“Poonawalla Fincorp Limited

Q1 FY 2023-24 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Poonawalla Fincorp Q1 FY 2023-24 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. Anyone who wishes to ask a question may please press star and one on the attached tone telephone. If you wish to remove yourself from the question queue, you may press star and two. Should you need assistance during the conference call, please signal the operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Hiren Shah: Thank you, Lizann. 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 ending June 2023. To discuss all this in detail, I have with me our Managing Director, Mr. Abhay Bhutada, other senior management officials and myself Hiren Shah, Head of Strategy, BIU, and 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 development for the quarter ending 30th June 2023. Over to you, sir.

Abhay Bhutada: Thank you, Hiren. Good evening, everyone. I welcome you all to the Q1 FY '24 Earnings Conference Call of Poonawalla Fincorp Limited, and trust you are all doing great. Q1 FY '24 marks the beginning of a new fiscal year and brings with it a sense of new hope, innovations, and opportunities. We have recorded the highest ever quarterly disbursement, strong growth in asset under management with robust asset quality, resulting in the highest ever quarterly profit after tax.

This performance is reflective of our sound strategy, excellence in execution, digital capabilities, and unwavering commitment towards our stakeholders. During the last year, we started the value unlocking process of our housing finance subsidiary. We have received all the requisite approvals and the transaction is expected to conclude over the next one week.

The key stand-alone financial numbers for the quarter ended June 30, 2023, are:

Our AUM has grown by 41% year-on-year and 10% quarter-on-quarter, now stands at ₹ 17,776 crores. Our AUM is well diversified across MSME and consumer segment with multi-sourcing channel.

On the composition side of our total AUM, unsecured MSME loan constitutes 36%, followed by personal and consumer finance at 19%, loan against property and pre-owned car at 16% each. Secured to unsecured ratio of the total AUM stood at 45% to 55%.

We are mainly focusing on prime customer segment with a bureau score of 700-plus within the formal income segment. We reported our highest ever disbursement of ₹ 7,063 crores, up 143% year-on-year and 11% quarter-on-quarter. Disbursement under direct digital program constituted 86% of our total disbursement in Q4 as compared with 81% in the previous quarter.

Our target was to achieve 80%, which we have achieved in the last quarter itself. The DDP distribution model has accelerated disbursement and expanded our customer base, thereby lowering the cost of customer acquisition.

Now, as we speak, our live customer base is more than 3 million approximately 32 lakhs and in quarter one, we added approximately 7 lakh new customers. And as we guided earlier two quarters before, we'll be able to cross one crore customers in next two to three years.

GNPA stands at 1.42%, down 126 bps year-on-year and 2 bps quarter-on-quarter. Net NPA is at 0.76%, down 35 bps year-on-year and 2 bps quarter-on-quarter. Provision coverage ratio stood at 46.43%.

The average cost of borrowing was at 8% for Q1 FY '24. NIM was at 11.4% during the quarter, which is up by 108 bps year-on-year, 12 bps quarter-on-quarter. The Opex to AUM ratio has come down by 105 bps from 5.43% in Q4 FY '23 to 4.38% in Q1 FY '24, this is including the ESOP charge.

Operating profit for the quarter stood at ₹ 294 crores, up by 148% year-on-year and up by 39% quarter-on-quarter. Profit after tax for the quarter stood at ₹ 200 crores, up by 62% year-on-year, 11% quarter-on-quarter. Return on asset was at 4.8% for Q1 FY '24, which is up by 67 bps year-on-year.

Now will take you through our business strategy and the way forward. We remain completely aligned to our strategy of building a strong consumer and MSME focused tech-led retail lending franchise. We continue to scale up on both these segments. Our LAP and unsecured business loans, along with supply chain finance business contributed to a healthy growth on the MSME side, while our personal loan, consumption loan, preowned car loan, led the growth on the consumer side.

While the competition intensity continues to be high, the unique proposition that we bring by being a lender of choice for the customer that offers user experience, agility of a Fintech and customer understanding along with practical approach of an NBFC, the fair pricing, service, and transparency of a Bank, has ensured that we are ahead of our competition.

We continued our focus on low cost of funds as we diversified our lender base as well. We enhanced our capital market presence, our focus on increasing productivity and improving efficiency has continued to give us the desired result as we reduce our Opex for the second successive quarter, and our Opex to AUM ratio for the quarter has reduced to 4.38% as compared to 5.43% in the previous quarter.

Given our deep technology inclination and digital-first approach, we have been able to create a truly digital organization where the benefits of technology are visible with increased productivity per employee. Our focus on clearly defined segments, credit-tested customers, digital data collection, rule-based underwriting and graded approach to loan exposure is aimed at getting better risk-adjusted returns.

Our strategy further clearly defines the optimal mix of secured and unsecured portfolio. We continue to work on the same, and it has helped us to focus on the right risk segment and leverage it further for cost of capital advantage and as a driver of higher profitability.

