"Poonawalla Fincorp Limited
Q2 FY 2023-24 Earnings Conference Call"

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MANAGEMENT: **MR. ABHAY BHUTADA – MANAGING DIRECTOR**
MR. SUNIL SAMDANI – WHOLE-TIME DIRECTOR
MR. HIREN SHAH – HEAD STRATEGY, BIU & INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to the Poonawalla Fincorp Conference Call. 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, Zico. Good morning, everyone, and thanks for joining this conference call. It is our pleasure to welcome you all to discuss Poonawalla Fincorp's business and financial performance for the quarter ending September 30, 2023. To discuss all these in detail, I have with me, our Managing Director - Mr. Abhay Bhutada, other senior management officials and myself Hiren Shah, Head - Strategy, BIU & Investor Relations.

I would like to take this opportunity to extend our warmest welcome to Mr. Sunil Samdani, who has joined us as an Executive Director. He has expertise and extensive experience of over 20 years in the banking and finance sector and we are excited to embark on this growth journey together. Now, I would like to request our Managing Director - Mr. Abhay Bhutada, to brief you all about the company's operational and financial performance along with development for the quarter ending September 30, 2023. Over to you Sir!

Abhay Bhutada: Thank you, Hiren. Good morning, everyone.

I welcome you all to today's earning call and trust you are all doing great.

Before I take you through our performance and highlights of the quarter gone by, I would like to give you a quick sense of the market, the opportunity it represents and how we are well placed to leverage this opportunity thereby partnering in India's growth story and enabling dreams of our customers.

India is one of the fastest growing economies with GDP expected to grow @ 6.5% plus over the next 5 to 7 years. Our per capita income is expected to rise by 80% by FY31. Government initiatives such as Make In India, Production Linked Incentive schemes, massive infrastructure push are driving growth and increased employment while favorable demographics continue to drive consumption. This along with Digital-India theme, faster digital adoption provides both unique and significant opportunity to our lending solution through digital first tech-led approach for the rapidly growing mass middle income and high-income segment.

With the completion of Q2FY24, we are midway through this financial year and what makes me happy is our remarkable progress on the stated path as per our guidance. I am glad to share that we have recorded the highest ever quarterly disbursement, strong growth in AUM along with robust asset quality, which is resulting in the highest ever quarterly profit after tax.

Our team is focused on execution and has been instrumental in our progress and sets up for an exciting second half of FY24.

Now, let me take you through the key numbers for the quarter and the half year ended September 30, 2023.

We reported our highest ever quarterly disbursement of ₹ 7,807 crore which is up by 151% Y-o-Y and 11% Q-o-Q. During the last quarter, we started offering instant personal loans through our recently launched cutting-edge mobile app, a step forward in shaping the financial landscape and as per our strategy of going direct, going digital, going organic. Disbursement under DDP constituted 81% of the total disbursement in Q2.

Speaking about AUM, we crossed milestone of ₹ 20,000 crore during this quarter and stood at ₹ 20,215 crore, reflecting a growth of 54% Y-o-Y and 14% Q-o-Q. We have come a long way in terms of AUM growth, which was ₹10,563 crore at the time of acquisition, this is the standalone number.

Coming to the composition of our total AUM, MSME constitutes about 35% of the total book, followed by personal and consumer finance, which stands at 22%, pre-owned car contributes 15%, followed by loan against property at 14%.

Now secured is almost picking up because target is again to focus on Loan Against Property (LAP) and Pre-Owned Car (POC), machinery loan, medical equipment loan, apart from unsecured book. Secured to unsecured ratio of the loan book stood at 46%:54%. The secured book is growing at a steady rate as disbursement in LAP and POC continue to grow. With longer tenure in LAP book and POC average tenure of three years, we expect our secured book to continue to grow.

On the tenure mix of our loan book, short term tenure is 12 months which is approximately 27% of the total book, fairly in line with our guidance of 20 to 25%. Similarly, the medium to long-term loan of more than 12 months are at 73% against the guidance of 75 to 80%. The ideal tenure mix is helping us to improve our profitability while keeping the AUM growth intact.

We continue to be a national player with our presence across 19 states having a branch network of 102 branches. The portfolio continues to grow across all our markets, and we have a well-diversified geographic spread of portfolio with no large market concentration. Our portfolio is also well diversified across MSME and the consumer segment.

Asset quality continues to be robust and in line with our guidance. Gross NPA stands at 1.36% down 41 bps Y-o-Y, 6 bps Q-o-Q. While net NPA is at 0.72% down 22 bps Y-o-Y and 4 bps Q-o-Q. We continue to have one of the best asset quality, as we build a portfolio with a very different kind of customer segment. Our asset quality is a reflection of our credit policies of giving loans to bureau-tested customers. Our provision coverage ratio stood at 47.2%.

We continue to optimize our cost of borrowing further; it stood at 7.98% for Q2FY24. There is a drop of 6 bps Q-o-Q down from 8.04% in Q1FY2024. We have been able to manage our cost of borrowing well despite rate hikes earlier. As we move ahead further, optimization of the cost of borrowing will continue. As guided earlier, we will borrow a lot through commercial paper. There is no ALM issue as such. Our net interest margin was 11.42% during the quarter, up 106 bps Y-o-Y and 2 bps Q-o-Q.

Our operating efficiencies continue to improve further. The Opex to AUM ratio has come down by 20 bps from 4.38% in Q1FY24 to 4.18% in Q2FY24. The reduction in Opex ratio signifies the productivity enhancement achieved by us. As we grow, this ratio will continue to enhance further.

The interplay of all the above has resulted in superior profitability. The operating profit for the quarter of ₹ 336 crore which is up by 167% Y-o-Y and 14% Q-o-Q. Profit after tax stood at ₹ 230 crore up by 77% Y-o-Y, 15% Q-o-Q this is excluding the impact of exceptional item. Our return on asset ratio was at 5% during Q2FY24, which is up by 96 bps Y-o-Y and up by 19 bps Q-o-Q.

