POONAWALLA FINCORP LIMITED
"Q4 FY2023-24 RESULTS CONFERENCE CALL"
APRIL 29, 2024

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

Moderator: Ladies and gentlemen, good day, and welcome to Poonawalla Fincorp Limited Q4FY24 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

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

Hiren Shah: Thank you, Ria. Good evening, 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 and year ending March 31, 2024. To discuss all this in detail, I have with me our Managing Director - Mr. Abhay Bhutada, our Executive Director - Mr. Sunil Samdani, and 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 March 31, 2024. Over to you, sir.

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

I welcome you all to this Earning Call of Poonawalla Fincorp, and I hope you are doing great.

Before I give a snapshot of our performance and highlights of the quarter and the financial year gone by, I will first start with a quick macroeconomic update.

We are in middle of a dynamic macroeconomic environment with the convergence of multiple factors ranging from inflation, interest rates and geopolitical conditions, which influence the economic decisions. Looking at inflation control, which is one of the critical goals for the economy, the current projections indicate a manageable scenario. In terms of the monsoon as predicted by Skymet, monsoon season is expected to be normal. Agriculture production could remain stable, thereby controlling food inflation. A normal monsoon is crucial as it directly impacts the inflation and growth rates. The agriculture sector's outlook, which is heavily dependent on monsoon also be a significance for the RBI's policy framework.

Further, looking at the crude oil prices, the volatile nature of crude oil prices intensified by geopolitical tension present an external challenge for the economy with crude oil prices expected to remain elevated, one will need to account for the impact of higher energy cost on inflation, and the current account deficit.

The Reserve Bank of India's monetary policy earlier this month decided to keep the policy repo rate unchanged at 6.5% as retail inflation continues to be above its target of 4%. According to RBI, India's GDP is projected to grow at 7% in FY25, while the retail inflation is likely to be

4.5%. In the Post Monetary Policy Press Conference, RBI Governor did mention that inflation is moderating, and the GDP growth is robust.

The overall outlook remains largely positive while the GDP growth for FY2024-25 is retained at 7%, a bit lower than 7.6% of last fiscal. It is still a good growth. Retail inflation is expected to average 4.5% this fiscal, much lower than 5.4% in FY24, with rural demand catching up, consumption is expected to support economic growth in FY25.

Outlook for agriculture, rural activity, appears bright, with good rabi crop and improved prospects of kharif crop due to expected normal monsoon. Strong rural demand, moderating inflationary pressure and sustained momentum in manufacturing and services sector will boost private consumption. The headwinds from geopolitical tension and increased reception in trade routes may pose risk to the outlook. However, in my view, there may a slight adjustment in interest rates over next couple of quarters to support economic growth while keeping inflation in check.

The fundamentals of India economy are strongly deep rooted and represents an opportunity for us as we expect this to get translated into steady credit growth for both MSME as well as consumer segments. Our efforts to build a strong and sustainable MSME and consumer segment, focused organization, position us best to leverage this opportunity and in the process, enable the dreams of our customers.

Let me now take you through the company's performance for the financial year ended 31st March 2024.

I am excited to share with you all an update of it, another fantastic year of all-around performance. I feel proud of the last 3 years journey to spread the biggest transformation of Poonawalla Fincorp that the NBFC space has ever witnessed. When we acquired Magma, we set ourselves on an ambitious journey, well expressed in our Vision 2025 statement.

Our execution excellence has ensured that we have continuously outperformed and consistently given superior performance, resulting in achieving significant milestones of our AUM crossing ₹ 25,000 Crore and Profit After Tax crossing ₹ 1,000 Crore. We also recorded the highest ever quarterly disbursement and best-in-class asset quality numbers, resulting in an overall superlative performance.

Our differentiated strategy and relentless execution are reflected across all business metrics and have made a thought leader in the lending space. This year has been a phenomenal year across the board for us, with Q4 being the best ever quarter.

Now let me take you through the key financial numbers for the quarter.

We reported our highest ever quarterly disbursement of ₹ 9,688 Crore, up 52% year-on-year, 11% quarter-on-quarter. On Asset Under Management side, we stood at ₹ 25,003 Crore, reflecting a growth of 55% year-on-year, 14% quarter-on-quarter.

As regards to the composition of our total AUM, MSME constitutes about 37% of our book, followed by personal and consumer finance at 23%, Loan against property at 16% and preowned car contributing to 15%.

The secured to unsecured book stood at 49% to 51%, the secured book is growing at a steady rate as disbursement in LAP, POC and MSME continue to grow. Despite of our decision of sale of housing, we have been able to maintain the ratio of 50-50 approximately on towards the secured and unsecured book.