On the manpower and branch network front, we have continued with our focus on tech-led and branch-lite model. There has been a reduction in our manpower by 5% over previous quarter. So, we have approximately 2,200 on-roll employees, and around 600 off-roll employees.

We continue to further strengthen our team in the technology and digital space. We have consolidated our business across the top 100 branches to increase our business penetration across all product lines. This sets us to deliver on our stated guidance of AUM growth of 35% to 40% and profit growth of 30% to 35% on a year-on-year basis.

In Q1 FY '24, we further strengthened our existing businesses, started scaling up the instant consumption loan business, as we get ready to launch our Phase I of Super App, which is expected to be launched around 15 August. This would help us to penetrate deeper into the unsecured digital lending ecosystem, short-term loans and enable the dreams of consumers as well as all small businesses.

We continue to build a well-diversified book across different product lines, tenures, and segment to manage our risk better. Short tenure book now constitutes 26% of our total book, and this is in line with our guidance. This also helps us to further optimize our borrowing mix and drive customer acquisition in the future.

The new book build over the last two years continues to perform well. We have benchmarked our performance against the industry data through the credit bureau, and we continue to outperform portfolio of competitors. The asset quality is performing much better as per the expectation since we have completed two years on the new origination side.

On the new origination side, if you see, out of ₹ 245 crores of total gross stage-3, discontinued book is ₹ 104 crores; legacy continued, which is SME and POC is ₹ 40 crores; and new origination is ₹ 101 crores, out of that partnership is ₹ 26 crores, acquired is ₹ 52 crores and our origination was ₹ 23 crores.

GS3, whatever was self-sourcing in last 2 years, stands at only ₹ 23 crores out of ₹ 245 crores. So this is the validation of our last 2 years of efforts that the new book is performing really well. And we are focusing on the maximum recovery on the balance discontinued legacy book and the continued legacy book. We continue to increase our digital agenda across all product lines as well as the customer life cycle.

We have completed about 70% of the digitization agenda as outlined in our Phase II approach. As we move ahead, our digital journey is now fully available across all product lines and has also digitized the customer servicing process. We are leveraging WhatsApp for giving us a complete do-it-yourself journey, and the results have so far been promising.

We are now leveraging WhatsApp across the entire life cycle for our customers. As an organization with an employee-centric culture, we have built a strong team for the future, which is, in turn, driving productivity across the organization.

We have crossed approximate ₹ 45 lakh profit before tax per employee, which was ₹ 35 lakh last quarter. The productivity improvement is well reflected in our numbers. This reinforces the real digital tech-led and branch-lite model that we are creating.

As the scalability of the business model continues, it uniquely positions us for much stronger growth going forward. We have taken the FY '23 momentum ahead with a fantastic start to FY'24. The business growth has been strong, complemented with best-in-class asset quality and superior profitability.

Our fintech model with a focus on increasing productivity, improving efficiency has led to further reduction in operating expenses. We continue to focus on the future as we constantly innovate, invest in future trend, and build a deep ecosystem play.

We are all geared up and excited about the journey ahead and we are confident of delivering an exceptional performance going ahead. Thank you, everyone. And now we can start the question-and-answer session.

Moderator: Thank you. The first question is from the line of Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise: Congrats on another strong quarter. Firstly, I just wanted to understand that credit cost has turned positive after a prolonged period, so what's the driving factor behind this? And at the same time, I see another ₹ 20 crores of gain on derecognized financial instruments in the income line. So, if you could just explain this, that would be helpful? Should I take more questions, or we take this first?

Abhay Bhutada: Yes, I will take this first. Thank you so much, Sameer. Basically, I will just explain to you the GS3 percentage first. I've given you the absolute number, which was 104, 40, 101 new originations, out of that breakup of partnership is 26, acquired is 52 and self-origination is 23.

If you see the GS3 percentage of discontinued legacy book, it is at 24.42% and legacy continued is 6.66% and the remaining is 0.62%. So, we have started cleaning up the legacy book. When we acquired the legacy book, it was, more than ₹ 10,000 crores and now the legacy book, the balance is very less.

Out of 300 branches, now we have 100 branches. Out of 8,000 employees, now we have close to 3,000 employees. This is the balanced legacy book and post-consolidation of branches and employees, whatever we can recover, we are trying to recover, but this was expected that balanced legacy book will give us certain kind of NPA. If you remember last quarter also, we have given the breakup, which was 15.5% on a discontinued legacy and around 5% on the continued legacy book.

This ₹ 20 crores is nothing but a net gain on the sale of the legacy book. And if you see the exact ₹ 26 crores positive – this is a UFR format, so net credit cost is ₹ 6 crores, wherein ₹ 26 crores you will see impairment on our financial instrument and ₹ 20 crores gain.

Net credit cost is ₹ 6 crores, and this is mostly because of the legacy book. In the commentary also, it is mentioned the new book is performing better than our expectation.