In line with our strategy of strengthening our organic distribution, we have launched our mobile application on both Android as well as iOS platforms. This app will give impetus to our customer lending as it makes instant credit available in a convenient manner. With the launch of our own app platform, we have also discontinued fresh origination through co-lending for unsecured personal loans and other products since we will continue to serve already on-boarded customers only. We will continue with only secured co-lending in two-wheeler and machinery loan going forward, that too with very selected players that ratio will be almost negligible, but we have completely stopped fresh on-boarding of customer via co-lending since we are able to onboard lot of customers through our app and web journey. This will mean that more customers will engage with us directly across the full loan life cycle. This will help us to penetrate deeper into the digital lending ecosystem, drive engagement by bringing us closer to our customers, meet not only their borrowing needs but also their wellness, investment, and other financial products requirements going forward. A direct engagement will also enable us to provide differentiated user experience throughout the customer life cycle and significant opportunities to cross-sell. This coupled with superior products, transparent terms and conditions shall create customer delight in true sense with increased efficiencies and further enhance our profitability.

Our focus here will be on ticket size upwards of ₹ 50,000, since we have done AUM of only ₹ 4 crore below ₹ 50,000 ticket size, so we are targeting ticket size above ₹ 50,000. As of date, our average ticket size is more than ₹ 80,000. I wish to share certain key information pertaining to digital consumer lending.

A total opportunity of $720 billion by 2030; currently it is at $190 billion plus. Consumer lending market to grow at 22% CAGR from 2023 to 2030. Further, digital customers expect effective, transparent, prompt customer care services, attractive interest rates, no hidden charges, no false promises. Poonawalla Fincorp ticks the boxes in all the above parameters and its motto has been full transparency with no hidden charges.

This quarter we have also received approval for co-branded credit card launch. This will be a complimentary product to our existing product basket as it helps us to engage with customers in their day-to-day transactions. With the increased penetration of digital payment, co-branded credit cards will make us an active participant in the payment ecosystem. It also provides a sizable opportunity to market yet another product to our existing and ever-increasing customer base, enhancing our cross-sell opportunity. The card will have a unique customer value proposition and will come in three different variants based on the customer category. The prime card will be a lifetime free card in line with our no hidden charges' philosophy and will offer attractive features for driving the customer's usage.

During this quarter, we have created onetime provision of ₹ 1,298 crore largely on the standard advances, this will act as a contingency buffer against the legacy or discontinued loan portfolio, which includes DA existing book of ₹ 910 crore and contingency buffer of ₹ 388 crore against the new book, though the new book is performing well.

Q3 also marks the beginning of festivities, and I would like to offer my warm wishes to all of you. We expect the festive season to bring in even more cheers in H2 and we are all geared up for the same as we remain focused on delivering consistent superlative performances.

I will also take this opportunity to welcome Mr. Sunil Samdani who joined us as the whole-time director. We look forward to leveraging his deep expertise in our growth journey and wish him all the best and long rewarding career with Poonawalla Fincorp.

Now, I will give you a quick walk through of differentiation and the transformation journey so far. I think the last two and half years have been both exciting and fulfilling. I would start with the differentiation piece first, as we have transitioned from old Magma from being any other NBFC to being a well differentiated player.

You can refer to page 10 of the investor deck. In this crowded NBFC market, we have been able to create a niche for ourselves with strong differentiation. When we acquired Magma in 2021, we took some tough decisions which were quite revolutionary. These decisions included decisions like changing the product basket, changing the customer segment, discontinuation and consolidation of branches, re-skilling the manpower and reducing the headcount with focus on productivity. The reason we were able to take these decisions was because we had a well thought out strategy and most importantly, we were willing to walk the tough path. We knew that this would require an extraordinary effort from us to pull it off and we did just the same thing. We remained focused and put our heads down, kept working on the same and the results are there to be seen.

While the industry has been trying to replicate what we have done, however we have looked at real metrics, none comes anywhere close to what we have been able to do. We pioneered building a truly digital play NBFC. Today amongst NBFCs who aspire or claim to be a digital play, we have not seen anyone who have productivity and efficiency like us, who have moved to a lean branch structure, who remained focused on being a retail lender and have transformed themselves with adoption of technology resulting in manpower reduction. I think the reason we have been able to do it is because we have a deep-rooted entrepreneurial mindset across the organization.

We have made great strides as a digital first technology led NBFC. This is because we have a digital mindset and do things in a way with technology as an enabler. We were aware that transitioning the entire functioning across the company after such an acquisition would require an overhaul. By remaining true to our vision and digital outlook, we have been able to do it successfully. This is something which we see as a challenge with a lot of our peers, who are caught between legacy and digital.

Our strategy is well carved out and we articulated our vision 2025 at the time of acquisition with a strategy of "consolidate, grow and lead". The clarity of strategy and execution of the same is one of the biggest differentiators for us. We are the only NBFC who targets prime bank customers as we want to build a portfolio which carries less risk and will be resilient in case of any downturns. Our focus is not on spreads but on ROA delivery. While the spreads may come down over a period, however adjusted for risk, the returns will continue to be as per our guidance.

In today's context, the lending business is not just about giving loans but also understanding the ever-evolving customer behavior. This change does not just have an impact on the product offering but also on the experience that you provide for the offering and how the organization, people, process, presence are aligned. We work closely on this and have kept it as our focal point in deciding or designing the products, processes, people, and presence. From manpower alignment to technology intervention, from product offering to process design, we have aligned it all to customers' needs.

Finally, we have a strong fundamental, which enables us to deliver all this. One of the rare AAA rated NBFC, with strong capitalization and now backed with an excellent track record of consistent performance of more than 10 quarters, our strong base of performing portfolio, which is well diversified, makes us a strong player for a sustained superlative performance for future.

