in this partnership business.

Tejas Mehta: Got it. And just one last question I have. So, while your NPA and asset quality has been pretty robust for the last few quarters, but from here, given the kind of disbursal growth that we are seeing, it looks like the book will grow very sharply over the next two to three years, if we keep the, maintain the same pace. So, while so far, we have done really well, we need to understand what sort of internal checks and balances that you guys follow. So, that the asset quality at any point of time doesn't go out of control, because there could be some macro risk that comes out at some point of time or something that we may have to kind of bulletproof our business model.

So, what goes into the stress test model that you have built in house, especially because most of your collection teams have been let go. So, there's a very different kind of model that you all are doing. It's not like a traditional model. So as an investor, we'd like to get some comfort on how do we build confidence on the asset quality as we scale up over the next two to three years?

Abhay Bhutada: I think a fantastic question and if you see the target segment and diversification. I think first you should keep eye on AUM rather than the disbursal, because again to control the growth, that's a strategy that is one, it is in our hand. Second, we do acquisition risk monitoring, and we started with a start small, grow big. We have done all kinds of experimentation, the previous NBFC two-years ago, personal loan, professional loan business, this is not that first time we are doing this. Poonawalla Finance was an unlisted company, we told multiple times to multiple people that we were doing ₹ 150 crore per month of unsecured lending at five locations, all the top five metros.

It was only to scale up with some secured, that's why we acquired Magma. Second, you said collection team, what we are talking about the consolidation because of the legacy book, right? For the ongoing SME LAP, and the unsecured book, we have a collection team of more than 500 people, which is more than enough for the next three years, unless we require to portfolio at that level; the segment which we are targeting, if required, we can always recruit, we paid so much of salary cost and admin cost and Opex for the last two years, we collected whatever we wanted to collect maximum amount out of the legacy book.

So, as of now, we require 200 to 250 people, if you see what is my zero plus? So, my zero plus, what is my 30 plus? If you see on the continued total is just 1.5%, 90 plus is 1.4%. And if you see the guidance given of GNPA, and that whatever you are saying, considering macro factor, in rising interest rate scenario, all these factors, we have given guidance of 1.3% to 1.8%. If you open page 9 of our investor presentation, long term guidance on financial metrics, including the asset quality, we mentioned Net NPA of 0.5% to 0.9%. So right now, 90 plus is around 0.4% on the continued book, because of the legacy book, it looks like 1.44%.

So that already, even if it is double or triple that is within our guidance, even if it is four times 0.4%, 90 plus it is below 1.8%. And the segment which we are targeting, when Bureau itself is saying, in just 15 days back, whatever they have shared the data and it was official seminar in Pune, wherein they said you have crossed your top two private banks and peers in terms of the asset quality, but just by looking at Bureau, as I told to Mr. Dhaval also, you cannot say that Bureau 90 plus personal loan is XYZ percentage of business loan, cannot give same treatment for all.

The segment in which we are operating, I think there, there are no early delinquencies, the book is performing, but you are right, whatever risk will be there, geopolitical, COVID like situation or anything, I think that will be a unique risk, not to us, that will be a common risk for entire industry. And the best part here is the segment which we are targeting, it is equal or slightly better than the top three private banks, I am talking about only unsecured part, secured is of course, we are going with one of the top quality and we have secured, but in terms of NBFC, I think definitely we can say, we are one notch ahead than our, even the top three NBFCs, though we are small in terms of AUM, but in terms of segment which we are targeting, I think there is no issue. So, whatever you said right now, that risk will be there for entire banking sector, entire NBFC sector, there will not be only unique risk to us, because the customer segmentation target, everyone try to focus on that segment. Then why we are able to acquire, that we have to explained in that chart, that because of the Poonawalla's legacy, ethics, culture, customer centric approach, zero prepayment charges, long term approach, because of that, I think we never thought it in such a short span of time, because of this biggest factor is your trust, which people fail to understand. I think the people, if they get to know, if the loan is available, like for example, if you apply for a loan, I think either digital or via branch or any other mode, your intent will not change, your CIBIL will not change, your cash flow will not change. So, customer needs to fit into our stringent policy to get a loan from us. So, it is a risk first approach that we always explain. We are not running after disbursal but running after our target segment.

Otherwise, there was no need to stop the new to credit because we did first four quarters, we never discussed in any of the investor calls about why we stopped the new to credit, because there is no need right now. If required, once we cross ₹ 50,000 crore to ₹ 60,000 crore, maybe we will start at that point of time. But even in pre-owned cars, which is predominantly more than 30%, 40% new to credit, that also we stopped because we are getting enough choice of rejection.

See, right segment means we will meet our all the risk adjusted return. And we are a preferred choice of lender now, means we command the right of rejection in the entire market ecosystem. So, I respect whatever you said, but I think that will be the common risk for the entire industry as a rising interest rate scenario, either any kind of geopolitical situation or any kind of macro conditions.

Tejas Mehta: And just one last question. On the housing finance subsidiary side, if you just do the Q-o-Q comparison, then the profit has dropped from ₹ 32 crore to ₹ 18 crore. I know we are selling on this business, but just wanted to understand why that happened and can there be any risk to the deal?

Abhay Bhutada: Sure. So, the entire presentation we have given standalone, the logic was you are aware that we have announced sale to the TPG at ₹ 3900 crore valuation and we have received all the approval except RBI approval, which we are expecting before June end this quarter. And, coming back to specific, now because of the TPG, since it is independent, so as per our agreement, we have started segregation of all the branches which were common. We have segregated all the parent level IT and lot of other employees. We have demolished the group structure and they are also growing in terms of monthly organic disbursement.

Almost they are doing more than ₹ 250 crore, just one year back they were doing ₹ 150 crore per month. So, from that perspective, I think there are a lot of one-time costs. And that is the logic behind and if it gets consolidated, so that’s why the press release as well as the investor presentation, we are talking about standalone. But yes, there is no actual dip in the profit. If you say despite of RBI alignment, whatever GNPA and NNPA is there, that is the best in the industry.

The book is growing, no inorganic growth, complete organic and Poonawalla Housing is one of the best in terms of productivity as compared with any top four affordable housing. And as per all the recent reports, there is a huge opportunity available in the affordable housing. Yes, we were not able to do cross-sell, up-sell, they focus on new to credit, they have branches outskirt area of the city, we are at a prime location. So, there was no synergy, and we were clear from day one that value unlocking will happen by 2025.

We got the opportunity, we wanted to dilute 10-20 and we diluted completely on the basis of rating rationale we have given. But actually, there is no dip because of one-time huge Opex in terms of ₹ 10- ₹ 12 crore in IT, around a few crore in employees, that was one-time cost for them. And because of still, it is, though it is a held for sale, but just for one or two months as per the guideline, we have to show under this consolidation mode, but I think you should look at only the standalone numbers.

Tejas Mehta: Perfect. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that was the last question. And I would like to hand the conference over to Mr. Hiren Shah for closing comments. Over to you, sir.

Hiren Shah: Thank you, everyone for joining the earnings call with us. For any further queries or communications, please write to us at investor.relations@poonawallafincorp.com. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Poonawalla Fincorp Limited, that concludes this conference. Thank you for joining with us. And you may now disconnect your lines.