"Poonawalla Fincorp Limited
Q3 FY23 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day, and welcome to the Poonawalla Fincorp Limited Q3 FY '23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero, on your touchtone phone. Please note that this conference is being recorded. Anyone who wishes to ask a question, may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two.

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

Hiren Shah: Thank you, Mike. Good evening and a very happy new year to 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 ending December 2022. We will take this opportunity to update you on the recent developments in the industry and Poonawalla Fincorp during the quarter.

To discuss all this in detail, I've got with me our Managing Director; Mr. Abhay Bhutada; other Senior Management officials; and myself, Hiren Shah, Head of Investor Relations.

Now I would like to request our Managing Director, Mr. Abhay Bhutada, to brief you all about company's operational and financial performance, along with developments for the quarter ending December 2022. Over to you, sir.

Abhay Bhutada: Thank you, Hiren. Good evening, everyone. I wish you all very Happy New Year. I welcome you all to the Q3 FY 2023 Earning Conference Call of Poonawalla Fincorp, and trust you are all doing good.

Let me take you through the key highlights for the quarter.

In December 2022, we announced the sale of our housing subsidiary, Poonawalla Housing Finance Limited to TPG Capital, at a valuation of ₹3,900 crores. This is subject to regulatory approval. We have received the shareholder approval; regulatory approval is under process. To update you all further, for the next three to four months, we can expect all the pending regulatory approval will be received.

Firstly, this transaction will maximize shareholders' value and provide growth capital to Poonawalla Fincorp as it focuses on building a tech-led, digital-first financial services company with leadership position in consumer and MSME financing.

Secondly, as both the entities cater to different customer segments across different geographies and with distinct distribution model, this transaction will focus on maximizing value creation by optimizing resource allocation and increasing management focus on their respect business needs.

As we embark on this journey, there will be a consolidation of both manpower and branches with primary focus on tech-led and branch-lite model. We already initiated the manpower consolidation and rationalization exercise to address the excess bandwidth created because of this group structure, along with the branch consolidation as we focus on top 100 branches, while catering to others through a digital-led model, which would be completed in the next one to two quarters. This strategic move will enable us to achieve our stated Vision 2025 at a stand-alone level with a focus on growth, asset quality and profitability.

Moving on to the performance for the quarter gone by, it has been an excellent all-around quarter for Poonawalla Fincorp as we continued to deliver growth, asset quality and profitability. We recorded our highest ever quarterly disbursement along with highest ever PAT and ROA, along with improved asset quality with lowest GNPA and NNPA numbers.

During the quarter, our PAT increased to ₹150 crores. I am giving all the stand-alone numbers. During the quarter, our PAT increased to ₹150 crores, up 88% YoY & 16% QoQ. Our ROA reached the highest level at 4.5%, an improvement of 150 bps YoY & 46 bps QoQ. We started the journey of reducing in Opex by 3% QoQ, while pre-operating profit (PPoP) stands at ₹156 crores, which is up by 23.3% QoQ & 34.1% YoY.

Our AUM stood at ₹13,929 crores, which is up by 28% YoY & 6% QoQ despite sharp reduction in the legacy book. The focused AUM growth was even higher at 75% YoY & 10% QoQ as fresh disbursement grew 157% YoY and 8% QoQ to ₹3,369 crores. This AUM growth is despite a sharp rundown of the discontinued legacy book. The focused book continues to perform well within our risk acceptance criteria. We continued with our focus on developing diversified disbursement engine that has aided growth of organic disbursement. 100% of our disbursements have been organic over the last couple of quarters, and we continue to focus on the same. Our focus on Direct Digital Program ecosystem has accelerated the disbursement and customer acquisition with lower cost of customer acquisition compared to traditional distribution model. The DDP mix is around 66% in Q3, up from 54% in last quarter and 39% in Q1. On the product side, currently, we have presence across all product range except the card-based products, which we propose to launch in next two to three quarters. The diversified product suite has also enabled us to acquire more customers and help us to increase our presence across consumer and MSME products at a pan-India level.

NIM of the company was at 10.7% in Q3, an increase of 94 bps YoY & 33 bps QoQ. NII stood at ₹360 crores, which is again an increase of 33% YoY & 7% QoQ, while the average cost of borrowing was contained at 7.54% for the quarter, despite the rising interest rate environment, increase in our cost of borrowing was largely contained. Against the cumulative, repo rate increase of 225 bps, our cost of borrowing increased only by 57 bps from Q1 FY '23. Also, we have been able to protect our NIM by passing on rate hikes to our customer without any impact on the business growth. Our long-term credit rating upgraded by CARE to highest AAA Stable further help us to contain our cost of borrowing.

In terms of asset quality, GNPA reduced to 1.69%, down 236 bps YoY & 8 bps QoQ, while net NPA reduced to 0.89%, down 108 bps YoY & 5 bps QoQ. This is despite the alignment with revised NPA definition as per RBI circular. The superior asset quality is given by our chosen customer segment, the high credit bureau score portfolio, superior collection infrastructure, close monitoring of early warning signals coupled with proactive credit policy changes. We continue to have healthy recoveries from the write-off pool and expect that to continue in the coming future as well.

Let me now move on to our business strategy and the way forward.

We are now in growth phase, having consolidated all various aspects of products, people, branches, and technology. Also, the new book has been performing much better than our expectations coming from our experience of having done all these products within the Poonawalla Group existing NBFC, which is Poonawalla Finance, with all this experience, we don't see any challenges going further with legacy issues behind us, an excellent performance of the new book, we are confident of our performance growing consistently going forward.