With longer tenure of LAP book, we expect our secured book to continue to grow. Our guidance on the secured to unsecured mix is 50% each in the medium to long term. On the tenure mix of our book, the short tenure loans up to 12 months tenor stood up 15% of the book as per our guidance. While the medium- to long-term loans of more than 12 months are at 85%. The tenure mix is helping us to improve our profitability, while also keeping the AUM growth in place. 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 both MSME and Consumer segment.

Asset quality continued to be the best in class and in line with our guidance. Gross NPA stands at 1.16%, down by 28 bps year-on-year, 17 bps quarter-on-quarter. While net NPA is at 0.59%, down 19 bps year-on-year and 11 bps quarter-on-quarter. The asset quality is reflective of our prudent credit policy and right selection of customers. Our provision coverage ratio stood at 49.39%.

Our cost of borrowing stood at 8.17% for Q4FY24 as against 7.99% in Q3FY24. Our cost of borrowing continues to remain one of the lowest in the industry despite hardening of rates due to tight liquidity condition and increase in risk weight.

Our Net Interest Margin stood healthy at 11.06% during the quarter, which is up by 4 bps quarter-on-quarter. Our operating efficiency has continued to improve further. The Opex to AUM ratio has come down drastically by 144 bps from 5.43% in Q4FY23 to 3.99% Q4FY24. Of the 3.99% and 0.64% is contributed by ESOP charge. So, if you exclude this 0.64%, which is an ESOP charge, we have maintained the Opex to AUM below 3.5%, much better than our guidance. Reduction in Opex ratio signifies the productivity enhancement that have been achieved. As we grow these ratios, we should continue to optimize this further. The interplay of all the above is reflected in superior profitability.

The Operating Profit for the quarter is ₹ 409 Crore, which is up by 93% year-on-year and 17% quarter-on-quarter. Profit After Tax for the quarter stood at ₹ 332 Crore, which is up by 84% year-on-year, 25% up on quarter-on-quarter basis.

Our Return on Assets was at 5.73% for Q4FY24, which is up by 73 bps year-on-year and 42 bps quarter-on-quarter is one of the highest in the industry as we speak.

I will take this opportunity to give a quick recap of the successful transformation that we have done over the last 3 years since the acquisition of Magma, which was a 3-decade-old company.

When I reflect at the Q4FY21 deck, where we first mentioned the strategy after taking over Magma and me taking over as the Managing Director of Poonawalla Fincorp, the journey so far, I feel happy and satisfied to see the tremendous progress that we have made. We had clearly defined strategy of what and how we wanted to deliver. Our product strategy, target market, customer focus, multi-tiered customer proposition, branch rationalization, robust corporate governance, risk management and digital focus along with the best-in-class technology and analytics have all combined to enable the fantastic results and successful transformation of the company. We have delivered on all the points, whatever we have mentioned 3 years back at the time of acquisition, you can validate each of the points within the defined timeline and in fact, not just delivered, but surpassed the expectations too. The visible transformational shift in the numbers from December '20, that is preacquisition, till 31st March '24 is a clear reflection of the well-thought-through strategy along with the clinical execution.

Look at these numbers, gives an understanding of the scale of the transformation undertaken. Our AUM has increased by 2.4x to ₹ 25,003 Crore over the last 3 years. The GNPA and NNPA have reduced significantly from the levels of 8.23% and 5.35% respectively, to 1.16% and 0.59% respectively. The Return on Assets has increased multifold from 0.04% to industry best number of 5.73%.

On efficiency and productivity metrics, AUM per employee has increased from ₹ 2.14 Crore to ₹ 11 Crore per employee. It is one of the best in the industry. The profit before tax per employee has increased from ₹ 0.12 lakh to ₹ 68 lakh. Employee headcount has reduced from 5,431 to 2,384, majorly because of the digital model what we have. While number of branches have been consolidated from 255 to 102, all the above improvements across the parameter was well reflected by a 3-notch rating upgrade from AA- from CARE rating agency to AAA by CRISIL and CARE. We are one of the very few NBFC in the industry being rated by CRISIL AAA.

The approach of digital-first play, cashless collection, data-driven lending, and lean structure is well entrenched in the organization today and has been key contributor of this transformation story. We continue to move in line with our Vision 2025, while we are maintaining the same growth rate through focus on our customer segment of prime bureau-tested customer having lower credit risk, we also continue with our customer-centric approach, that is optimum pricing, best turnaround time, convenience, and excellence in customer service. This approach has ensured that, as we have grown, we have created differentiation for ourselves in the marketplace, thereby providing us right to win. We have built a significant digital presence while going deep in urban and semi-urban market, focusing on risk-adjusted return delivery rather than just spreads by leveraging technology for operational efficiencies.