Sameer Bhise: Okay. Secondly, I can see very strong performance on margins and so, we are hitting 11%. And is it fair to say that with incremental gains coming in from the HFC subsidiary, you could have further levers to see higher margins going ahead?

Abhay Bhutada: Yes. We have already given a guidance of ROA on a steady-state basis above 4, NIM above 10. But if you see margin is coming because of the short-term loan and sale of housing, where we are expecting funds within next one week. We have mentioned in the IR presentation also, the transaction will get concluded in next one week. So approximate ₹ 3,000 crores post tax, we will get from housing and the average cost of funds for the quarter was 8%, so you can assume approximate around ₹ 18 crores to ₹ 20 crores will be saved in the interest cost, if you consider 8%. Yes, you're right, that will further increase our margin and profitability.

Sameer Bhise: ₹ 18 crores to ₹ 20 crores is on a monthly basis?

Abhay Bhutada: Yes, for the remaining eight months. Assuming if we get by end of July, so for remaining eight months on that post tax of approximate ₹ 3,000 crores, we will get the benefit. And secondly, Sameer, we started raising CP. We have raised more than ₹ 2,000 crores recently, approximately at 7.2% we are being a CRISIL AAA rated company. And now the focus will be to enhance our limit from the rating agency from ₹ 2,500 crores to ₹ 6,000 crores. So now we are targeting CP maximum. Since we are lending short term, we need to borrow short term and now we'll target capital market mostly through CP, and there is no ALM issue at all.

You will see around 10 to 20 bps benefit there as well, and this quarter, we'll try to pay onetime prepayment and there is 10 to 15 bps benefit we'll get from the legacy borrowing, which is at about 10%. Overall, from housing money as well as because of the CP and because of our short-term disbursement and targeted consumer segment, you will see the results thereof, over a period of next two to three quarters. So, we'll see a good amount of superior profitability as well as improvement in margins going forward.

Sameer Bhise: Great. Just 2 final things. One is, you said the share of short-term products is 26% right now. How much do you think will it go from current levels over the next few quarters?

Abhay Bhutada: This is as per the guidance, only – if you see the total AUM, short term is 26%, which is less than twelve months, and long term is around 74%. Our given guidance is also between 20% to 25% will be short term, 75% to 80% will be long term. Right now, already, we are in the same range, 26%, and 74%.

Sameer Bhise: And one final thing, I think in terms of product bouquet, we are yet to hear from you on the co-branded credit card and the EMI card products.

Abhay Bhutada: At our end, we have finalized the bank for the co-branded credit card, and we are applying for the RBI approval. And once we get the RBI approval, we'll be able to launch. You can assume in next three to four months, we will be able to launch both the products, credit card as well as EMI cards. You can assume before end of December, we'll be able to launch both the products.

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

Avinash Singh: The first question is on the asset quality and credit cost. So, for the minute, if we keep aside that the legacy one, on the continued or our new growth, how is the experience in terms of the credit costs and asset quality across, I mean, different sourcing like the fintech partnership and DSA and our own offline and online direct? If you can provide some colour on sort of asset quality and credit cost experience across these channels? So that is my first question. And second, I will follow-up after that.

Abhay Bhutada: Yes, sure. As explained, the discontinued legacy book and the continued legacy book, which was not in our hand, and this is the balanced legacy book post cleanup since last two years, so ₹ 24.42 crores and ₹ 6.66 crores. Then the balance is the acquired book, through partnership, wherein we have the FLDG.

Let us talk about what we sourced in the last two years and what is the GS3 percentage. That percentage is 0.25% and the amount is around ₹ 23 crores. So, across all the preowned car, business loan, personal loan, consumption loan, loan against property, if you see the guidance given was since first quarter post the acquisition till date, we have maintained the guidance in the range of 0.8% to 1.2% against the credit cost and GNPA guidance was 1.3% to 1.8%.

The book asset quality is behaving much, much better than our expectation because we stopped New To Credit two quarters back. The segment which we are targeting, there is a huge opportunity available, not just because of the low cost of funds, but because of our thought process and because of the low Opex.

We are targeting a customer of a bank, but because of the user experience, turnaround time, zero prepayment penalty across all products, we are getting good amount of customer onboarding on a month-on-month basis and all customer activation and on the disbursement side, on the asset quality side, everything we are getting good response. So, we don't see any major challenge.

Now we are just focusing on the profitability. We will stick to our guidance of 0.8% to 1.2% on the credit cost side. And there is no issue in terms of growth as well. Any specific question on this?

Avinash Singh: Yes. And just if I can dwell a bit more on the credit cost guidance, I was about to ask and thankfully, you mentioned. If, I mean, you are going to launch the Super App. Of course, the plan for more and more direct acquisition. Currently, I mean, with the partners, of course, you have FLDG and with your own sourcing, of course, you will have to bear the credit cost. So, I mean, are you comfortable with this 0.8% to 1.2% credit cost guidance in a situation where your own sourcing is going to increase? Your unsecured post aside will continue to increase. Under this circumstance, you have comforted on this point to 0.8% to 1.2% credit cost guidance.