Moving ahead with the product offering, we have expanded our product offering over the last few quarters. During the quarter, we further expanded our digital loan offering to cover not only consumption finance but also transaction credit and consumer finance. With primary product in place, we'll now focus on offering different variants to create innovative solutions for our customers. In line with the regulatory requirement, we are working on card-based product that will take two to three quarters.

The diversified product suite is helping us to accelerate our customer acquisition as well as enhancing our presence. Product strategy is focused on building a healthy mix of short-term and long-term products. This is also a part of acquisition and risk management strategy, critical to building a higher profitability with best asset quality. We have a healthy mix of products, which are short term in nature, enabling us to acquire and test more customers as we prepare for strong cross-sell and upsell campaigns. The use of analytics in short-term loans to understand the customer profile, propensity and behavior is helping us to offer better customer experience. The mix of short-term and long-term loan is also going to be an important element in our liability strategy in line with the product mix. On a steady-state basis, we expect about 20% to 25% of our AUM to come from short-term loans.

On the geography footprint, we will continue to be a pan-India player. However, having seen the changes in preference of our customer segment towards convenience of getting online service, we endeavor to offer our services as digital first only. The branches are used mostly for collection, customer service, which is now fast moving towards digital collection. Given this trend, we will have a physical branch network of approximately 100 branches going further spread across 22 states and union territories. This will be primarily the urban centers covering majority of the addressable markets.

We are committed to building a digital first technology-led organization. As outlined in our last quarter investor deck, we are now in Phase two of our digital journey and moving ahead strongly. We have done the heavy lifting required and completed about 20% to 25% of our journey. We expect the same to be completed over the period of the next 2-3 quarters.

Customer centricity is another key area for us, wherein we are making rapid progress with the use of latest technology. We'll be coming out with a full stack app in next two to three quarters, which should address not just origination and onboarding, but the entire servicing aspect as well. We are also in the process of building alternate channels of origination and should come out with the first such channel in the next quarter.

On people front, we have a strong team in place across all the functions. The focus is on improving productivity and building team for the future. We see the digitalization benefit kicking in, as the future business scale-up will not lead to additional manpower requirement. We expect the headcount to remain flat from here even as business continues to grow, which will bring in operational efficiencies and get reflected in our Opex numbers as well going forward.

As per our long-term guidance on financial metrics presented in the current quarter's Investor deck, we expect to grow our AUM about 35% to 40%, along with profitability growth of 30-35%. We will strive to maintain the GNPA and NNPA number, GNPA below 2% and NNPA below 1%. In terms of specific range, GNPA will be in the range of 1.3% to 1.8%, and NNPA will be in the range of 0.5% to 0.8% along with an ROA of 4% to 4.5%. We have executed our plans with precision quarter-on-quarter and confident of delivering these numbers with the same consistency.

While there could be intermittent glitches in the economic environment, the market segment in which we operate, that is consumer and select MSME are resilient, large and will continue to grow, which makes us confident of delivering in line with our long-term guidance. Also, the ongoing technology disruption in lending favors digital-first, tech-led players like us.

Thank you, everyone. And now we can start the Q&A session.

Moderator: We have the first question on the line of Sameer Bhise from JM Financial.

Sameer Bhise: Thank you and congratulations on a strong quarter. I just wanted to get a sense on the AUM mix as of December on the stand-alone side as well as the disbursements, if you can provide that?

Abhay Bhutada: Thank you, Sameer. On the AUM side, the outstanding AUM was ₹13,929 crores as on December. Pre-owned car is ₹2,455 crores. Auto lease is ₹326 crores. Unsecured loan, including consumer loans, loan to professional, personal loan, business loan is ₹6,083 crores, and supply chain is around ₹100 crores. Loan against property is around ₹1,588 crores. Machinery and equipment loan is around ₹60 crores. And then we have a acquired DA portfolio, which is around ₹2,200 crores and discontinued book is around ₹1,192 crores, out of which ₹800 crores is on book. So, this comes to ₹13,929 crores.

Sameer Bhise: Okay. And how would have been the disbursement mix for the quarter because I see margins have gotten a bump up.

Abhay Bhutada: Disbursement mix for the quarter, Pre-owned car is around ₹500 crores. Then unsecured auto lease is around ₹100 crores. Unsecured loan, including consumption loan, PL, or personal loan, LTP and BL is around ₹2,300 crores. And loan against property is around ₹415 crores. Then the machinery and equipment loan are around ₹30 crores. So, this is the breakup of ₹3,369 crores, and this is 100% organic.

Sameer Bhise: This is helpful. Also just wanted to ask on the margins, we have seen quite a bit of a bump up. What kind of rate hikes would you have effected on the portfolio? And any help that you have received because of the scale-up of short-term products?

Abhay Bhutada: From March onwards, because of the RBI repo rate hike, we have increased around 1.5-2% rate of interest across all our product range. And because of the short-term products, we started focusing on a lot of cross-selling and fee-based income. The average yield comes around 15%. So, there is an increase in the average yield also because of cross-sell, because of fee-based income and short-term products, and of course, we are then able to pass on rates to all the segments.

Sameer Bhise: So, you would say that 15% is the incremental yield on the portfolio for this quarter?