Our phased strategy execution of "Consolidate, Grow and Lead" was spread over 3 years period as Consolidation for initial first 9 to 12 months, Growth over next 9 to 18 months, and Lead over the next 18 to 36 months. We have ensured that we have flawlessly executed our phased strategy, and we are already in "Lead" phase now. Our leadership in the products, geographies we operate in, in the process of good governance, risk management, along with analytics is visible and providing us the competitive advantage. The same have been well acknowledged by the industry across the streams.

There have been many firsts in this journey, which are cemented our place as a thought leader. We were the first one who set out to make a Tech-led NBFC in its true sense. It was not an easy decision, but we were very clear that for us to build a "Future Ready" organization, we need to do the hard work now. What it has resulted is something no one in the industry has ever achieved, an inverse relationship between headcount and group. We are today, 44% of the headcount from the preacquisition level while we have more than doubled our AUM. We are the only NBFC irrespective of this scale, which has defined linear growth in manpower and business as well.

We are the first one who caught the trend of changes in consumer preferences and moved away from branch led to a branch-lite model. While the industry is expanding the branch footprint, we have grown by consolidating the branch network. We focus on "going deep rather than going wide" and the same has yielded tremendous results for us. We are today having a decent market share in geographies we operate in, making us a significant player in the lending space for most of the products.

We have been pioneers in adopting technology to service our customers better. We are the first one to provide a full stack customer service solution through WhatsApp journey. This has ensured that we have moved our customers to "Do-It-Yourself" journey, thereby not just empowering them, but also enhancing their overall experience. More than 70% of our customer service interactions are now digital.

We have also created an industry-first feature, wherein, anyone can access their bureau report through WhatsApp. This is a part of our customer engagement, awareness, and education series. We have seen good traction here and getting positive reviews about the same.

We are the leaders in providing wealth creation opportunity for our employees with ESOP coverage. We have given ESOP to more than 300 employees and a lot of incentive schemes to retain the top talent. Our incentivisation schemes are the best in the industry and drive efficiencies across lines of businesses.

We are one of the youngest organizations to be certified as a Great Place to Work and have made our way into the top 50 in BFSI space in such a short span of time. Our wellness programs have become an industry benchmark and got industry-wide recognition.

I'm proud of the risk and good governance culture that we have built in the organization. We always believed in and built a credit led model. Today, we have some of the best risk management practices, early warning signals, scorecard, business rule engine, fraud risk management framework, operational and InfoSec risk management practices. Corporate governance and compliance are one of the critical elements in any financial services business, and we maintain the highest standard in the same.

Our technology stack today is one of the best in the industry. The end-to-end digitized journeys with the use of all available technology solution to automate and digitize the processes have been our hallmark. We use the best solution available without compromising on the infosec risk, the stability of system and customer convenience. We have all our systems on cloud, thereby enhancing the systems availability and scalability.

Our sales and distribution are multi-pronged with a balanced mix of direct, channel, and digital. The digitization and automation in sales is helping increase the efficiency of our sales workforce and is a productivity driver. In collections, we have adopted technology to ensure that cash collections are almost negligible. Today, we have reached a level where our cash collection is lowest in the industry.

All these have been possible because of our "forward-thinking" approach, and our ingrained philosophy of "Going for excellence in all that we do". We have grown as an organization in a full 360-degree way as a sustainable organization always, we have holistic approach to growth. Today I can proudly say that we are an organization, which has learnt to not just adopt to the best practices but create the best practices for others to follow as well.

Over the last 3 years, we have been able to build critical blocks for our next phase of journey. The progress on the product launches, branch consolidation, digital transformation, risk culture, along with the people agenda have been some of the key wins for us. As we have seen the lending environment has undergone a lot of change over the last couple of years and will continue to further evolve. Our agility has been our biggest strength, and we believe that this strength will continue to help us succeed in the future as well. As we are in the last leg of our Vision 2025, we have already started work towards the "Next" and are well positioned and confident of delivering a consistently superior performance on the back of a strong foundation built over the last 3 years. I firmly believe, we have it all that is required to build a truly sustainable organization.

I would also like to take this opportunity to thank you all for the support extended to me in carrying out this huge transformation exercise. This successful transformation has been made possible because of unwavering support of all our stakeholders. The success is not mine alone; it is a culmination of efforts put in by the entire team for each of the projects, each of the challenges faced resulting in the successes that we experienced together. None of it was easy, and we had our own share of exceptional challenges, but we stood up firm and face them head on with our grit and determination and emerge out much stronger. This has ensured that we have been shaping our future proactively, and we have been a creator.

Every interaction with each one of you has been a special one, and I really enjoyed meeting and speaking to each one of you. The discussions have always been thought provoking and have helped me immensely. It has been a privilege to lead such an exceptional team and to interact with such distinguished investor community. I look back with immense pride and I would like to express my deepest gratitude for trust and confidence placed in me over the year.

Thank you once again.

And now I will request our Executive Director, Sunil Samdani, to take you through the financial and operational aspects of the business. Thanks.