Abhay Bhutada: Basically, we have already included it under this guidance. This guidance is not for a specific product. This guidance is towards -- across all the product range. And this includes FLDG, partnership, direct, indirect - all the businesses. But if we are specific, the products which we are launching, i.e., short-term personal loans via our app, the credit cost guidance will be around 2%. But still, overall, it will be in the range of less than 1.2%, and that range will remain the same in between 0.8% to 1.2%. So, weighted return will be that only.

Avinash Singh: Okay. Very clear. One more, if you can allow me. Can you just sort of give some qualitative idea around what sort of offering or like value proposition of a co-branded credit card? Because I mean many NBFC co-branded credit cards somehow sort of a struggle because of the value proposition. So, if you can just provide without the cost meaning your partner, what sort of value proposition and what kind of customer segment you will be targeting?

Abhay Bhutada: We have just finalized the bank, as of now we'll not be able to disclose at this point of time because now we'll apply to RBI. Once we get the RBI approval, we will give you all the clarity on the product proposition side. Whatever products we have launched, if you compare with the market or any top NBFCs, Considering the culture of the Poonawalla Group, we do ethical lending, we don't charge any hidden charges. We give zero prepayment across all the product lines.

So, overall product proposition will be much stronger because we will launch the card considering all the options available to the customer in the market and though we are the last entrant, a few of the players they have already launched. But whatever customers we have acquired till date, we have done some internal survey and, on the basis of that, we are confident that customers have started asking for the EMI card and the co-branded credit card too. Product proposition will be in the interest of the customer, and it will be one of the best in the industry. Because if you see the credit tested, high usage, the segment will remain the same. We'll target the better credit customer here and will offer a very strong product proposition to these customers because we have a customer-centric approach across all the product range. This will be engagement-driven product.

Moderator: The next question is from the line of Nidhesh from Investec.

Nidhesh Jain: You mentioned the 81% of the customers we have acquired directly in this quarter. Can you just share some details of the channel mix within that? How much is branch-led? How much is DSA led and how much is from our own website? Because our app is still not functional, right? So, customers are either coming to our website or our channel partners or employees are reaching out to the customers. So, if you can give some more details and tell us about the channel mix through which we are acquiring customers on the direct side?

Abhay Bhutada: Right. On the LAP side, we have disbursed closer to ₹ 418 crores. Total DDP is 86%. Out of that partnership business, including digital sourcing partner is 61% and remaining is the balance 25%.

Nidhesh Jain: I couldn't understand. 86% is DDP, correct?

Abhay Bhutada: 86% is the DDP. Remaining is 14%, non-DDP. Within that 86% total partnership digital ecosystem is 61% short term and remaining is 25%, which is our direct digital, non-partnership digital.

Nidhesh Jain: Okay. That is 25%?

Abhay Bhutada: Yes.

Nidhesh Jain: And that customers are coming to our website and directly.

Abhay Bhutada: We have an SMS, WhatsApp, dedicated call centre and via website also. Yes, you are right.

Nidhesh Jain: Sure. Okay. And the 61% which is through partnership is the other fintech lenders who are our partners and who are sourcing loans for us?

Abhay Bhutada: Right.

Nidhesh Jain: Okay.

Abhay Bhutada: But as we guided, just for your information, if you remember the last quarter, of our total AUM, it will be approximately 15% in the current financial year and next financial year, it will be around 10% and then later on, it will be below 10% of the total AUM, so that is not getting added to AUM as such. These are all short term to test the customer, to onboard the customer. And now we are launching the App. Already we have on the customer servicing app, but now we are targeting direct. And slowly, slowly, we will see that ratio will get increased over the period of next one to two quarters.

Nidhesh Jain: Sure. So, on disbursement, they are 60%, but on AUM, they are 15% to 20%?

Abhay Bhutada: Because that is not getting added to AUM as these are short term in nature.

Nidhesh Jain: Short-term nature. Okay. And the remaining 14% outside of DDP, what is there?

Abhay Bhutada: That is loan against property, preowned car that is our branch and the DSA business.

Moderator: The next question is from the line of Kaitav Shah from Anand Rathi.

Kaitav Shah: Congratulations on most stellar quarter. My first question to you is regarding the Opex. I know you have been guiding that Opex will be lower because of a couple of expenses that were there last year. But this question is more related to investments for the future where we are seeing that banks, larger banks and some NBFCs are investing in mainly the people, processes, technology, or branches. So, is there some way that you can kind of inform us of how whether you are underinvested not, or not today? If some metric is there by which you think that we are quite good to go, there is not going to be any investments, large one next 1 and 1.5 years?

Abhay Bhutada: We will continue to invest on the technology and manpower side, those who will be eligible under the new business model. But the most important point here is that the Opex is overall down to 4.38%, which is almost 100 bps quarter-on-quarter.