You can move to page 11 of the investor deck. We would want to reiterate on the model, which is a digital first and a branch-lite model and focuses on building efficiencies. Leveraging technology and innovation is at the core here, coupled with certain product differentiators, which are very relevant as they bring customer centricity to the core.

As we know there has been a lot of focus from the regulator on the fair practices to be followed, including the charges being levied to the customer, not just at the onboarding but also during the loan lifecycle post disbursement. We have always upheld customers' interest and deal with full transparency. We do not levy any hidden charges to the customers and have been the first ones to offer a zero-prepayment option to the customers. This provides not just flexibility for our customers but also helps us build a strong bond with our customers.

Our brand lineage and strong leadership team has helped us to execute the model with full prowess.

Now moving to page 12, which focuses on the customer segment differentiation. At the onset, the dimensions are part of the strategy. Our customer segment differentiation is an extension of our strategy of focusing on the low-risk segment.

Coming to the product segment, we are focused on consumer and MSME, however we do not focus on commercial use assets as a conscious choice. We have seen that these portfolios could provide higher yield but when adjusted for risk, the returns are not in line with what we want, hence have consciously stayed away from them. Some of our peers have been operating in the segment and clearly have shown a lot of cyclicity in these portfolios. Also, we believe that the core of the organization or the DNA of the organization required for this portfolio is very different. With ample open spaces in our chosen segment and our inherent strength, this segment is not a value accretive segment for us at the current stage.

Moving on to the markets, we are focused on Urban and Semi-Urban market as we see lot of market opportunity to be exploited there for next 4-5 years. We would want to expand the wallet share there, further better our efficiencies and leverage them for superior profitability through economies of scale. While the rural market offers higher yields, the risk adjusted return has been little muted for the last few quarters. At the current point in time as we grow at 35 to 40% Y-o-Y on our AUM, we would continue to go deep into markets where we operate rather than spreading ourselves thin.

Further looking at the credit profile of the customer, we do not give loan to new to credit, we operate in 700 plus score segment. This helps us ensure we have a portfolio with higher resilience. While the customer bureau score is a good determining factor in risk, we have further coupled it with ticket size as well. Higher ticket sizes within the product lines we have chosen clearly to perform better. In line with this, if you see we operate in the top quartile of ticket size across all our product lines.

To ensure we operate in this top quartile segment, the assessment methodology is tuned to it with customers coming through the door, post income verification-based underwriting. We do not encourage surrogate programs, as we want to limit the risk and have better profile customers, who will have higher resilience in case of any downturn. Further to eliminate fraud risk for income validation and verification purpose, we collect income related documents in a digital way. This close loops our income assessment and its fraud mitigation in our processes. That is why now we have become the lender of choice, and we get the choice of rejection for on boarding the customers.

Finally, as we follow this approach of picking up customers meeting our criteria, we top it up with a sweetener of most competitive pricing offer to customers meeting our risk acceptance criteria, giving us the choice of selection.

To sum it up, for a customer to be onboarded, the customer needs to go through this tiered approach for a given product of market, bureau, ticket size, income and then if found meeting our risk acceptance criteria, we will give an offer at most competitive pricing in the entire sector.

Moving to page 13, this has helped us build a strong engine which is helping us scale up continuously in a sustainable manner in terms of asset quality, operational efficiencies, and better customer experience. The superior RoA numbers are a testament of the same.

Unsecured loans have been a discussion point across the industry so quickly touch upon that here, which is covered under page 16. Like any product in short-term personal loan, there is a segment which gets primarily serviced through a particular lender type. If we look at the funnel that exists, you can broadly look at the segment bifurcated by ticket size. The segments are up to ₹ 25,000, next bucket is up to ₹ 50,000, and last is more than ₹ 50,000. Typically, if you look at this from the risk funnel perspective as we move up in terms of ticket size, the risk tends to reduce. The bureau data shows a clear differentiation between the ticket size of less than ₹ 25,000, above ₹ 25,000 and above ₹ 50,000. The glaring difference is more than 5x in 30 plus delinquency and 8x in 90 plus as reflected in the bureau data. This calls for prudence to be exercised in terms of on boarding these customers. Typically, small tickets are used as a customer acquisition engine by Fintechs and then as the ticket size moves up, NBFC and mid-size banks come into play. As a part of our risk strategy, we focus on the higher ticket size segment from day one and we price the risk accordingly. Our loan book of below ₹ 50,000 is less than ₹ 4 crore. Our philosophy of looking for risk adjusted returns rather than IRR can be seen in the play. Our average ticket size here is above ₹ 80,000, which means that the expected losses on this portfolio are to be in line with what we see on above ₹ 25,000 segment. Trust this would be helpful to understand how our segment is different in the small ticket personal loan market.

Now take your attention to page 15 of the deck, which provides some metrics of our transformation journey. These metrics are reflective of the organization that we are building, with focus on digital first technology led play. The numbers on AUM growth, cost of borrowing reduction, drastic asset quality improvement, productivity enhancement, profitability improvement, branch consolidation, manpower consolidation, digital tech led model and technology leveraging reflects the efforts taken by the entire team to make this transformation a reality.

Thank you everyone and now we can start the question-and-answer session.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Sameer Bhise from JM Financial please go ahead.

Sameer Bhise: Hi, thank you for the opportunity and congrats on the strong set of numbers. I have a few questions. So firstly, on the provisions, last quarter the discontinued i.e., the Legacy book and the DA book was roughly ₹ 1,750 crore and as per this quarter disclosure the entire book which is clubbed under Legacy and DA is roughly ₹ 2,200 crore, so what explains this ₹ 500 crore gap? Is it from some of the continued legacy products is that a fair assessment.