Sunil Samdani Thank you, Abhay, and good evening, everyone.

Let me take you through the financial and operational updates.

Let me start once again, highlighting two significant achievements. First, we crossed the ₹ 1,000 Crore PAT mark for the full financial year which now stands at ₹ 1,027 Crore, and second, we crossed the ₹ 25,000 Crore AUM mark as of March 2024, which now stands at ₹ 25,003 Crore. As we all know, the interest rate environment remains tight for the quarter and is expected to do so in the near future. In line with that, our cost of borrowings has gone up by 18 basis points quarter-on-quarter to 8.17%. While the same has increased, it is in line with the industry increase. Our cost of borrowing has moved up, but we continue to be among the lowest cost fundraiser in the industry. Again, while the cost has increased 18 bps, we have been able to pass it on to our customers, and this has resulted in improving our NIMs by 4 basis points from 11.02% to 11.06%. We will continue to diversify our liability franchise to further optimize the cost of borrowing. Majority of our portfolio on the lending side is on the fixed rate basis, while our borrowings are on a variable rate. Hence, as, and when the interest rates start coming down, we will benefit from the same and it should help us improve our NIMs further.

On the ALM side, we remain comfortable with positive cumulative mismatch across all buckets, and we carry a surplus liquidity of ₹ 3,932 Crore as of 31st March 2024. The LCR as on 31st March stands at 130.45% against the regulatory requirement of 85%.

We continue to gain on our operational efficiency and our opex to AUM ratio stands at 3.99% in Q4FY24. This was 4% in Q3 and 4.18% in Q2FY24. If we compare it with the previous year same quarter, it stood at 5.43%. These opex ratios are one of the best in the industry.

As far as margins are concerned, as we spoke, it is up 4 bps quarter-on-quarter at 11.06%. This has been possible because we focus on low-risk customers and optimal product mix and low cost of borrowing.

Now coming to customer acquisitions. We are constantly working on broadening our customer funnel through a phygital model while maintaining a superior risk management aided by data accessibility and technology. We are now focused on further enhancing paperless journey for all loan products as well, just like we did it for consumer and personal finance.

We believe the essence of building a complete digital lending experience is using technology across all product lines and strive to use digital across all forms of lending. As we continue to further enhance our app journey, we expect more direct acquisition in our secured lines as well.

In addition to app, we are actively using WhatsApp channel, not only for lead generation, but also for a full loan journey along with customer service. We believe this is an investment for future as customers are having preferences for app less solutions as well. We will stay invested across our app, web, and app less channel.

Now coming to customer service. We have developed multiple customer service touch points to ensure quick and effective service delivery, such as WhatsApp, app-based self-service, call centers, branch-based customer touch points. Our WhatsApp channel today addresses more than 70% of our customer request, which helps us to be instantaneous as well as cost effective. Customer service is a moat that we have, and we are working to further strengthen the same. On internal service level agreements, we ensure that we address any customer query in minimum time period.

On the collection side, we have built a robust digital infrastructure for collection in addition to a strong in-house workforce of more than 400 employees. More than 95% of our total collections are through digital models. This has helped us to be cost effective and efficient on the ground. In addition to this, we have a technology framework to ensure systemic review of our daily rigor to further maintain overall effectiveness. We continue to invest in latest collection solutions as we see collection channels changing in line with the changes in payment system.

On people front, I am happy to share that we have been progressing our efforts to build a healthy workplace with the right culture. As a young organization, we work tirelessly towards making PFL an aspirational workplace, and our efforts have yielded results as we secured a place in top 50 list of Best Place to Work in India in BFSI sector for 2024. This is a moment of pride of us as we rub our shoulders with some of the biggest names in BFSI space. Also, our pursuit of creating a healthy workplace with focus on employee wellness has led to us getting recognized as India's best workplace in Health and Wellness. Apart from our technology interventions in HR, like Amber, which is an HR chatbot has been accepted well in the industry. We have taken multiple initiatives in past few months to ensure that we keep moving towards building a people-centric future-ready organization.

To summarize, on an overall basis, we are well placed on the operational aspects as we continue to further improve the operational efficiency. Technology is being leveraged across the board to get more gains. Also, as we see that the environment is more dynamic than ever, hence, we are also looking at all our internal processes closely to see further changes, improvements and enhancements as may be required. We have a road map for what we want to do and what we have and for which we are working on actively.

Customer service continues to be an area where we want to spend disproportionately. We are adding more and more digitization in customer service as we see customers wanting more self-service options at their convenience. We are also investing in HR tech to further improve internal employee experience. Productivity and efficiency continue to be a driver as we look improving further, our best-in-class benchmarks. Also, we continue to recalibrate our product mix to ensure we have an optimally balanced portfolio.

