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May 06, 2025

BSE Limited
Listing Department, 1st Floor,
P J Towers, Dalal Street, Fort,
Mumbai - 400 001

Scrip Code: 541336

National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (E), Mumbai – 400 051

Symbol: INDOSTAR

Sub.: Transcript of analyst(s) / institutional investor(s) call held on April 30, 2025 at 12:00 p.m. (IST)

Dear Sir / Madam,

Please find enclosed herewith transcript of analyst(s) / institutional investor(s) call held on Wednesday, April 30, 2025 at 12:00 p.m. IST, pertaining to the Audited Financial Results of the Company for quarter and financial year ended March 31, 2025.

The transcript is also available on the website of the Company at www.indostarcapital.com.

Request you to kindly take the above on record and disseminate the same on your website.

Thanking you,

Yours faithfully,

For **IndoStar Capital Finance Limited**

SHIKHA JAIN
Digitally signed by SHIKHA JAIN
Date: 2025.05.06 19:26:39 +05'30'

Shikha Jain
Company Secretary & Compliance Officer
(Membership No. A59686)

Encl: a/a

"IndoStar Capital Finance Limited
Q4 FY '25 Earnings Conference Call"
April 30, 2025

MANAGEMENT: **MR. RANDHIR SINGH – EXECUTIVE VICE CHAIRMAN – INDOSTAR CAPITAL FINANCE LIMITED**
MR. JAYESH JAIN – CHIEF FINANCIAL OFFICER – INDOSTAR CAPITAL FINANCE LIMITED
MR. SHREEJIT MENON – CHIEF EXECUTIVE OFFICER – NIWAS HOUSING FINANCE PRIVATE LIMITED
MR. PUSHKAR JOSHI – CHIEF FINANCIAL OFFICER – NIWAS HOUSING FINANCE PRIVATE LIMITED

MODERATOR: **MR. ARYAN SUMRA – MUFG INTIME INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to IndoStar Capital Finance Limited Q4 FY '25 Earnings Conference Call hosted by MUFG Intime India Private Limited. As a reminder, all participant lines will be in the lesson only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touchtone phone.

I now hand the conference over to Mr. Aryan Sumra. Thank you and over to you sir.

Aryan Sumra: Thank you. Good morning, everyone. I welcome you all to the Q4 and FY '25 Earnings Conference Call for IndoStar Capital Finance Limited. Due to unavoidable circumstances, Mr. Karthikeyan Srinivasan couldn't attend the call. To discuss the quarter's results performance, we have from the management team, Mr. Randhir Singh, Executive Vice President; Mr. Jayesh Jain, Chief Financial Officer; Mr. Shreejit Menon, CEO, Niwas Housing Finance Private Limited; and Mr. Pushkar Joshi, CFO, Niwas Housing Finance Private Limited.

Before we proceed with the call, I would like to mention that some of the statements made in today's call may be forward-looking in nature and may involve risks and uncertainties. For more details, kindly refer to the investor presentation and other filings that can be found on the company's website. Without further ado, I would like to hand over the call to the management for their opening remarks, and we can open the floor for Q&A. Thank you and over to your sir.

Randhir Singh: Thanks, Aryan. Good afternoon, everyone. I welcome you all to the Q4 and full year FY '25 Earnings Conference Call for IndoStar Capital Finance Limited. And I sincerely appreciate your continued support on our journey. I'm Randhir Singh, Executive Vice Chairman of IndoStar Capital Finance. I trust you had the chance to go through our financial results and investor presentation, which is available on our website as well as on the Stock Exchanges.

With me on the call today are Mr. Jayesh Jain, our Chief Financial Officer, who recently joined us in March; Mr. Shreejit Menon, Chief Executive Officer of our wholly owned subsidiary, Niwas Housing Finance Private Limited, formerly known as IndoStar Home Finance Private Limited; and Mr. Pushkar Joshi, Chief Financial Officer of Niwas Housing Finance Private Limited.

Before I get into the core agenda items of the call, let me introduce our new CFO, Mr. Jayesh Jain. Jayesh brings over two decades of experience in leading and transforming lending businesses with a proven track record of driving profitability and operational excellence. He has played a crucial role in strategic growth, financial optimization and business transformation at leading HFCs and NBFCs and fintech companies like Group Finance, PNB Housing Finance, Hero FinCorp and Balancehero during their critical expansion phases.

I have no doubt that his deep expertise in cost efficiency, risk management and capital allocation will accelerate the evolution of IndoStar. A quick overview of how we have structured this call. I'll begin by giving an overview of the macroeconomic factors and critical industry trends. After this, Jayesh will share the Q4 FY '25 earnings update, for the stand-alone parent entity Shreejit will then provide the Q4 FY '25 earnings update for Niwas Housing Finance Limited. Post this, we will open up the call for questions.

Here is a quick overview of the broader macroeconomic variables and industry landscape over the last quarter. India's economic landscape has displayed resilience. Our economy grew at 6.2% in Q3 FY '25. Analysts expect FY '25 annual growth numbers to come in close to 6.5%, making India the fastest-growing large economy in the world.

To continue supporting the growth of the economy, the Reserve Bank of India's Monetary Policy Committee delivered its second consecutive 25 basis point cut in repo rates on April 9, following an earlier cut delivered on Feb 7, bringing the own-lend bank lending rate to 6%.