Abhay Bhutada: Average yield, as on date, the incremental yield is much more because the acquired book, which is ₹2,200 crores initially that their rate was only 9%. So as on date the average yield of all the products, it's 15%.

Sameer Bhise: And on Opex, can you quantify the ESOP amount which has been charged to the P&L?

Abhay Bhutada: So out of this Opex of around ₹200 crores, ₹40 crores approximately is the ESOP charge. Otherwise, profit would have been much, much higher. But as we mentioned in the last quarter also, we have covered more than 500 employees. And this is a notional charge, and this was a onetime hit and majority of the charge is in the first year, then there will be a reduction in the second year and almost negligible charge in the third year.

So, ESOP charge is around ₹40 crores for the quarter.

Sameer Bhise: This is helpful. Just finally a bit curious given that we will be receiving a lot of capital after the transaction. Now there could be two ways to look about it. How do you deploy this? Any new product lines or a temptation to probably chase some of the commercial lending or wholesale lending kind of a product or secondly could be, would you look for any inorganic opportunities? There have been some comments. Any thoughts on that and the way forward, I think that would be helpful from a medium-term perspective?

Abhay Bhutada: Very good question, Sameer. Post-housing sale, considering the current opportunity we have on the consumer finance side at a pan-India level, and considering last 18 months of experience, that channels or vendors, our customers, everybody is giving us that first choice of rejection, there are multiple factors, zero product proposition, zero prepayment charges, customer-centric approach that customer loyalty is there and coming back to specific answer to your question, because of the huge opportunity available on the retail side, we do not want to do wholesale or any mid-corporate product at least for the next five years. And we'll be able to grow 8-10% QoQ and now going further post our housing sale as per our given guidance. Because if you see loan against property, pre-owned car, business loan, we are getting enough disbursements there. And there is no need of any kind of inorganic opportunity as of now because we are growing organically. And with this disbursement number, we'll be easily able to achieve 35-40% growth

YoY because the base is low. We have installed capacity, which is much, much higher. And we don't want to do any kind of wholesale and the entire capital will be utilized for the growth only.

Sameer Bhise: That is helpful for now from my side. Congratulations and all the best.

Moderator: We have the next question from the line of Nikhil Rungta from Nippon India Mutual Fund.

Nikhil Rungta: Thanks for the opportunity and congratulations on a great set of numbers. Sir, a couple of questions, starting with the margin one, which you just highlighted. So, our cost of funds has started rising. So, in the similar situation, what type of sustainable margin are we looking at or is this 10.5% margin sustainable?

Abhay Bhutada: So, on a steady-state basis, above 10%, you can consider. Because as I said, we recently launched consumer finance products at the pan-India level. And because of the short-term product in nature, lot of cross-selling is happening. We will protect our margin. We have started passing on, and still, we have a buffer of 100 bps to 150 bps, still we are offering in terms of NBFC sector we are the lowest across all our product range. Most of the products we are offering the lowest rate. So, 10-10.5%, we'll be able to maintain despite the rising interest rate scenario.

And again, if you see, we just recently started 1-2 quarter back capital market borrowings, and we have enough buffer to raise short-term loans, which we will raise in near future.

Secondly, Nikhil, still we carry ₹1,100 crores of legacy book, which either we can take a onetime hit, or we are not able to do reprice because, as this is Magma old legacy book sub debt, and perpetual debt. So there, the average rate is 10.5%. If we exclude that, then we are the lowest as we speak, by 20-25 bps in the sector. But by raising short-term capital via CP and by utilizing lot of short-term loans. And again, we have launched lot of short-term loan products. We are quite confident, at least for next three to four years, we don't see any impact on our margins.

Nikhil Rungta: Sir, coming to our DDP partnerships, digital partnerships, while on the disbursement front, you continue to indicate that now we are disbursing more than 60% of our overall disbursement through these digital partnerships. In terms of AUM, what is the share of AUM, which was disbursed through this particular angle, I mean, through DDP?

Abhay Bhutada: So, on the AUM side, it is around 15% to 20%.

Nikhil Rungta: And taking forward that question, if I have to look on a static pool basis of this digital partnership, how is the performance of this particular pool, I mean, the disbursement through DDP, say, a year before, how is that performance, I mean, in terms of asset quality?

Abhay Bhutada: So, performance is excellent. For example, 30+ for this entire our new originated book is only 0.62%. And under this all-digital other partnership ecosystem 30+ is 1.39%, at the same time, 90+ is only 0.04%. So, if you exclude the legacy book, overall, the book is really performing well. And we have enough risk premium available there, processing fees, other income, and we don't see any challenge over there.

Nikhil Rungta: Sir, last question from my side. I mean this quarter as well we reported a write back in provision of approximately ₹30-odd crores. So, what amount of write back do we still have got in our books, which say we might utilize over next few quarters or to put it differently, if we have to utilize the entire write back in a single quarter, how much that would be?

Abhay Bhutada: So basically, next 1-2 quarter only, you will see a write back. Otherwise, it will get streamlined because now the book left is only ₹800 crores. We are aggressively going for a settlement on that write-off legacy portfolio. And as we mentioned in our last investor call, the legacy book will be less than ₹500 crores by end of March, and it will be closer to zero by end of June.

So, you can expect one or two quarters. But if you see pre-operating profit (PPoP), there is a growth of more than 34% on that front. So, from that perspective, I think the parameter you should look till the time we show a positive ECL numbers at pre-operating profit levels. But yes, 1-2 quarters, you will see a write backs from that.