We have ticked the right boxes in our journey so far and as a result of the same is visible across metrics of our growth, profitability, and efficiency. Our strategic thinking, execution capabilities and agility have been our core strength and our journey ahead will build on it.

I would also like to take this opportunity to thank Abhay for his exemplary leadership and invaluable contribution in transforming the organization into a high-growth, highly efficient and highly profitable organization.

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

Moderator: Thank you very much. The first question is from the line of Sameer Bhise from JM Financial.

Sameer Bhise: Thank you for the opportunity and congrats on a strong quarter. Also, congratulations to Mr. Bhutada for having delivered one of the most remarkable transformations in recent times in NBFCs. I had a few questions. Firstly being, what still remains as the fundamental pillars with respect to Poonawalla Fincorp after you move ahead? And would there be any scope for improvement with respect to some easy pickings in the business? That would be one. And secondly, given that we are seeing increased regulatory scrutiny and stringent actions in the space as a whole. How is Poonawalla Fincorp placed? Some thoughts there would be useful. Yes, that's it from my side.

Abhay Bhutada: Thank you so much, Sameer.

On the transformation side, if you see, we have changed the product range, we have changed the target market segment, the choice of customers. We have prudent credit policies. Additionally, we have done a lot of consolidation in terms of branches, manpower, and we have done the technology changes, most of the things are system-driven, policy-driven. We have enhanced the employee productivity, and again, we have shifted from branch model to branch-lite model. We have improved on the opex side. And the focus area was customer, better TAT, and the customer service. This is our differentiated business model completely nonconventional, branch-lite model. We have explained this in detail multiple times in all the investor calls. These are the factors, both internal as well as the external changes, have resulted in this great transformation and we need to continue with the strategy to continue with the good work.

This is not the first time we are doing this. Multiple times I have explained that I was running my own NBFC, TAB Capital, which I sold to Adar Poonawalla in 2019, after 3 years of experience into digital lending, wherein I was the first one to go complete digital. And then, again in Poonawalla Finance, which was an unlisted NBFC of the group for 2 years. So, this is just a third stint, and is not an overnight transformation.

We have learned a lot of things in the past. We always used to do a write-off at 90 plus for most of the products for last 7 - 8 years. So, we have a habit of controlling the credit cost at the time of sourcing only. I think, considering all these past experiences, we have done the complete transformation here. And most of the people, what you see here, the core team, is from Poonawalla Finance, starting from Mr. Manish Chaudhari, who is Head of Retail Assets, Mr.

Anup Agarwal, who is the Internal Auditor Head, Mr. Manoj Gujaran, who is the Compliance Head, Smita, who is the HR head and a lot of other business heads and great people from accounts, finance team, who have integrity, are hardworking and have industry-specific knowledge because we always wanted to grow that company, although it was unlisted. We got this opportunity and then acquired, and we have done this transformation. So, though according to the industry, it is one of the successful and the fastest transformation. There is a lot of hard work behind this, and we have a right team and technology in place, and we further enhance on that. So, this answers your first question.

On the regulatory side, I think historically, we have seen that any regulatory changes have always been beneficial in the long run. And we always follow and are in line and alignment with what the RBI is expecting.

And secondly, with a strong capital base, credit rating and prudent risk management practices, we are well placed to encash this opportunity. Weaker hands will find it difficult to cope up comparatively going forward as the interest rate starts to come down. We will be at an advantageous position as majority of our advances are on a fixed rate, whereas majority of our borrowing are at a variable rate.

Thirdly, as an organization, we are more focused on compliance, governance, and risk culture, which will be further helpful for us in this tightening of regulatory environment.

Sameer Bhise: This is very helpful. Just one clarification. There is a ₹ 332 Crore profit for this quarter. And the last quarter, net worth was around ₹ 8,075 Crore, but the closing net worth for this quarter is roughly ₹ 8,114 Crore something. Can you explain the difference, please?

Abhay Bhutada: So, opening net worth as on 31 December 2023 was ₹ 8,075 Crore. For ESOP conversion, you can add around ₹ 50 Crore, you can add the profit for this quarter, which was ₹ 332 Crore. And you can minus the payment of interim dividend, which is ₹ 154 Crore. And since we have created this ESOP Trust. So, this accounting adjustment, treasury share, you need to get it consolidated, and you have to deduct ₹ 187 Crore which comes to ₹ 8,116 Crore. But in real sense, you have to add back this ₹ 187 Crore adjustment of this ESOP trust which we created for the employee. So, ₹ 8,116 Crore, plus ₹ 187 Crore will be actual net worth, but on paper, ₹ 8,075 Crore, plus ESOP conversion of ₹ 50 Crore, plus addition profit of ₹ 332 Crore, minus payment of interim dividend ₹ 154 Crore, minus ESOP trust, treasury share, which got consolidated to ₹ 187 Crore, which, then comes to ₹ 8,116 Crore.