Abhay Bhutada: Yes, thank you Sameer, so you are right. See what we did this time is that we have differentiated continued legacy also in a discontinued because underwriting parameters were different so what you can see on page 24 investor deck asset under management, discontinued, legacy and DA book this includes the discontinued legacy, continued legacy and the old acquired DA book and the newly acquired initial DA book. So, this comes to

₹2,215 crore and since last six quarters we have not acquired through the direct assignment or any of the portfolio from any bank or NBFC, so this is completely discontinued and out of this ₹ 2,215 crore, we have created a provision of around ₹ 910 crore and remaining ₹ 388 crore you can see this is a contingency buffer against the new book. Though the new book is performing well, we have created a contingency buffer against the one-time housing profit.

Sameer Bhise: Which is also reflected in slower growth in LAP and the pre-owned car products on a sequential basis?

Abhay Bhutada: Actually, the growth is higher. If you see AUM of last quarter and this quarter, we have mentioned in the note also, the DA book that we had earlier classified in the respective continued product of loan against property, business loan, SME loan and pre-owned car loan, now we have completely declassified from the business loan book, SME book, the pre-owned car and the LAP into the discontinued legacy plus DA book., So there is more than 20% growth or 25% minimum growth across all the product categories. We have completely done the reclassification between continued book and discontinued book.

Sameer Bhise: Would you be able to share the stage one stage two numbers on a sequential basis on the entire AUM.

Abhay Bhutada: Sure. If you see last quarter including stage 1 and 2, the number was ₹ 122 crore, which was 0.71% across entire loan book; now it is ₹ 1,395 crore, which is almost 7% on the book. As I mentioned we have created enough buffer against the discontinued book as well as on the new book. So, from 0.71% to ₹ 1,395 crore, though there are hardly any roll-forward in stage two, stage three bucket in last quarter or during the current quarter since the new book is performing better than the expectation, but we have increased the buffer on stage one and two against the discontinued and continued book as well.

Sameer Bhise: But this entire portfolio against which the provision is created is classified as stage two.

Abhay Bhutada: Stage-1 and 2, so basically if you see the breakup of ₹ 1,395 crore against stage-1 is ₹ 1,252 crore, stage-2 is ₹ 143 crore, so stage 1 and 2, this comes to ₹ 1,395 crore, stage-1 is 6.71%, stage-2 is 23%, and Stage-3 is around 47% so stage 3 is ₹ 125 crore. So, this is the total ECL of ₹ 1,520 crore. So, there was no need for the majority of the provision in stage 3. This is more like contingency only against stage 1 and 2 and majority towards the standard asset advances towards stage 1.

Sameer Bhise: How would you look at the recoveries from these provisions created?

Abhay Bhutada: So, we are trying to recover whatever is the maximum possible though we have done a consolidation of manpower and the branches. However, as per our collection team's analysis, out of this ₹ 910 crore, we can expect 50% write back.

Sameer Bhise: Just quickly on the revenue momentum, one would have ideally expected a stronger NII this quarter given the AUM growth, while NIMs continue to hold up well but given that AUM growth is so strong one would have expected NII to also kind of catch up with that.

Abhay Bhutada: In the last 2-3 quarters, we have given a guidance that NIM on a steady state basis will be above 10%, so despite of increase in the interest cost in last 2-3 quarters and full impact of interest rate, there is no decrease in NIM that is one. Secondly, in the last 2-3 quarters we are continuously either writing off or it is getting run off the old legacy book that was at a very higher rate so that is the second impact, and we are the lowest in the sector in terms of rate of interest. If you take the top two top three NBFCs, I think right now most of our interest rates, we are able to top three private bank and this we are continuously reiterating and mentioning in every investor call that the customer segment is different. We have reduced rates further because our thought process of choice of rejection so whatever we are doing, bureau scrub of the rejected data, it is clearly visible; even 70% of our rejected data is being funded by the top three NBFCs or top three private banks, that itself is the validation of the business model as per the bureau data and the target is to focus on asset quality and stick to our long-term guidance, whatever we have given of profitability, ROA. The focus is on operating profitability, so NIM, on the long term basis, we will be able to maintain above 10% because the target is not just to target a higher risky segment, target is not to take any deviation in the policy and we will continue with our choice of rejection thought process. So that is why you will see there will be a reduction but if you focus on operating profit, if you focus on PAT/ROA level and all other guidance, I think we will be able to deliver what we have guided.

Sameer Bhise: Is there room for Opex to go down further like from efficiency perspective.

Abhay Bhutada: Last quarter Opex to AUM was 4.38%; as per our guidance, this quarter it has reduced to 4.18%. This includes an ESOP charge of ₹ 20 crore and by end of Q4 of the current financial year it will be below 4% and next year you can expect further reduction. So, on a Q-o-Q basis you can expect further reduction on the Opex side because a lot of consolidation has been done on the legacy system, legacy manpower and branches. Now since we are done with that, you will see the result in the reduction of the Opex in terms of percentage going forward.

Sameer Bhise: Fair enough. That is all from my side. If I have any follow-up questions, I will join the queue. Thank you.

Moderator: Thank you. Our next question is from the line of Kaitav Shah from Anand Rathi. Please go ahead.

Kaitav Shah: Thank you for the opportunity and good afternoon, Sir. Sir, my first question is if you can guide us more on the sourcing mix what it looked like during this quarter and going forward of course you mentioned that you are going to stop the partnership model so if you can guide us what will be like from DSA, own sourcing, and discuss a bit about how you are going to generate more traffic through your app I mean through more organic channels?

Abhay Bhutada: Basically, the focus will be on growth of the AUM which is 9 to 10% Q-o-Q, and the disbursement will get adjusted as per the requirement of the AUM in terms of guidance of short-term and long-term. Now we are focused on medium term & long-term loans and not on the short-term loans, that was the initial strategy. And to control the growth, we have stopped this co-lending piece also on the unsecured side. On the secured side, since we have sold the housing business, we are doing co-lending as of now only with one or two players in the two-wheeler segment, that too is a small amount of ₹ 30-40 crore per month. On the unsecured side, we have stopped sourcing of the new customers, because since we have launched our own app and the web journey, which is a straight-through process, 100% digital end-to-end process, no manual intervention and you can get up to ₹ 5 lakh loan in less than 10 minutes.