Nikhil Rungta: And some comments on the ARC sale, which you have disclosed in your notes to accounts?

Abhay Bhutada: So, we have started whatever is the write-off book available, slowly- slowly we want to come out of it entirely like we have done a branch consolidation. We have reduced branch count by 80-90. Then March to till date, almost we have reduced the legacy manpower, I'm saying, almost to 2,500 to 3,000. Similar to that, we want to come out complete in one to two quarters out of the legacy issue. So, all 360+ & 180+ bucket wherein we don't have legacy issues and cash collections are there, we started selling to ARC, that write-off book.

Nikhil Rungta: Thank you, these are very helpful and all the best for the future.

Moderator: We have the next question from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal: So firstly, just a continuation of the previous question. So, wherein, we said that we expect provision write backs to continue for the next 1-2 quarters, and we have a write-back pool of about ₹800 crores. So, what is the quantum of recoveries that we are expecting from this write-off pool of about ₹800 crores?

Abhay Bhutada: So basically, from the write-off pool, you can expect recovery of around 25%. Because there are different buckets and there will be an Opex reduction because to recover this write-off pool we used to pay almost ₹10-12 crores per month for collection, salary, and incentive. Now there will be a drastic consolidation at that front. So, in next one to two quarter, we will see a monthly saving of ₹10 crores because that entire manpower is only doing the legacy collection. Because in all the new book, our first-time collection is much better as compared with the industry. And as I told you even the 60+ is less than 0.5%. 30+ across all the product is only 0.6%. So, considering all that, we don't require much manpower on the new side. And so, we'll be out of that book and recovery will be around 25% from the write-off book.

Abhijit Tibrewal: So broadly, you're expecting about ₹200 crores of recoveries over the next two quarters?

Abhay Bhutada: It depends. But yes, around ₹150 crores you can consider from the write-off book.

Abhijit Tibrewal: And Abhay, if you can maybe explain, during your opening remarks also, you talked about this branch and manpower rationalization and what you were just speaking about ₹10-12 crores of monthly savings, people work with predominantly employed in collections of the legacy book. So how are we expecting this Opex to trend, what Opex savings can come in based on the Opex run rate that we are seeing now? What can this come down to or then after, let's say, one or two quarters?

Abhay Bhutada: Two things. One, is this Opex reduction. ₹800 crores is on book and off book is ₹400 crores, out of this ₹1,200 crore of legacy book. We require certain manpower for one to two quarters, let us assume, till June. And later, straightway we will save that cost, and we have started outsourcing to lot of collection agency all the legacy book. And so that's why I'm saying that there will be a further reduction of ₹10 crores per month on that front. That is one. Second, right now, there is a quarterly ESOP charge of ₹40 crores. That will get reduced to around ₹15-₹20 crores, including the new cost. So that will give us the additional quarterly benefit of ₹20 crores. So, the ₹30 crores on the Opex side, ₹20 crores on the ESOP side. So approximately, you will see total of ₹50 crores Opex reduction from Q2 of next financial year.

Abhijit Tibrewal: Got it.

Abhay Bhutada: And whatever manpower, Mr. Tibrewal, what we have, that is sufficient for next three to four years. So, there is no need to increase the additional manpower as we speak, because of the, again, digital model, because of the cross-selling, because of the technology and we'll continue with approximate 2,500 manpower going further and with the highest level of productivity as compared with the sector.

Abhijit Tibrewal: Got it. And just one last question here. I think within the opening remarks, I heard that we talked about after this branch rationalization is complete, we talked about that we'll be operating at about 100 branches and there will be no need for manpower increase like you said. So, I mean, whatever you're guiding for in terms of a 30-35% kind of a new loan CAGR, can be achieved with these 100 branches spread about spread across about 20-22 odd states? Is this understanding, right?

Abhay Bhutada: So basically, this plan has been designed in that fashion only. We require only 100-110 branches to achieve 40% growth over a period of next five years. And we require branches only for the collection and customer service, some part of cross-sell. 100 branches covers our 80-85% of the total business. And in loan against property, pre-owned car, and few other products we get maximum business from top 60-70 branches. And we do consumption, digital consumption loan, consumer loan, personal loan, small business at a pan-India level. We have in-house collection infrastructure. We have collection centers also.

And again, as I told you, the first-time collection, 30+, 60+ is more important because we do write-off at 90+, this we are following since long. So, we don't see any challenge. At least for next five years, we don't see any challenge in terms of AUM growth because of the branch, for the model itself is a digital model. And 80-85%, anyways business we will cover through these 100 branches only. But right now, the problem we'll face is because of this lot of huge opportunity on the consumer finance segment, we'll have to control the growth 2-3 quarters down the line because we are getting a lot of attraction and choice of rejection from the customer base, one, because of the trust, second, because of the zero prepayment across all products. Third, we don't do any kind of misrepresentation or mis-selling as there is always some representation in the NBFC segment- the segment which we are targeting. So, I think clear cut, we have disclosed this in our last investor call also. As per our internal survey, it's a clear-cut indication that customers are giving us first preference across all the product range. It can be a professional loan, personal loan business, even in pre-owned car because we have gone across all the products, 100% digital, only in pre-owned car you require signature because of some RTO formality, in loan against property, because of the product in nature, you require some signature. Otherwise, we have gone 100% digital across all the products end-to-end.