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

Kaitav Shah: Congratulations, sir, on a good set of numbers. My #1 question to you is on growth. You have delivered industry-leading growth numbers. So, what has contributed to this in the last scheme of 3 to 4 years? And how do you see the growth path from here on?

Abhay Bhutada: See, so across all products, I think we have seen the growth be it preowned car, loan against property, personal loan, business loan. All of these are the main 4 products wherein I think, if you do the apple-to-apple comparison, then we have taken a leadership position. We are already in top 2 in this segment and always we are focused on the top 100 geographies and our approach is of going deep rather than going wide. Market focus being urban and semi-urban, focus is on building the right digital processes that makes the entire model more scalable.

And if you see, whenever we think of building the entire organization, which has a tech focus, these are the main reasons behind these growth numbers. And one year back, we stopped new-to-credit, considering the low base, considering the total addressable market, and considering the target segment, going forward, whatever guidance we have given, we are confident of achieving the numbers in terms of growth.

Kaitav Shah: Got it. Sir, my second question is related to asset quality. I mean, you have consistently improved the asset quality. Do you see any challenge in maintaining this going forward? Also, in the context of some peer NBFC seen higher credit cost and actually even guiding for the near term, a higher credit cost. So how do you see that for your firm?

Abhay Bhutada: Our focus has always been a credit-led model rather than a collection-led model. We are into risk business and not into the collection that was our model. We continue to strengthen our credit policies, basis our internal learning. And I'm happy to share that our GNPA and NNPA is one of the best in the industry and you can expect further improvement in both the GNPA and NNPA. If you see the numbers we have showcased as GNPA and NNPA, so this is including the legacy. If you see the new book is performing better than our expectation. The segment which we are targeting, that is much different than what others you are talking about in the competition. So, we are confident of achieving our guidance in terms of GNPA and NNPA and you can expect further improvement over the period of next 4 quarters, in both the GNPA and NNPA.

Kaitav Shah: Got it. And we have seen a rise in NIM scenario, even when players are struggling. And we also have some amount of increase in cost of funds. So how do you see the interest rate environment going forward, particularly for you, and can we expect a similar kind of performance for next year? Or do you think that the cost of funds can impact?

Sunil Samdani: As we speak, we are among the lowest in terms of cost of fund. Last year, we got CRISIL AAA rating. There are a very few NBFCs at this size, those who got CRISIL AAA rating. And recently, we have started borrowing from the commercial paper and short-term limits, considering our ALM. So, considering that, we have enough scope with one of the best ALM the industry. So going further, depending on the requirement, we will focus on the NCDs as well as on the CP side. So, you can expect quarter 3 onwards, there will be a further improvement on the cost of fund side.

And on the NIM side, we have always guided that we will be able to maintain NIM above 10%, but we have delivered above 11% during the last 4 quarters. And going further also, the same guidance we will continue, which we have given in the past that because we target the risk-adjusted return, the low Opex model, and overall other things, on the NIM side and also on the profitability side.

Kaitav Shah: Got it. And one last question, if I can squeeze it in. So, you briefly touched about the transformation of how the journey has been over the last 3, 4 years. So, in your mind, where have you reached in this journey so far and what would be it going ahead, especially in the context of RBI tightening its regulatory reach. So, I mean, where do you see this journey now? Was there a low-hanging fruits that you can tighten up from compliance, et cetera? Or I think they're pretty good enough from that standpoint.

Abhay Bhutada: I think we have a very unique business model, which we have created, and we have explained in our investor presentation also that we have a combination of physical and digital mode. We have a unique combination of FinTech, Bank and NBFC. FinTech in terms of the user experience. Bank, in terms of fair practice and no hidden charges to the customer. NBFC in terms of practical approach and cash flow-based lending. So that is the main reason why we are different than the others.

In terms of the regulatory environment, we got one of the highest advantages because of the environment, reason being as a Poonawalla group, considering the legacy of the group, we follow the highest level of corporate governance. Our Compliance led by Mr. Manoj Gujaran, who is one of the top guys we have in our team. And constantly, we focus because we are not going to compromise on the compliance. So, if you see on the KFS side, we are offering zero prepayment across all our products. Hardly, there is any compliance with regards to misselling or hidden charges from the customer side because our approach was customer-centric from day one. We are the only NBFC who is offering at this scale, zero prepayment. This I'm telling you all from more than 2 years in each of the investor calls.

Considering all these things, whatever is happening in the regulatory environment, I think it is beneficial for this sector. And with regards to Poonawalla Fincorp, I think we will get the biggest advantage of whatever the tightening policy from the regulatory side. And here, internally also on a quarterly basis, we are reviewing or our policies. The base is so low. We don't see any challenge in terms of the growth. So, we have enough choice of rejection. We have created that choice of rejection model.