On the disbursement breakup side, secured 29%, and unsecured was 71%. On the Q2 disbursement breakup side, MSME was ₹ 3,393 crore, personal loan ₹ 3,000 crore, pre-owned car ₹ 582 crore, LAP ₹ 693 crore and machinery loan, two-wheeler loan, medical equipment loan was ₹ 141 crore, so total comes to ₹ 7,807 crore. On the partnership side it was around approximately 40%, on the non-partnership side it was 60%. But, as I told you, the total AUM of the partnership is less than 14% and other than co-lending it is 86%. Out of ₹ 20,215 crore of AUM, ₹ 17,350 crore is other than partnership, partnership is around ₹ 2,865 crore. As per our guidance, by end of March, it will be less than 10% and going further over the next 3-4 years it will reduce further, by end of March, more than 90% of our book will be organic AUM book.

Kaitav Shah: Got it. Sir, second question would be around the current disbursement mix if you can give that breakup?

Abhay Bhutada: So current disbursement as I told you, in the Q2 MSME including LTP, SCF and BL was ₹ 3,400 crore, personal loan ₹ 3,000 crore, pre-owned car ₹ 582 crore, LAP ₹ 693 crore, machinery loan, medical equipment loan, two-wheeler loan put together ₹ 141 crore, this comes to disbursement of ₹ 7,807 crore.

Kaitav Shah: Got it and in terms of the strategy forward so as you mentioned that the smaller ticket size loans in the PL space might be coming off but through the app do you have to spend more on digital marketing? How is it if you can just briefly explain what the strategy is going to be, or do we expect that the run rate for customer increase that we have seen over the last one-and-a-half years is probably going to come off a bit? How do we look at that number?

Abhay Bhutada: If you see right now, there is an organic download, we just launched the app one month before and we have more than three million customer base and ever served is more than six million base. So, considering the entire book and we do not give new to credit, the total bureau base available with the scrub data at our end, the whitelisted is around 8 to 9 crore and considering that, I think we do not see any challenge in onboarding the customer. We have tested enough with multiple partnership, co-lending at our own end everything across all geographies across all ticket sizes, across all the segment and we have not taken any hit because that was covered under the FLDG model. So now we are confident of, since we have launched the SMS, WhatsApp, tele-calling team, in-house, outsourcing and the entire digital team is there, so we do not see any challenge for on boarding the customer. As per our AUM requirement of 8 to 10% on short term and long-term, we will be able to acquire the customer and we get a good IRR in the processing fees, insurance income and interest rate also, so risk premium will get adjusted according to the credit cost and whatever is the cost of acquisition around 3 to 4% will get amortized automatically according to the processing fees and the insurance upfront income. So, we do not see any challenge there, because over the next one year, will do maximum marketing to our existing customer base, which we have built over a period of the last 2.5 years, and the existing Poonawalla Fincorp database. So, from that perspective, we do not see any challenge and going further we have launched multiple campaigns. You must have seen in the media, we have started aggressively targeting the credit tested customers in our segment, that if you have a good credit score then Poonawalla Fincorp is the first choice and "Log Sawaal Toh Karenge Hi". This campaign we have launched recently, and we are getting good traction over there. So, we have already done a successful pilot disbursement of more than ₹ 200 crore, which is a big number and there are no hiccups, there are no challenges in the web journey on the app side also. We took time for the last two years and at the right time we launched this, and we got a good success. Kaitav to add on this, the IRR on that book is around 20% including processing fees and the insurance income; so, we have enough buffer for cost of acquisition as well as on the credit cost side and this segment is again different as compared with middle size private bank or the top three NBFC or the Fintech sector. So, there is no comparison because we are not targeting that segment, as my average ticket size as I mentioned earlier will be above ₹ 80,000, only ₹ 4 crore of the total absolute term number out of ₹ 215 crore book is below ₹ 50,000.

Kaitav Shah: Got it fine. One final question would be on the collection bit. So right now, of course the market going is pretty good and we are in a good scenario but how would you visualize building collection space going forward from here because you have achieved a certain scale today? So, is it going to be more physical, or you are going to be more digital in nature in terms of collection? What is your thought process?

Abhay Bhutada: We believe in creating infrastructure first and then launching anything. In the existing NBFC of Poonawalla group, we were already doing personal loan, professional loan, business loan, so there was a setup of collection infra at certain locations. The main reason, if everyone is asking and asked in the past as well, why we acquired Magma? It was because of its collection infra. If you see the industry trend of the parameter and if you can check it in the industry, I think the USP of erstwhile Magma, was its collection infra. Since, they were doing lot of cash collection, which was more than 60-70%, because of their products in nature of CV/CE, agri and tractor. So out of whatever is the requirement of the collection infra, that much we have consolidated and right now we have a physical and digital model but at the same time, we do not involve any kind of cash collection and we have enough existing collection infrastructure available. That is why, the collection infrastructure is ready at a pan India level, maximum we are doing in-house, few things we are outsourcing. The segment which we are targeting, we always focus on a first-time collection and for us the trigger is not 90 plus we operate in a different segment. The methodology here is 30 plus. We never talk about 90 plus, because most of the unsecured loan we write-off at 90 plus, we take pressure at the time of on boarding. This I have personally done for three years in TAB capital, when I ran my own NBFC, later for two years at Poonawalla Finance, there also we used to write-off at 90 plus and here since more than two years at 90 plus. So, for the last seven years, we have developed that habit of writing off almost everything in unsecured at 90 plus. So, again taking that pressure, since more than seven years and have seen multiple cycles, at the time of onboarding itself. As I told you, we have a huge collection infrastructure that was one of the most important factors while acquiring Magma, so there is no issue in the collection side. Though we do not expect that is already priced in the risk premium, but late stage will be on the field and that is available with us. So even before aggressively going on that market, we already have a collection infrastructure in place. But it is good that you asked this question, it is very important to highlight this to everyone.