Abhijit Tibrewal: Thank you and just maybe to squeeze in one last question. You talked about the collections' infrastructure. If you could, Abhay, just briefly explain what is the collection infrastructure that we have set up, I mean, understandably, I mean, except for pre-owned cars and LAP, which is purely a digital model.

But I mean, your asset quality, I mean, is indeed very good, 30+ DPD and the 90+ DPD that you talked about. But let's say, going forward, in a bad economic cycle, if there is a need for physical collections, I mean, are we building up a physical collections' infrastructure as well?

Abhay Bhutada: Very good question, Mr. Tibrewal. We have conveyed this in all the investor calls, since the last three-four quarters, the main reason for Magma acquisition was the collection infrastructure. And if you see all 22 states, we have a collection infrastructure. If you see our Q4 investor call or Q1 of this financial year, we said more than 55-60% manpower we have in collection. Out of what we required in legacy collection that we will outsource; we will reduce that manpower. But at the same time, proposed collection infra, whatever is required, considering 30+, 60+ and 90+, so I think 400-500 people, we have proposed as a collection infra across all the states, which will be more than enough for at least next 3-4 years, the segment which we are targeting and considering the bounce rates.

Moderator: We have the next question from the line of Tejas Mehta from Max Life Insurance.

Tejas Mehta: Just a couple of questions here. One is, your legacy book you said you have ₹1,200 crores, out of which ₹800 crores is on book. Would like to know by when would this book be completely run down? And the other would be, for the DA book, how big is the book now? And by when can that book also be expected to be completely run down?

Abhay Bhutada: So, in terms of legacy book, as we said, it will be less than ₹500 crores by end of March, and it will be closer to zero by end of June. And in terms of this DA book, the acquired book, which is again performing well, though the average yield was around 9.25% in that book. And earlier, it was ₹4,000 crores, almost 50% run down in the last 4-5 quarters. So that book will be there for next 1.5 years. Majority of the book will get run down in 1.5 years.

Tejas Mehta: Okay. And we are looking at this 35-40% growth after running both these books down.

Abhay Bhutada: Of course, see, why we started a short-term loan from last one or two quarter, if you see the actual AUM growth is 10-11% only, even for this quarter, there was a ₹400 crores of direct acquisition rundown. That is one. Again, legacy run down from ₹1,700 crores to ₹1,200 crores legacy book run down and policy write-off, early write-off of legacy book. So, from that perspective, it looks 6% QoQ growth at a stand-alone level. And if you see, otherwise, the growth is almost around 10%. We started lot of short-term loans because of this only. Otherwise, we would hit 12-13% kind of growth because the base is low, of course. So yes, this 35-40% growth guidance is considering all the repayments of legacy, DA, and everything.

Tejas Mehta: The other question is, what is the total count of customers that you have today, active customers?

Abhay Bhutada: Total active customer is 1 million plus. Now you will see more and more customer acquisition. Because recently, we started consumer loan and small loan. So now you will see a lot of short-term loan and short ticket loan. As on date, we have crossed, active is above 1 million, ever served is more than 2 million. So last quarter, we book more than eight lakhs, we booked the loans, around 8.5 lakhs.

Tejas Mehta: So total customers served till date is about 2 million, is what you're saying?

Abhay Bhutada: Yes. Basically, Tejas, we just completed the growth and consolidation everything two quarters back. So now we are absolutely on the high-growth phase.

Tejas Mehta: So, I'm just wondering, say in about three years, three years, or four years, you will have, what, close to 5 million, 6 million customers by then?

Abhay Bhutada: I think more than that. I think we'll cross 1 crore the customer base in next three years.

Tejas Mehta: One crore-customer base, okay.

Abhay Bhutada: Because you will see lot of low-ticket cases on the consumer side, digital consumption side, the ticket size is low, but the number of customers will be high. And here, we are facing lot of short-term customers initially and then only we take call. So, we are going in a very conservative way.

Tejas Mehta: I'm just trying to understand that you mentioned that you look at about 400-500 people collection team. Just trying to understand how would such small fleet of people will be able to service such a large base of customers.

Abhay Bhutada: See the segment which we are targeting, we don't cater to new to credit customer. There is a huge opportunity available. On the basis of that, these are all bureau-tested customer. We have started giving lot of preapproved offers to them. But because of the very, very strong product proposition, as I told you, multiple product features, I think we are able to onboard the customer. And the first-time collection itself is across if you see all the products, it is almost 98.5% as we speak. That is one of the best in the industry, and we will continue to maintain that because for us, we do write-off, Tejas, at 90+, then we do outsource collection. These 500 people will do only 0 to 90 bucket collection, only these three buckets. So, this is a hybrid collection model. We do only 0 to 90 and 90+ we will outsource to the collection agencies. And we have factored already, because as I told you, the credit costs will never allow 90+ to cross 1% as per our guidance given earlier. And for us, important is first-time collection and 30+. We don't look at 60+ and 90+ number. The segment is different. But yes, you are right. Because of the hybrid model, it is possible.

Let me just to add on here, and we did trial also in last 18 months because we used only selected people for the new book in last 18 months and remaining all people are just doing the legacy collection.

Tejas Mehta: Ok. And on the ESOP charge, how much is more left now? You have done ₹40 crores this year. How much more is left there?

Abhay Bhutada: So, including new ESOP and RSO charge, out of this ₹40 crore per quarter charge, next year, there will be a quarterly charge reduction of ₹20 crores. And almost it will be a negligible cost in the third year.