So, as I told you, once we reject the customer, then only he is going to the market because you will not get all the things at one place, i.e. lesser rate, reasonable processing fees or turnaround time, zero prepayment penalty and no hidden charges. It is very difficult to get everything at one place. We are very happy with all the regulatory changes, and we are hopeful that now everyone, the entire sector will have to focus more on the compliance side.

Moderator: Next question is from the line of Mayuresh Joshi from William O'Neil.

Mayuresh Joshi: Congratulations on a great set of numbers. My first question is on the opex side. You briefly touched upon that with the previous analyst. We have consistently seen improvements in the opex ratio. So, what is your forecast in the next few quarters. How do you see these fixed ratios move from the current standard?

Abhay Bhutada: Yes. We are constantly giving the guidance that we are trying to reduce the opex. If you see last 4 quarters, there is a consistent reduction in the opex. Year-on-year also, starting from 5.5% level to almost at 4% level, we have reduced. And this includes ESOP charge of 0.64% also. So, this is net opex ratio. If you see, this is only 3.35%, which is again one of the best in the industry. And as we continue to focus on the productivity and efficiency and our AUM increases, you can expect further improvement on the opex going forward.

Mayuresh Joshi: That helps, Abhay. I might have missed this one, but can you just side us for how do you see the next financial year, both in terms of growth, profitability? And you briefly touched upon asset quality as well. So how do you see the asset quality playing over the next?

Abhay Bhutada: We'll stick to our guidance, on the long-term metrics, of 35% to 40% on the growth side. And on the GNPA and net NPA side also, we have given the guidance, and if you see, I think we will be able to maintain that. Profit growth of 30% - 35%, we have already given in the investor presentation, GNPA of 1.3% to 1.8%, net NPA guidance of 0.5% to 0.9%, AUM growth, we have given 35% to 40% and ROA guidance of 4% to 4.5%. And whatever guidance we have given, I think if you see that consistently for last eight quarters, we have overdelivered on all these parameters and we will continue to maintain on the same guidance.

Mayuresh Joshi: That certainly helps, Abhay.

Abhay Bhutada: We are confident of achieving this.

Mayuresh Joshi: Yes. Sure. Just one last question. This might be a little bit personal from my side, but it would be great if you can help me. I've been tracking Poonawalla, your contribution in terms of Poonawalla's performance, and the performance has been fantastic in Q4 for the entire quarter of FY24. You have guided for a very strong FY25. So, when everything is going so well, the company is seeing a good turnaround, you are in the driving seat. What prompted this sudden change of the MD position, because I think a lot of people on the street are probably viewing this on why and for what reason.

Abhay Bhutada: At the outset, I would like to thank you for your kind words on the Company's performance and individual performance. It was not a sudden change, but in fact, a well thought out decision. After having successfully transformed this 3-decade-old, almost a sick unit to one of the most prominent NBFC in the country, as we speak, the platform is very well set for the next level of growth. And as I did not wish to be occupied by the day-to-day operations, it was my decision only. I have requested and convinced our Chairman, Mr. Adar Poonawalla, that I will not handle the day-to-day operation and will play a strategic role at a group level and will be ready to continue as NED and continue to guide the team.

If you see, I've always been an entrepreneur. I sold my TAB Capital, a digital lending startup, to Mr. Poonawalla in 2019, after running that for 3 years. Then there was, the unlisted NBFC, Poonawalla Finance. Technically merged TAB Capital into that. So, I have transferred team, technology, and majority of the loan book there. We got AA+ standalone rating there. We have built up a book of more than ₹ 2,000 Crore in the short span of 2 years. We recruited a lot of team members. There was a plan to scale up pan-India, then in between, we got this opportunity of Magma, and we renamed it to Poonawalla Fincorp. This is almost my third stint. So, I never wanted a day-to-day operation. I think, I have built this Company, built these products. And I thought now I will focus, in fact, I wanted to do a lot of things at a personal level, diversification as well. So now I have been elevated at a group level to focus on strategic decision as well as to focus on the treasury. But here also, I am continuing as a non-executive director, will continue to guide the team in terms of strategy and other things.

And this platform is well set for the next level of growth, as transformation is fully done with all the post-acquisition issues, fully resolved during my tenure itself. I have always been supported by our Chairman, Mr. Adar Poonawalla, and entire board during the last 3 years. I know it was very difficult to convince him when we have transformed everything. So, it was not a sudden decision. We got one of the best talents from the industry. I had decided that unless I get a good guy, there would be no plan to change from MD to NED. We have got one of the best guys from the industry who can head this, and who was the Retail Asset head in the HDFC Bank, and now a Mortgage head. So, considering that only, I was able to convince our Chairman that now I would not focus on day-to-day operations and will continue to guide as an NED and to operate at a group level in terms of strategy, in terms of treasury and few other important functions.