Kaitav Shah: Thank you, Sir. That is it from me.

Moderator: Thank you. Our next question is from the line of Prakhar Sharma from Jefferies. Please go ahead.

Prakhar Sharma: Thank you Abhay for the presentation and very strong numbers, congratulations. Just two things I want to ask you in terms of disbursements if you look at the trajectory between 3QFY23 and 4Q you had a nice jump in terms of disbursement and thereafter the incremental buildup on disbursement has been far more rangebound, I just wanted to get some perspective, is there some discontinued business which is kind of diluting it down or should this be the more sustainable traction on disbursement that is my first question?

Abhay Bhutada: Thank you so much. Yes, prima facie, you are right. Now we have done enough write-offs and there is a run-off from the legacy book, which is one of the main reasons. Secondly, we have built a secured book of POC and LAP also and we have stopped co-lending on the unsecured side, so maximum focus now we have is on the LAP and the POC, because other products are settling properly as of now, so that is the main reason. So that is why rather than looking at the disbursement number, since we are focusing more on mid-term lending and the long-term lending, should focus on the AUM growth number going further. The disbursement number also will get settled four quarters down the line, because of the heavy rundown of the DA acquired book and the legacy book rundown.

Prakhar Sharma: I will take some data points later separately on this. Second I just wanted to ask you in terms of asset quality couple of questions around it so today your stage one, stage two ratios are based on a very high growth denominator and NPLs actually come with some bit of a leeway if you are growing 70% and NPLs come with a one-year lag then probably your Gross stage-3 and Net stage-3 ratios might be much higher than what the reported numbers look like so is there a way to share some cohort-based NPL ratio or through the cycle credit cost that we should expect in terms of the new book? That is one and secondly on the short-term personal loan side, you have given some insights on ticket size wise performance in the 30 DPD segment. What I wanted to ask you, you were in the ₹ 80,000 ticket size segment, is it possible to share the industry numbers in that category because the plus ₹ 25,000 number covers a very large category and I understand beyond ₹ 3 lakhs the number really falls off and ₹ 80,000 is not as strong as the ₹ 3 lakhs plus so can you just give some information around how is the 30 DPD in the ticket size of ₹ 80,000 ticket sizes?

Abhay Bhutada: If you talk about the existing performers, I think 2-3 parameters we need to look at. Though somebody can say we have just completed 2.5 years and we have not seen the cycle, the part here is the customer is from the formal income segment, it is bureau tested, they have business vintage, they have bureau vintage, most of these people are paying GST on time, TDS on time, their other payments on time, and we accept only PDF banking. There are very few players who stick to all these things. We do not take any deviation in all such things. If you see our unsecured loans, with all these tested in the existing NBFC, their book was more than ₹ 2,000 crore pan India, we tested everything in the Poonawalla Finance, so that very few people are aware that this is the second stint of Poonawalla group, though size was small, but we tested unsecured at pan India level. Later on, we wanted to go for secured, collection infra, branch network that is why we acquired Magma. So, our unsecured loan, the overall GNPA on March 2023 on the new book was less than 0.4% and if you talk about the unsecured loan if you say 90 plus overall itself is less than 0.70% plus, so here first time collection and 30 plus these are the main important figures, so right now if you talk about our MSME lending where GS3 is only 0.49%. If you talk about personal & consumer, it is around 0.9%. If you talk about LAP and POC, LAP is around 0.3% and pre-owned car is around 1%. So, these are the new books and there is a vintage towards that book also and considering the segments which we targeted, we do not see after seasoning of two years or three years or five years, there will be drastic increase in terms of these kind of numbers also that is one. Secondly on the ticket size of between ₹ 50,000 to ₹ 3 lakh again there is a market for short term and a mid-tenure loan for starting from 6 month to 36 months. There is a segment where we have explained this on the business side if you see our initial customer illustration, which we have given on slide number eight, that we have given on the business loan side. Same if you talk about on the personal loan side, if somebody with a credit bureau history, with a good income, wants a good user experience with app or web journey, so what are the choices available with zero prepayment and less rate, so there is hardly any choice available. You yourself can explore in the market, you can do the study either you will get immediate disbursement from lot of Fintech, but IRR will go above 40% that segment is different, if your CIBIL score is 750 plus or even 730 plus what are the options available if you want all the three things, like user experience, complete digital documentation, end-to-end digital process. What are the options available with zero prepayment? Hardly any option is available and that is why we are constantly telling this to the market, that the model itself is unique and you cannot compare this model with the top three NBFCs or with top three private banks or top three Fintechs. It is a combination of Fintech, Bank and NBFC. User experience we are giving like a Fintech, practical approach, cash flow based lending approach is like NBFC thought process, but at the same time customer base is like a private bank. As we mentioned to Sameer just now, after the bureau scrub also when we checked 60 to 70%, even despite of 700 plus score, most of the cases are getting rejected by Poonawalla Fincorp. What is the reason? Because the base is so low, there is no pressure on disbursement of AUM growth. Against our guidance of 35 to 40% we have grown at 55%, so PL if you see 95% cases is above 710 score, 62% is 750 and above score, business loan 97% and above is above 700, loan to professional also, POC also, LAP also. So practically if you see the segment, if you compare it with the bureau, it is far far different than the top three NBFCs. Why I am always reiterating in the last three-four calls, but always there is a question on the cycle on the seasoning. But when we see the bureau data, it talks something different, because expected credit loss if you can ask to bureau of the Poonawalla Fincorp's customer base, it is much much lower than the top three private banks including top NBFCs also. So, we do not have any kind of pressure to grow, the base is very low, and we have a diversification of product. We do not see any challenge of growing 35 to 40% unless we cross ₹ 60-70,000 crore AUM in the next four to five years. So that is the reason the segment is different and on the personal loan ticket size there is a huge market, that is why we launched that campaign of "Log Sawaal Toh Puchenge Hi" because when we saw in the bureau, lot of people with 730 plus, because there was no option available. When we did our internal survey with a lot of customers, we got to know there was no option available to them as an NBFC, as a Fintech, as a bank who can qualify for all the three. Of all the lot of the good community, those who are available on the call, I am sure more than 95% people will be having more than 700 or 750 plus CIBIL score. It is all self-explanatory, if you go to market, call the customer care, go to website, go to app of top two NBFCs and top two private banks, you will realize the TAT, you will realize the processing fees, you will realize the product proposition, you will realize the user experience and then combination of all, then you will realize how many players are available. I think the total addressable market segment which we are targeting, that is why we are confident in that segment in which we operate, the opportunity is huge, and we do not see any challenge in that segment.