Tejas Mehta: So, it's about ₹80 crores next year and then zero the year after?

Abhay Bhutada: Then ₹20-30 crores.

Tejas Mehta: Ok, then ₹20-30 crores.

Abhay Bhutada: But yes, there are also, I think we have largely covered. We have done lot of more than 500 people. We have taken a onetime hit for first year and again, there will be a certain charge next year. And later on, we don't have to issue that much quantity ESOP because considering retention and so many other things from long-term perspective, we have largely covered till the middle level management.

Moderator: We have the next question from the line of Dhaval Gala from Aditya Birla Sun Life Mutual Fund.

Dhaval Gala: Congratulations, Poonawalla team, top management of Poonawalla Fincorp. Three questions, Abhay. Just, one, if you could start disclosing product-wise AUM on a quarterly basis would be fairly useful. Maybe you do give away all the data during the con call, but would be great if you could have, I just wanted to understand few disclosures on AUM. And if you could guide us through in terms the expected IRRs, you as a company would expect out of these product segments?

I had few questions regarding, maybe the key segments, which you would want to be, say, number 1 to number 3 in terms of market share over a period of the next three years, whether it is digital personal loan or digital consumer finance or pre-owned cars or maybe say, medical equipment or supply chain finance, means I am talking about the key existing products which have been growing well or which are our key products. If you could maybe just guide us or talk about, one, sourcing of the loans and expected IRRs of the same?

Abhay Bhutada: Right. So yes, of course, thank you so much for your suggestion. So, we'll give that disclosure of product wise AUM from the next quarter onwards. And on the IRR side, on the average of all the products, we'll be able to maintain above 15% IRR average yield of all the products going further. And on the product-wise side, will focus more on a small business loan, then consumer loan, then pre-owned car, small personal loan, loan against property. So, these will be the five main products, and then we have lot of other products.

Dhaval Gala: So, the loan against property would now be done under our stand-alone business, right?

Abhay Bhutada: Yes. So, all these products, what I'm proposing is on a stand-alone level only. So stand-alone level, we have secured product of loan against property and machinery loan. So, going further also, like from March '21 - '25, as per our vision 3x growth, we'll be able to maintain 70-30. 70% will be unsecured and 30% will be secured.

Dhaval Gala: So when you talk about, say, assuming a doubling of AUM over the period of next few years, most likely by the next 2.5-3 years time frame, considering your current growth rates, you are saying that 30% of that AUM mix would be secured largely through machinery and property.

Abhay Bhutada: Pre-owned car as well. Because we are in top three players. We do more than ₹200 crores, pre-owned car because of the entire product, which is complete digital, we get lot of traction there. So pre-owned car, loan against property, again, we do monthly more than ₹200 crores. And we launched 2 quarters back machinery loan and equipment loan. Considering all these three products, we'll be able to maintain 30% of the total AUM over a period of two to three years.

Dhaval Gala: Understood. So, in a three years' time frame, when you more than double your AUM around that number may be, you are saying 70-30 would be unsecured and secured?

Abhay Bhutada: Yes, 30% will be secured, 70% will be unsecured. This small business loan, consumer loan because now we don't have housing. So, the ratio will be 70:30, even earlier also, we have given similar kind of guidance. But because of pre-owned car, loan against property, there is no impact on the secured, unsecured mix despite of sale of housing.

Dhaval Gala: So just to ask you a perspective here is, now that you would have such a larger unsecured book. And when I was asking you about maybe the IRR, I was not asking you only about the yield structure, but say, what would be assumption on?

Abhay Bhutada: You want product-wise IRR?

Dhaval Gala: Product-wise, understanding that what would we say expected credit losses or credit cost, which you would assume at the time of underwriting? And maybe I mean it's too early to talk about the actual outcomes, but when in the next financial year, you would have completed journey for a lot of product segments because I assume that most of the book would mature between 18 months to 24 months' time, average, I'm saying. So, you would be able to even share how has been the actual outcomes compared to what you would have done at the time of underwriting.

Abhay Bhutada: Yes. So, in case of product-wise, in case of unsecured, in case of business loan, the average IRR is around 18.5%, which is a normal business loan, plus 2% processing fees and insurance income. And now the credit cost here, we expect is around 1.5%. And again, we can expect 25% recovery. So, 90+ you can expect on a steady-state basis around 1.5%. Small business loan, the average IRR right now is around 21%. Here, you can expect credit cost of around 2-2.25%, again around 25% recovery after that. In case of digital consumption loans, small personal loan, you can expect IRR of around 18% to 19% with a credit cost around 1.25%. In case of pre-owned car, you can expect average IRR as we speak, it is around 15.5%, and you can expect a net loss around 1%. So, these are the broad ranges where in you can expect this kind of IRR with such credit cost. And overall, the segment which we are targeting, the formal income segment, GST tested, TDS tested, high CIBIL score and considering our strong product proposition and we don't cater to new to credit, we don't expect credit cost, average of all also will cross 1.2.

And because of the higher profitability, we'll be able to absorb any additional because we do write-off at 90. So, we have a pressure, Dhaval, starting from the onboarding itself. So, market is aware of course about this current 18 months in Poonawalla Fincorp. But these are all tested and whatever experimentation we wanted to do, we did in Poonawalla Finance, the existing NBFC of the Poonawalla Group, where in except consumer finance, all the unsecured product range, 4-5 products, we tried there. So, we have that additional two years of learning. So technically speaking, we have completed full one cycle. So, we don't have to considering past experience and current, we are pretty much confident about the credit losses in all newly generated model.