And if you see our guidance for the current year, we have already given it to be around 4% to 4.25%. We'll see Opex will be approximately on a yearly basis, around 4% of AUM in the current year, and this includes ESOP charge. Approximately ESOP charge was around ₹ 20 crores for the current quarter and for the year, it will be around ₹ 88 crores. There also, we don't see any major bonuses or any major ESOP going further. We have given ESOP till the junior level also, so, the count is above 400. From that perspective, next year, the ESOP charge will be less. So, when I'm saying 4%, range, our approximate Opex to AUM for the current year that includes ESOP charge of ₹ 88 crores and that includes a one-time IT cost for app and some other things also.

If you look carefully, the trend is clearly towards the non-branch, given that we do not accept deposit. So, it's a branch-lite model we don't foresee any major Opex going further. That is one. A lot of Opex is also because of the legacy issues. Still apart from the collection, few of the branches, legacy manpower, legacy system so almost since last two years, majority of the time, we were focusing on the legacy issue. Now legacy issues are pending around 10% to 15% only in different functions or departments or areas. Now we will be very Opex efficient. That is our main business model. And more than the branches, we will invest more into the technology side.

Kaitav Shah: Got it. Okay. Perfect. Sir, second question was related to the customer base use that you have already acquired. Are we seeing an improvement in conversion, let's say, from partnerships to now sourcing more directly to some of these customers. Let's say are they evolving from the short-term kind of products to a more sustainable longer-term number?

Abhay Bhutada: Yes. Our strategy played out really well. If you see last two years, we are able to do a lot of cross-selling on the existing database. And initially, we onboard through a short term. And later on, we try to give medium-term or long-term loan. So, there is a drastic improvement over the cross-sell numbers, and we are able to cross-sell even the other products also. And now we have started some value-added services and third-party product, we just started recently, and we are getting good amount of fee-based income from these products as well.

Kaitav Shah: Got it. If you can start sharing numbers around the product cross-sell, perhaps from next quarter, that would be very helpful for us.

Abhay Bhutada: Definitely.

Kaitav Shah: And last question from my end was more around the credit cost. Is there any change in guidance or anything that you see at this point in time?

Abhay Bhutada: The new book is performing well. If you see the discontinued book, the breakup of ₹ 245 crores, which is GS3, the new origination, what we sourced is only ₹ 23 crores. Balance was DA acquired book and legacy continued book and legacy discontinued. We don't see any reason to change the guidance, and we'll stick to a range of 0.8% to 1.2%. And all other parameter guidance, long-term financial metrics guidance what we have given, we will stick to that only.

Moderator: The next question is from the line of Dhaval Gala from Aditya Birla Sun Life AMC.

Dhaval Gala: Congratulations top management team of Poonawalla. Just a couple of questions. One, on your borrowing mix, if you could talk about the current outstanding mix as well as how has been the incremental cost of funds and book basis, cost of funds? And are we having any -- now any other high-cost liabilities of the legacy Magma Fincorp based on the balance sheet? That's question number one.

Question number two is around the mix of disbursements; we would like if you can give some mix of the disbursement both in terms of value and also the channels you source that disbursement from on a quarterly basis?

Abhay Bhutada: Yes. If you see our total borrowings as of now, legacy borrowing, the average rate is around 9.69% and the outstanding book is approximately ₹ 800 crores -- ₹ 833 crores to be precise. So remaining, if you see that, our total average borrowing closing on quarter one is around ₹ 12,600 crores, out of which term loan is around ₹ 6,234 crores, CC WCDL around ₹ 3,500 crores, NCD ₹ 864 crores, old sub-debt NCD is around ₹ 122 crores, sub-debt term loan is around ₹ 100 crores, perpetual debt is ₹ 53 crores, CP outstanding was ₹ 1,661 crores and PTC is around ₹ 60 crores and average borrowing is at 8%.

We are trying to pre-close all the legacy borrowings because we will get a onetime profit in the current quarter. We'll try to get out of this legacy borrowing, and that will give us additional advantage of around 10 to 15 bps.

And as mentioned earlier, now we have increased CP limit from our credit rating to ₹ 5,000 crores-plus from ₹ 1,600 crores CP, you will see maximum we will now borrow over next two to three quarters via CP only because against current rate for CP of 7.15% for AAA-rated NBFC, we are paying 8% for the bank loan.

So there, clearly, we see 85 bps reduction on that amount, and you will see a further reduction, because of these ₹ 3,000 crores, we'll be able to borrow maximum short-term even from the banking side. Next quarter onwards, you will see a reduction on the borrowing side as well. And once RBI reduces the repo rate that will give us the additional advantage because already, we are at almost peak level. Any other question, Dhaval, on the borrowing side?

Dhaval Gala: No. I'm fine. So generally, whatever your overall average cost is as on 1Q '24, you would only see reduction in that over a period of next 3 quarters. Is that what you meant?