Prakhar Sharma: Thank you Abhay for such a detailed response and my best wishes. Thank you.

Moderator: Thank you. Our next question is from the line of Sanjeev Patkar from ENAM AMC. Please go ahead.

Sanjeev Patkar: Hi Abhay, congratulations for fantastic set of numbers. You have been executing your strategy quite well, which is very clearly reflecting in numbers. This one-time buffer creation also takes a lot of issues out in terms of queries I am sure all of us would have had at various points in time. My question is on the sustainable growth that this business model can deliver with the differentiated approach of an unconventional existing in credit customer being targeted. How big is this market size and given somewhere in your discussions I think you did cover but maybe if you can be more explicit and in that sense are we actually under promising the kind of growth that we can deliver?

Abhay Bhutada: So, if you see the total addressable markets across all the segments, one is the total market addressable opportunity in any of the research report you get only what is the total market available for personal loan, consumer loan or MSME. We are not talking about new to credit. We are not talking about the total addressable market. We are talking about the addressable market of the bureau tested customer. Why we are talking about it, requires lot of courage to target and guts to target this segment and despite of that we do not charge any hidden charges, no non-commitment charges, no penal charges, and very transparent product and strong product proposition with zero prepayment charges and rate also. Why we are able to achieve this, that also we have explained because of the low Opex, we are CRISIL AAA rated NBFC and because of the low credit cost and our leverage is also at around 1.5 level. So practically if you see because of all of this, the segment which we operate in, either it is a pre-owned car, either it is a loan against property or any of these when we see the bureau data, we get to know the sector also. What is the total currently sector-wise loan outstanding, cooperative bank, regional rural bank, private bank, small finance bank, NBFC, bigger NBFC, top five midsize, middle layer, all these Fintechs, top Fintech, smaller Fintech, what is the total outstanding loan book available. Tentatively, we can judge because we have a market insight from the bureau, you can get to know a lot on the basis of imputation and other things, what are the charges and rate of interest. When we started targeting these customers, we did more than 9,000 chartered accountant on-boarding and we did more than 60-70% of balance transfer. CAs are one of the best those who understand rate of interest, transparency, flat rate, reducing rate, then that was a validation yes there is a huge market because nobody is targeting this market. Lot of MNC banks used to target on the commercial side, on the retail side the top-notch customer, so I can say the same segment, when we did the analysis, we thought yes there is a big opportunity and our thought process to target this opportunity. So we will not try to do any kind of new to credit or any risky customer and customer there will be enough bureau history, enough digital data points are available, PDF banking is available, lot of other data points are available, then only we will target that customer, but we will stick to our segment. So here we can clearly see, I think, AUM growth of 35-40%, we do not see any challenge. We have not given any extraordinary guidance because the base is low again a lot of people get confused with this growth rate. See we are not at ₹ 1 lakh crore or ₹ 2 lakh crore, then it is very risky to grow at that level, then you need to start developer funding, wholesale loan, you need to do lot of LRD and large ticket size bigger funding. At this scale, at a base of ₹ 20,000 crore, with retail itself we will be able to achieve ₹ 60-70,000 crore kind of AUM and across all the products, the balance transfer opportunity, the options to the customer, the unique business model and the expected credit growth going further for next six, seven years, I think we will stick to our guidance of 35 to 40%. And with regards to what you talk about, the overgrowth or over delivery that is not in our hands. Reason being, now we have launched the app, we have launched the web, full-fledged 100 branches, targeting major market share at the top 100 market, so we are not losing share there and there is enough amount of mouth publicity in the market; a lot of customers across all product range, if you check in the market, they are trying first at Poonawalla Fincorp. Since last four quarters we are continuously telling this in all our investor call, our rates are lowest in the entire NBFC segment and that is why we get a choice of rejection. So, we do not see, Mr. Patkar, any challenge in terms of AUM growth for the next four-five years.

Sanjeev Patkar: Thanks Abhay. All the best.

Moderator: Thank you. Our next question is from the line of Mayuresh Joshi from Willim O'Neil India. Please go ahead.

Mayuresh Joshi: Thank you so much for this opportunity. Thank you so much Abhay for your detailed responses and a fabulous set of numbers that Poonawalla has reported. I have a few questions, the first one I think you just elicited right now in terms of what transformation Poonawalla has achieved in the last two-and-a-half years. So, I just wanted to understand what you briefly mentioned as well in the previous question. What is the exact plan to achieve what we want to acquire or what we desire in the next three years, do we have some definite steps to achieve some target that we have kept over the next three years?