Dhaval Gala: And maybe just to appreciate, you've been very much talking and doing what you've been telling us for the last almost six quarters now. Just wanted to understand your thought process around the technology and digital transformation for our company, means you have been able to sell housing finance business which you wanted to have run the stand-alone business more like a tech-led and a branch-lite model. And also, you have been able to complete the Phase one of technology transformation.

If you could talk to us, maybe give a little there more details that what all we can see in the Phase two? And what could be key milestones, I mean, from an outside we can track in terms of some numbers and some either qualitative, which either you can mention in the presentation, or you can talk about during the quarterly that how do we keep a track on your Phase two journey, which you've begun on digital transformation?

Abhay Bhutada: Sure. Basically, starting from Page Slide number 28, next three, four slides, we have given all the detail about the Phase one and Phase two. We have successfully implemented the Phase one over the period of last six quarters, starting core platform like customer relationship management, loan origination platform, rule engine platform, loan management platform and collection management platform. I'm talking about newly we have implemented. We are not using any of the legacy or the old system. So, this already we have implemented and under that, again, API gateway marketing solution, contact center, data analytics, digital, all the infrastructures, all channels. So, we have covered largely on that side.

Then again, on the digital and the analytics side, on the consumer product side, app side, data side, all ecosystems we have created, we have a standard API kit, like, not only for the customer, but any digital partner who wants to do an integration with us, it will not take more than one to two weeks because we have that kind of infrastructure created. And again, our entire digital partner ecosystem also, they give us, Poonawalla as a first choice, reason being the technology. So, we have that best-in-class technology and overall customer engagement and experience as well. On the Phase two side, when we started journey from last quarter, we have completed almost 20% work. We have mentioned in the investor presentation as well, the current status on the customer portal side or straight through disbursal platform side, or the app-based lending side, referral app for the channel, for the customer. And again, a fully integrated treasury management platform and lot of QR code merchant side, AI powered transaction side.

So, we are working very hard on the enhanced customer service also. We are giving a 360-degree view that house self-service and FTR resolution or customer interaction management side, customer insight, how we will be able to do lot of, how we'll manage the cross-sell there, how we can drive the STP and the FTR overall process automation. We are working hard on that front.

And every quarter, there will be an addition of 20 to 30%. But that is not impacting our current growth. This is just enhancement on the existing technology. So, on a quarter-on-quarter basis, we are trying how we can improvise on our TAT, customer experience, customer service. This is all about the enhancement. As we speak, except the EMI card and the credit card, we have launched all the products. So, there is no major impact. Alternate channel side, we have launched the WhatsApp, so lot of traction there. So now we have consolidated everything.

The milestone -- ultimate milestone, Dhaval, will be the product innovation launches. That is most important for us. Then single app for onboarding, disbursement, surveys, referral and app for alternate channels. And again, for the large partnership, e-commerce partnership, a lot of people, they are approaching us, for them, how we can create an ecosystem under that consumer finance, rather than going for a physical model. Because from day 1, it is very clear, we'll only do branch-lite and the employee-lite model. So, from that perspective, as you suggested, we'll be able to give more and more updates as we implement new things on that front. But next 2-3 quarters, we'll be able to complete the entire Phase 2.

Dhaval Shah: Thank you for elaborate answer.

Moderator: We have the next question from the line of Prashanth Sridhar from SBI Mutual Fund.

Prashanth Sridhar: Just wanted to understand, since you write-off at 90+, so what will be the total outstanding write-off pool today on loans that you would have disbursed, excluding the legacies in the book?

Abhay Bhutada: Basically, I'm talking about only legacy book write-off. The new book, if you see the 30+ is only 0.62%, though we have a policy. So, whatever we are discussing, that is actually irrelevant in that sense. But at the same time, we need to do a write-off of all the legacy book at 90+ unsecured, 180+ secured. So, write-off book outstanding is, as we speak around ₹500 crores outstanding as of December end. And this is all legacy book, out of which, ₹800 crores, as I said just now, ₹800 crores is on book, ₹400 crores is off book. Total legacy book pending is ₹1,200 crores.

Prashanth Sridhar: So far, you have not written off anything on the unsecured book that you have underwritten. Is that right?

Abhay Bhutada: Hardly anything. Yes, you are right. Because there, the first-time collection is 98.5%, then you have a 30+ wherein we have across all the newly originated, almost, I will say, more than ₹11,500 crores since start. So, hardly there is any write-off.

Prashanth Sridhar: The GNPA that we see is only on the secured book plus the legacy book?

Abhay Bhutada: Yes, the majority of it is legacy book, you're right.

Prashanth Sridhar: And out of this GNPA of ₹220 crores, how much is the legacy book?

Abhay Bhutada: Except, ₹6-7 crores, entire is the legacy book. Because of the roll forward, so what happens, there out of ₹800 crores, the legacy book is only ₹400 crores, which is zero bucket, remaining ₹400 crores in zero to 90. So, because of the roll forward and because of the manpower consolidation, branches, and the balance legacy book, all the write-off is in the legacy book only. And even in the acquired book of the ₹2,000 crores that was all AA+ rated NBFC from the top 10 last year. And there, the 90+ is less than 1%, around ₹20 crores on the ₹2,200 crores outstanding loan book. So there again, entirely secured book. We don't see any major issue there. Their maximum estimated loss was around 1.5 % against the current estimation on the basis of performance will be 0.3%, 0.4% max.