Abhay Bhutada: For next three quarters, overall CP will give additional advantage of 10 bps, and legacy will give us additional advantage of 10 bps. So, without any changes in the RBI rate, you can expect in the next two quarters, we will get 20 bps reduction because of these two parameters only.

Dhaval Gala: Sure. And on the disbursement side, Abhay, if you could talk about is basically the likes of, so if you could articulate a little more on the 61% of the DDP partners, I think that would help in understanding about the quality of our fintech sourcing as well as partners and the strength of their business model also on which we've been able to source the loans as well as manage asset quality so well?

Abhay Bhutada: So there, we don't see any credit cost as such because if you see 90-plus is only ₹ 26 crores out of ₹ 245 crores, the partnership book GS3. Out of that partnership of ₹ 26 crores, it is covered by the FLDG. We have FLDG, a few of the digital players as per the new guidelines i.e., 5%, nondigital players around 20%. And we have stopped the new partnership because our focus is on direct sourcing, and we are launching app in the next two weeks and this is as per our guidance, whatever we have given in last one to two quarters.

We are not focusing much on that front and whatever advantage we got initially in terms of customer onboarding, and we wanted to go slow. Now since we have completed two years and our unsecured book is performing better than the partnership book, but at the same time, because of the FLDG we got fully covered, so we have learned from different markets, and different players. But their IRR is around 30%, 40%, even more than that few of the fintech players, we used to get only 13%, so our unsecured business loan is around 18% as per the market, if you see any NBFC rate on the unsecured business loan.

Here, instead of 13%, which we were getting from the partnership, here, we will be able to get average IRR of around 18% on the interest side and additional processing fees and cross-sell of insurance. Credit costs, we have already guided 2%. It will increase our margin. So as of now, out of that disbursement, this is all short term. Though it is not getting added hardly to revenue because the average yield is only 13%. This is the breakup of the existing partnership. But now it is one to two quarters, you will see, that ratio will go down going further.

Dhaval Gala: Sure sir. Last question from my side is on your MSME/ SME loans or business loans basically. If you could talk about the way these loans are sourced, the turnaround times and also the current competition and maybe the ticket sizes of these loans?

Abhay Bhutada: Yes. Business loan average ticket size is below ₹ 20 lakhs. Professional loan average ticket size is below ₹ 15 lakhs. Personal loan ticket size is below ₹ 5 lakh. These are the average numbers.

And the average rate for business loan is around 18%, mostly they are backed by GST. Those who are paying GST on time, settle these on time. The breakup is, for example, 700-plus is 97%, 750-plus is 53%, 730-plus is 81%.

This is the breakup in terms of the Bureau score. It is a cash flow-based lending. And all integrations are there. We are able to disburse the loan in less than 48 hours. And if somebody provides the document fully digitally, we're able to disburse even in few hours.

If you talk about the turnaround time, we'll be in top 3 in the NBFC sector as we speak. And in terms of product proposition, though we have not done major branding or any kind of advertisement, but because of the mouth publicity and since very few NBFCs are able to give zero prepayment towards the business loan, we are able to source enough traction on the business loan side. The maximum TAT is two days, the minimum TAT is even 3 to 4 hours. And current 90-plus on the business loan side is around 0.15%.

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

Nischint Chawathe: On the unsecured MSME piece, what would be the average yield that you will be earning across the three pieces?

Abhay Bhutada: On the business loan side, as of now, the average yield is around 18.7% and we get processing fees, and we have started cross-selling of insurance also. We get insurance income of around 1%, and processing fees is around 1.8%.

Nischint Chawathe: The ticket size over here?

Abhay Bhutada: Here, ticket size is ₹ 17 lakhs approximately.

Nischint Chawathe: Given the fact that the ticket size is pretty decent, and the yields are kind of pretty good, do we really see competition getting into this segment and especially given the fact that we have profile of customers also appears to have a very impressive CIBIL score?

Abhay Bhutada: If you see the top private banks, mid-sized private banks, small finance banks or the top five NBFCs, they're already in the market. Poonawalla Fincorp, is the last entrant. If you talk about the competition, the same product which was already developed in the market started this business loan and Magma was doing SME loans. We continued only two products at our Poonawalla Fincorp level, which is SME, which is unsecured business loan and pre-owned car.

Magma was also already doing that product. And in fact, across all the sector broadly 80% to 90% of the lenders are operating in the same yield, same segment. The only difference is the segment which we are targeting, the kind of data analytics we are doing and the kind of process we have or the technology we have, there, we have certain edge and that's why we are able to maintain our current 90-plus.

Overall e-sanction, e-Nach, e-agreement, since day one, it was 100% digital, there is no physical signature required and its complete cash flow-based lending. And we don't do any new to credit here. We don't do if somebody is delaying their GST or any other statutory dues. The market is huge, total addressable market, with the segment which we are targeting, because of the zero prepayment and still, the rate is lesser than few of the small banks or few of the majority of the NBFCs, TAT is playing a key role here. And market is growing in this product. There is a good opportunity overall on the MSME side, business loan and on the consumer and personal loan side also.