Abhay Bhutada: Right, basically in the next three years, we want to grow across all the product segments. As per our guidance, we have told 40% will be secured, 60% will be unsecured, so it looks 60% unsecured but lot of professional chartered accountants, doctors we have covered under unsecured, lot of those who are paying GST absolutely on time, they fall under unsecured, but they have their own factory, they have their own residence, the bureau vintage, the business vintage, so technically if you do their in depth analysis, so it is not that much unsecured. Because blindly we are not giving loan to new to credit or riskier segment or for example on the chartered accountants, a lot of players give loan only on the basis of certificate of practice. Despite having a low leverage, despite having a low Opex, despite somebody who is a chartered accountant, we do not give loans only on the basis of a certificate of practice, still we take banking, we take a lot of data points. So, as I told you, that is why we always talked about we are a unique combination of Bank, NBFC, and Fintech. So, we have very stringent underwriting norms, traditional underwriting as well as digital underwriting, so it is a mix of both. We do not take deviation on that front, so on the unsecured side 60%, secured 40%, pre-owned car, loan against property, personal loan and business loan and machinery loan, equipment loan, two wheeler loan, all loans you will see product-wise growth over a period of next 3 to 5 years and we will continue to add more product like loan against mutual fund which are digital in nature and again these are secured in nature. Going further that we have not highlighted as of now, since we are discussing 3 to 5 years and LAP and POC we wanted to be number one player. If you do an apple-to-apple comparison, LAP we are operating at 25 to 30 locations, we are already number one, POC we are already number one. We are operating at 50 to 55 locations, and we are doing in both LAP and POC more than ₹ 200 crore; LAP we do ₹ 250 crore per month, POC we do ₹ 200 crore per month, and we do not add CV/CE or other products in the POC, so it is a pure POC, so from that perspective as per our 2025 vision we are on track. If you do the apple-to-apple comparison we will be in top three, but most of the products at selective branches and again in that segment of only bureau tested and certain bureau score segment, I think we have achieved but we have never talked about that figures in the public domain. So, in unsecured, you will see EMI card also coming and consumer finance side also, we are under process of tying up with lot of e-commerce players. There also again we mentioned in the last two concalls also that we are getting choice of rejection. We wanted to grow step-by-step but lot of OEMs, lot of e-commerce players because of our transparency thought process, and because of the customer centric approach, I think they are preferring Poonawalla Fincorp over others in NBFC or the Fintech sector. One is long-term play, second transparency approach, third our rate of interest, strong product proposition and again we have a very strong digital team, and we can do any kind of integration quickly. That is why lot of partners liked us in the past in co-lending and now lot of OEM e-commerce you will see tie-ups over a period of next one to two years. That will also keep adding to the customer base and focus on cross-sell will be there, focus on co-branded credit card sale will be there to the existing as well as new customer base, which are again bureau tested. So, we will also keep an eye on the consumer trend, and we will bring offerings that will really get customer adoption.

Mayuresh Joshi: Yes, that was very helpful, very detailed answer, Abhay thank you so much. I have one question on the provision that you created the onetime provision on the legacy portfolio and the discontinued loan book can we have a definite quantum and a timeline of the write-back which is expected on this thing?

Abhay Bhutada: Basically, the balance legacy book which will run down including the acquired DA. Overall you will see in next one to two years you can expect write-back of as I told you whatever maximum we will try to recover and remaining will be write-back around 50% on that ₹ 900 crore, which will be around ₹ 450 crore.

Mayuresh Joshi: Got that. Now the other question that I probably had is since we are digital offering, technology lender, which is our core USP, what is the core USP that you would define for Poonawalla Fincorp for its products and how do you probably rate that with your peers?

Abhay Bhutada: See the main USP if you talk about is the ethical lending, but if you talk about on the product side, so on the product side as I told that from transparency point of view the complete digital experience for the customer. If you talk about what is the digital solution which could improve the overall customer lending journey on the customer acquisition side; so, we have adopted this hybrid model of physical top 100 branches, we have a complete digital model, centralized model, embedded finance to expand the customer reach. On the LOS LMS side we have the full digital LOS and the LMS in place for faster processing. On the credit underwriting, we have strong credit risk models, then we have a business rule engine in place and lot of enhancement in the data availability, quality, and the integrity that is required. So overall strengthening of this credit risk model to incorporate wide variety of alternate data sources, e-agreement, we have completely done digital, even on the POC, LAP side also we have gone complete digital, so more than 81% is completely digital and again early warning system, collection monitoring. So overall considering all these solutions, I think the main USP as I told you is the end-to-end digital and the product proposition side, the lower rate, zero prepayment charges, flexibility in terms of the EMI, short-term, medium-term, long-term and the customer centric approach so that is the main you can say differentiator for us. We have also clearly mentioned these are the main reasons if you go to slide number nine, why we are a lender of choice for anyone in terms of loan amount flexibility or TAT, quick turnaround time, 100% digital process, on the interest rate, hidden charges, flexible tenure, and minimum documentation and on the zero prepayment; so we have given a complete chart on that front as well Mayuresh.

Mayuresh Joshi: Thank you for the detailed explanation, Abhay that was very helpful. Just one last question from my side which is very generic, the regulator has been very strict in the financial sector particularly for Fintech and NBFCs. We all know that with the recent circular and guidelines, what is an impact of such circular guidelines for Poonawalla Fincorp in particular?

Abhay Bhutada: I think we have analyzed regulator very properly. They are coming with lot of circulars on the penal charges, penal interest, fair practice code, interest rate and other things to the customers, non-commitment charges from the customers, so I think on this basis, I personally feel, the thought process of Poonawalla Fincorp being legacy and the culture from where we are coming from it is very, very positive impact for us because if you can listen to our last all four, six, eight investor concalls, we always talked on these things and now this is in the public domain from the regulator side also. Since we have a customer centric approach, I personally feel I am not talking about any other player but for us it is a big-big positive impact for us going further, because that is our USP. Now it is matching that we are not going to charge any kind, we have never charged prepayment or hidden charges, non-commitment charges and we are following TRAI guideline in terms of customer calling, in terms of collection, in terms of underwriting, in terms of outsourcing, so I think this will be very helpful for all the players those who will do ethical lending and those who will follow all the regulatory guidelines, so I think organic business growth will take a leap now from here on.

Mayuresh Joshi: Thank you so much Abhay for all your responses really appreciate it and all the best for the future.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question of our question-and-answer session. I would now like to hand the conference 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 communications, please write to us at investor.relations@poonawallafincorp.com. Thank you.

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