Prashanth Sridhar: And what is the total value of security receipts as on date that you're holding?

Abhay Bhutada: That is around ₹200 crores.

Prashanth Sridhar: And this is also sale from a legacy book?

Abhay Bhutada: Of course, see, basically, when your 98.5% is the collection of our entire newly origination. So, your one plus is 1.5%, then we recover maximum amount in zero to 30 bucket and 30+ is 0.62%. Again, the segment which we are targeting, there all not intentional defaulter. So, whatever you see write-off or NPA and all, maximum is from the legacy book. But yes, on a long-term basis, we are in lending business and though, we are not in a collection business, the segment which we are targeting but at the same time, we have already given a guidance on a long-term basis, credit cost will be in the range of 0.8% to 1.2%. That will be the range.

Prashanth Sridhar: Sir, if we can just have your thoughts on one thing. So, you intend to maintain about a 10% spread, but you're saying you would not do any new to credit customers. So how would you sustain that given the increased competition, both from banks and NBFCs? Or at some point later, you might look at entering new to credit?

Abhay Bhutada: Well. I think the people with even the credit background, considering the Indian population, if you check the bureau data, the market is huge and very few players like us, wherein you are able to give the good rate also, zero prepayment also, I guess we are the only NBFC in a larger scale who is offering zero prepayment. And considering the turnaround time and the product proposition, I think there is a huge opportunity also available. So, I don't see any challenge for next four to five years. And the base is low.

Moderator: We have the next question from the line of Param Subramanian from Macquarie.

Param Subramanian: I wanted to ask on the sourcing mix, the loan sourcing mix for the company, how much is directly driven, how much is through partnerships, through fintechs, etcetera? And if you could talk a bit about the larger partners that you have for sourcing loans? That's my first question.

Abhay Bhutada: Yes. So largely, it is from direct and on the digital side. On the partnership side, we have CARS24, KrazyBee, UGRO Capital. These are the only four, five partners we have. We don't have more partners here, mostly the focus is on digital side, direct side. Partnerships, we only do if it makes sense, if we get a good processing fees income and short term in nature. So actually, partnership book will not give us any benefit in terms of AUM, but that will give us benefit in terms of our profitability.

Param Subramanian: Sir, if you can give some rough numbers, how much is direct, how much is through partnerships?

Abhay Bhutada: So, on the total, our monthly disbursement side, if you see last quarter AUM, 20% will be from the partnership side and remaining 80% will be on the direct side and digital.

Param Subramanian: My next question was on the loans to professionals' segment. So, doctor loans, CA loans, the largest NBFC is a big player there. So, if you could talk about your market share in this segment, how it has moved? What is your market standing there, some rough numbers there as well?

Abhay Bhutada: So, I guess, roughly out of total pan-India chartered accounts, we have crossed more than 3% of the total chartered accountants. So, it's a huge share, I will say, because recently we launched. And when we check with their institute, ICAI Institute, there are, I think, most of the chartered accounts, again, as we said multiple times, they're giving us -- though you are saying there are large two, three NBFCs and a bank, but the product proportion what we have, we are getting a choice of rejection, maybe you can check with any of the chartered accountants. Unless we reject, he or she, or any chartered accountant will not go anywhere. And the product proposition is quite strong, and we are going fully digital on that front also. So, market share is quite good, because I guess, 3 lakhs are active chartered accountants in India, according to me. So almost 8,000-9,000 chartered accountants, we have crossed.

Param Subramanian: Sir, when you say you have a stronger product proposition, is it that you were alluding to zero prepayment fees. Is that the main thing, or is there…

Abhay Bhutada: Not only, zero prepayment is one of the features. The main feature is, I guess, turnaround time and no hidden charges and the digital entire process. Because as I told you, there is no single signature required end-to-end and this we are doing since Poonawalla's existing NBFC. We tried there two years, and this is almost like a fourth year for us. We aren't doing any experimentation in unsecured loan here because these are all our tried and tested products in our existing NBFC, which is unlisted, that you are aware.

And here, because of the digital process, entire product proposition, low rate of interest as compared with other peers, because again, the segment which we are targeting, the credit cost will be negligible. If I talk about like, for example, professional loan, my 30+ is less than 0.2%. And this is at a very larger book with a proper seasoning also. So, their credit cost is also negligible. And we do lot of cross-sell with help of these people, and we have tie-up also with -- at a pan-India level with the institute.

Param Subramanian: Are you also seeing balance transfers from other NBFCs in this book? And could you also, 1 more data point, if you could also provide what are your monthly disbursements in the loans to professionals' segment? Yes, those are my questions.

Abhay Bhutada: Basically, I don't have handy figures right now with me. We'll be able to give you on the offline all the -- whatever detail you want in detail to that specific product. But what I recollect is, yes, 30% to 40%, lot of balance transfer in chartered accountant book when they have availed loan at a higher rate from different NBFC, either under term loan or flexi loan or any other product. So, they do the BT, and they are coming here.

Param Subramanian: Very clear, thank you so much.

Moderator: Thank you. Due to shortage of time, that is the last question. I now hand it over to Mr. Hiren Shah for closing comments.

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

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