Nischint Chawathe: And customers look at this as more of a sort of a bridge facility? Or I mean how long is like the duration on the loan side?

Abhay Bhutada: The tenure is 36 months for this product.

Nischint Chawathe: So how long does the customer stay? I mean your contracted tenure maybe 3 years, but typically, customers won't stay for 3 years, 2 years, 1 year.

Abhay Bhutada: The average tenure will be around 30 months. Though we are offering zero prepayment, but hardly if you see the segment which we are targeting, they require cash of a working capital limit. So as of now, considering the overall good growth in the market and the credit growth is also good and because of the strong product proposition, customer stickiness and customer loyalty, generally, that is happening with the bank. But here, despite of being a NBFC, your question is very valid. Repeat customers are more and customer stickiness is there. But average tenure, you can consider 30 months, considering prepayment and for a lot of our customers the cash flow is good. We give 12 months, 18 months, we have a 24 months and 36 months also. But average comes to 30 months for the business loan side.

Moderator: The next question is from the line of Shweta Daptardar from Elara Capital.

Shweta Daptardar: Congratulations on a good set. Sir, just one question. Sir, can you elaborate Poonawalla's collection model and infrastructure which is entailing confidence that credit cost will be continued below 1.2% of levels across cycles ahead despite expansion in unsecured portfolio?

Abhay Bhutada: If you see it's a hybrid model. We have a dedicated call centre, the centralized regional call centre. We have a huge manpower strength. And if you listen to our last six to seven investors con calls, we always mentioned that what was the main reason behind Magma aquation that was the collection infrastructure because they were into CV, tractor, agri and cash collection products. That was the main reason we wanted our collection infrastructure before we get into unsecured loan at a pan-India level.

Though we are talking about 100 branches, these are full-fledged branches, but we have collection people across pan-India. And we are doing in-house collection and for 90-plus, we are outsourcing. The segment which we are targeting, we are trying to restrict the credit cost at the time of onboarding itself. And we have more than 500 people as we speak on the collection side. We don't see any challenge till we reach ₹ 40,000 crores loan book that there is no need to increase any manpower. So, we have a digital collection, we have a physical collection, we have state-wise collection agencies also.

So, bucket-wise vertical is there. A lot of FOS, we have around 500 people outsourced as well. A lot of tele-callers are there, which are again dialer-based. Out of my total manpower, around 25% is into collection. We have a very strong collection infrastructure, as we speak.

Moderator: The next question is from the line of Shubhranshu Mishra from Phillip Capital.

Shubhranshu Mishra: Some of my questions have been answered. Just one question. We have been speaking about our Super App. But then there are other NBFCs, and banks also speaking about and have launched their Super App. So, what is our Super App going to do any differently? Or what is that edge that our Super App could have which probably some other large bank or large NBFC super app won't have?

Abhay Bhutada: Right. Very good question. When we did the detailed assessment of the market, right now, nothing is stopping us to acquire the customer because we are able to acquire via WhatsApp, call centre, via our website, via DSA, via our digital ecosystem, via our branches. The most important point here is the strong product proposition, and it is just like a value-added service. So, a lot of short-term loan, we wanted a straight-through process. We took two years' time because everything was ready at the back end.

If we are able to disburse via web version, via call centre, why can't via app? So, we have learned from the market. We have the last-mover advantage. But at the same time, if you see the overall rate of interest is on a higher side, for either a fintech or for any of the NBFC. Considering our cost of fund that gives us a straight benefit because for any of the fintech, the average cost of fund is around 12.5% to 13%. That is one.

Secondly, because of our brand and our existing customer base, everybody wanted up to ₹ 3 lakhs straight-through process. And this is like a pre-approved offer on the existing as well as the credit-tested bureau. When we analyzed the total addressable market, and did the gap assessment of top five NBFCs, top ten FinTechs and top five small finance bank and private banks, then we found that there is a big opportunity on the short-term loan side, the consumer loan side, small personal loan, but at the same time, why people will prefer Poonawalla that we have explained also on the Slide 22 of investor presentation.

We'll be able to give the loan flexibility. We'll be able to give the complete digital process. There will not be a manual intervention up to ₹ 3 lakhs. We'll be able to give it collateral free. It will be disbursed in less than ten minutes, 100% digital. The most important aspect is there are no hidden charges, zero prepayment and low interest rate. This will give us the advantage and the kind of data we have, which we have not leveraged till date.

We just waited for the right moment or opportunity. Now the time has come to leverage whatever data understanding and the strong experience we have gathered on this segment, and we have done a lot of partnerships in the last two years. Recently, we have not added any of the partner. We have very, very strong learning on the collection side, on the customer onboarding side, on the risk management side and with all these learnings, now we are launching this. We are super confident that, customers we will be able to onboard, yes, and a lot of branding & advertisement will be required, that shall happen over the course of time. We are confident of achieving good customer acquisition starting next quarter from our Super-App.