Absolutely, I can understand, but it was a well thought out decision, no need to worry. I am here, the entire team is fantastic and most of the things are in auto mode.

Mayuresh Joshi: That's certainly helps, Abhay. So, I think, again, congratulations on a great set of numbers, but parting comments from my side that you've definitely left an imprint on Poonawalla Fincorp. And all the best for your elevated strategic roles within the group itself. You will be missed at Poonawalla Fincorp.

Abhay Bhutada: Thank you so much.

Moderator: Next question is from the line of Sameer Bhise from JM Financials.

Sameer Bhise: Thanks for the opportunity again. Just quickly, what's the update on the co-branded credit card that we had announced a quarter or so back? And secondly, any other changes to the current team that you envisage? Those are my 2 questions.

Abhay Bhutada: Yes. So basically, on the co-branded credit card side, we have received the regulatory approval. And right now, we are ready to go. And maybe in the month of May, next 2 to 3 weeks, we will be able to launch the co-brand credit card.

Considering the group philosophy and current regulatory environment, we have never done any kind of misselling on any of the products. With IndusInd bank, we have a tie-up for co-branded credit card, though the entire collection, risk, and so many other compliance things lie with them, but as a group policy, since we are sourcing the customer, we will get a onetime payout and some revenue sharing as per the regulatory guideline.

At the same time, we thought we will go ahead but we vetted the entire thing. We have one of the best compliance team here in Poonawalla Fincorp. That is why it took time and instead of launching in Q4, we thought to wait. We are not in a hurry because we are a long-term player. Now everything is done. I think we are good to go, and we have a strategy in place for sourcing as well as the integration with the co-brand partner and the entire disclaimer, product brochure, "no mis-selling to the customer", and the unique product proposition, which you will get to know in next 2 weeks wherein broad features are that we are not charging any joining fee or annual fee. Otherwise, there is no need of launch when you have so many options in the market. So, there also, I think we will come out with our unique product proposition, and we will give you an update in next 2 to 3 weeks once we launch that co-branded credit card.

And on your question in terms of the management team, see, we are one of the best teams for the retail NBFC and the digital lending space. And we have a successful track record of delivering consistent, superlative, quarter-on-quarter performance, and we have done the massive transformation in the sector. If you look at some of these resources like starting from Mr. Sunil Samdani, who is our Executive Director, he had joined 6 months back, if you see his experience in the BFSI space, more than 20 years, and he was instrumental in setting up Bandhan Bank for 9 years, taking it to the IPO and scaling it further. He has a deep understanding of the finance, treasury, risk management, Investor Relationship.

And if you see our Head of Retail Assets, Mr. Manish Chaudhari, again, he is ex-Poonawalla Finance, the existing NBFC of the Poonawalla Group, which was unlisted. He has almost completed 5 years with the group, including 3 years with Poonawalla Fincorp, 2 years with Poonawalla Finance. One of the best guys in the retail industry as we speak.

Next is Mr. Manoj Gujaran, who is our Chief Compliance Officer. Again, the old guy of Poonawalla Finance, with 2 years there, and 3 years with Poonawalla Fincorp, in total 5 years with Poonawalla Group, of handling the regulatory risk and the compliance and he has led the acquisition of Magma, sale of housing, other regulatory tasks. Mr. Anup Agarwal, who heads the Internal Audit function, has a deep understanding in managing risk, audit function, considering his background with Citibank, Kotak Bank, State Bank of India and all MNC banks.

Ms. Smita Mitra, who heads the HR, is again, the old Poonawalla Finance HR. She has also completed 5 years. Before that she was with a leading NBFC and was handling more than 8,000 people. Our Chief Risk Officer, Mr. Rajendra Tathare, Mr. Hiren Shah, who is our Head IR and Strategy, these are all experienced people, more than 20 years of experience, relevant skill set, and an NBFC background. So, as we speak, we have recruited one of the best teams. With this team, I think we can easily deliver more than ₹ 50,000 Crore - ₹ 60,000 Crore AUM, but transformation is a journey, and we are going to invest in team and technology as and when required, depending on the new product launch, depending on the geographies which we target, depending on the target segment. So as and when required, we have continued to strengthen the team, continue to strengthen the board, and continue to strengthen the technology as well, Sameer.

Moderator: Ladies and gentlemen, that was the last question of the day. I now hand the conference over to Mr. Hiren Shah for closing comments. Over to you, sir.

Hiren Shah Thank you, everyone, for joining this earning call with us. I would like to thank Abhay sir for all he has done for this organization, has built the best-in-class management team, and he has showcased best in the industry turnaround in the history of BFSI segment. He will be surely missed at our end, and he will be there for guiding us at the board level. Thank you, sir, for everything.

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 Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.