Because if your CIBIL score is 700-plus or 730, of any segment, and if you are still borrowing at a higher rate from top three NBFCs or top five FinTechs, definitely, you will get a chance to get at a low rate because you're not giving deposit. That market is huge, and we can discuss in the next call when we'll launch, about how much is the market and which segment we are targeting, how much will be the customer acquisition on a quarterly or monthly basis. And once we start mid of August, we'll be able to give numbers in the next quarter.

Shubhranshu Mishra: Understood. Just one question. What is the total amount of fees from FinTechs that we are upfronting? Because there would be a differential between 5% and the erstwhile FLDG norms that we had? So is there some amount that we are upfronting as fees.

Abhay Bhutada: The average yield is 13% there.

Shubhranshu Mishra: Right. Which will come down to 5%, right?

Abhay Bhutada: No. You are getting confused on the yield and the FLDG. FLDG is 5% for the digital and nondigital 20%, but the yield is 13%, that includes the processing fees.

Shubhranshu Mishra: How much is the processing fee?

Abhay Bhutada: So that gets added, depend on the partner to partner. Whatever is the AUM, we get a 13% per annum average yield on that book.

Shubhranshu Mishra: So, there would be a ballpark.

Abhay Bhutada: We are not sourcing on the fintech side, they are only sourcing. It's on a weighted IRR model. With everyone, they need to maintain that IRR on the interest and processing fee. Somebody is at 11%, somebody is at 12%, somebody is at 14%. The weighted average comes to 13%.

Shubhranshu Mishra: Sure. I'll take this off-line. Thanks. Best of luck.

Abhay Bhutada: Thank you.

Moderator: Ladies and gentlemen, we will be taking the last question. That is from the line of Prashanth Sridhar from SBI Mutual Fund.

Prashanth Sridhar: Sir, what is the Stage 2 and the total provision number for the quarter?

Abhay Bhutada: Total PCR is around 46% and Stage 2 is around 0.71%.

Prashanth Sridhar: Okay. And the total provision on like stage 1, 2 and 3?

Abhay Bhutada: Total provision is 1.36%. Majority is 90-plus, which is 46.43%, overall, 1.36%.

Prashanth Sridhar: Sure. And just on the short-term personal loan product. So, there is some credit cost which the FLDG partner bears and then there's something you bear, right? But on the product or from the customer's perspective, what is the credit cost on this product, including whether you or the FLDG partner takes it?

Abhay Bhutada: Right now, if you compare all the products, the average is less than 2% as we speak, but maximum was 4%. Everything covers under 5% FLDG, if it is digital and nondigital it is allowed 20%. So, till date, no one has crossed 4% on the 90-plus side.

Prashanth Sridhar: Okay. Even on the short-term personal loan.

Abhay Bhutada: Yes. 90-plus at their end can be 10%, 15%. We have a joint credit parameter, we have a joint credit policy and unless we agree on certain parameter and the policy, we will not be able to lend from our side.

Prashanth Sridhar: Okay. And when you say nondigital FLDG, this is what like the business loan secure.

Abhay Bhutada: I'm talking about the new RBI guidelines. If somebody is doing the entire process digital. The new guideline talks about, you can take 5% FLDG. If it is nondigital, which is not 100% digital process, then you can take up to 20% FLDG. I'm talking about the new digital lending guideline.

Prashanth Sridhar: Okay. Got it. Sorry, I think it was getting confused. And on your -- you said out of the DDP 86%, 25% is your own sourcing, right?

Abhay Bhutada: Yes.

Prashanth Sridhar: So that is predominantly in what product, the long-term personal loan is it?

Abhay Bhutada: All these products, if you see preowned car also, very few players are able to do 100% digital. We started and we got the advantage on a personal loan side, on the consumer loan side, on the small business loan side and on the MSME unsecured loan side, these are the multiple products wherein we focus completely digital.

Prashanth Sridhar: Okay. And the non-DDP part is where you're using DSAs? Is that right?

Abhay Bhutada: Yes. DSA as well as the branches also.

Prashanth Sridhar: What do you source through your branches comes to the non-DDP part?

Abhay Bhutada: That is not digital because we have a physical infrastructure. So, it's a hybrid model. We are capturing major market share there as well.

Prashanth Sridhar: How much would that be? How much would we be sourcing from branches?

Abhay Bhutada: So, branches sourcing will be approximate 5% of the total sourcing. We have a branch-lite model. Unless you want loan against property, preowned car, then only somebody will go and inquire at the branches. Otherwise, there is no need of a branch. Credit and operation is centralized. It is for cross-selling, and customer service, we have captured market in top 100 locations. In pre-owned car loan, loan against property, business loan, and we are able to serve walk-in customers there. But that is not our target, our focus is to source and serve digitally only.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Hiren Shah for his closing comments.

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

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of Poonawalla Fincorp, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.