Turning to the commercial vehicle industry. While the new commercial vehicle market in India contracted by 1% in the fiscal year ending March '24 and estimates suggest the market remains flat for the fiscal ended March '25, driven by an election year, which saw a slowdown in government spending on infrastructure projects, coupled with rising prices of new CVs, which now meet emission standards at par with Euro 6 norms, the outlook for FY '26 is positive with a 5% increase in new vehicle sales expected this fiscal, following two consecutive years of declining and flat sales.

The cuts in interest rates, which are expected to be delivered to real customers over the course of the next 6 to 9 months will help in financing of new trucks and will likely spur sales. Demand for used commercial vehicles has been steady over the last fiscal and is expected to remain high in FY '26, given the high cost of buying new commercial vehicles and the implementation of the scrappage policy for the very old vehicles greater than 15 years, which is forcing transporters to trade in their older trucks for the newer models of used CVs.

The economics of buying an older vehicle continue to be compelling with EMIs being up to 50% lower for an older vehicle with similar tonnage. As we reflect on the past year, I want to highlight the key achievements, challenges and focus areas for the future of the standalone IndoStar Capital Finance business. Looking back, while we experienced some softness in business and collections during the year, we delivered strong AUM growth of 21% and PPOT growth of 23%.

Last FY was our third consecutive profitable year, strengthening our market perception, especially among lenders. Our distribution network has expanded significantly with the addition of 54 new branches in Tier 3, 4, 5 towns during the year, allowing us to penetrate deeper into the market. Our strong relationship with lenders helped reduce our incremental borrowing costs, a trend we expect to continue.

We onboarded six new bank lenders during the year. During the year, the company also launched its maiden retail NCD issue of INR266 crores, which was well received by the debt market investors and helped us open a new source of raising funds. A major milestone this year also has been our transition to a multiproduct branch model.

We did a successful launch of micro LAP business last year. This will make our branches multiproduct like some of our peers and allow us to grow AUM without incurring additional branch infrastructure cost. We launched this business in Tamil Nadu last year in 62 of our existing vehicle finance branches. We are building a low LTV secured granular book by lending to underbanked and underserved micro enterprises in semi-urban and rural areas.

Our average ticket size in micro–LAP is less than INR6 lakhs. ATVs are below 50% and tenure of 5 to 7 years and yields are about 22%. And in 90% plus cases, we get self-occupied residential property as a collateral. We have built a local team of 300-plus people focused exclusively on micro LAP business. We are not using DSAs in this business and 100% origination is direct.

As of March 2025, we have close to 1,000 borrowers, AUM of INR50-plus crores and while portfolio has limited seasoning, we have no overdue customers. Our monthly disbursement run rate is about INR15 crores, and we would target crossing INR300 crore AUM by March 2026. We are also seeing early encouraging response in the potential of cross-sell of this product in Tamil Nadu to our existing vehicle finance customer base.

Seeing the early success, we are looking to launch the business in at least one more state this year, again, using our vehicle finance branch network. From the day zero in this business, we have launched 100% end-to-end digital journey with various API integrations for this product. As we have used our existing LOS and LMS, there has been no incremental technology costs for this business. We look to eventually launch this business in all the 23 states we operate in, but of course, in a very gradual calibrated and thoughtful way, making IndoStar a truly multiproduct retail NBFC.

That said, I think next year, our AUM on this product would be less than 5% of our total AUM, but this is a journey towards a multiproduct retail NBFC. Last year, we have also evolved from being a predominantly CV lender to a diversified vehicle financer.

In FY '25, 35% of our disbursements came from non-CV segments like farm equipment, passenger vehicle financing, construction finance, demonstrating early success in our diversification efforts. While we made substantial progress, some challenges remain, and our operating performance lagged some of our well-performing peers. Management team consider this as an opportunity.

Our historic cost base, cost-to-income ratio of about 17% has been higher. To address this, we have launched an internal cost optimization project where each cost line is being critically evaluated for value creation. The goal is to become lean and efficient and achieve cost-to-income ratio in the 50% range.

While we refine our cost structure by eliminating wasteful expenditure and automation, we will continue to invest significantly in people and processes, including micro LAP as we are confident that these investments will yield long-term benefits. Looking ahead, we are well positioned for sustained growth, supported by strong capitalization, CRR of about 28.5% and low leverage, about 2x. Our 446 branch network is expanding strategically to increase reach and operational efficiency.

Moreover, beyond our headquarters, our experienced leadership team is present across areas, regions and zonal levels, further strengthening our capabilities. Given the large total addressable market, we aim to capitalize on emerging opportunities effectively. Several factors continue to work in our favour. We have a highly experienced and dedicated team supported by robust systems and processes, ensuring smooth operations.

Our AA- rating and large capital base further reinforces our financial stability, allowing us to approach growth with confidence. As we set our focus for next year, we are proactively addressing collection softness witnessed in our and few other peer NBFCs' portfolio by credit policy adjustments. As our branch count increased by almost 150 in the last 2 years, along with significant manpower increases, we would look to grow our AUM in FY '26 by 12% to 15% and enhance the profitability.

Additionally, we will leverage our 3-year profitable track record to strengthen ties with the PSU banks and institutions, providing the company with more funding options. We'll be replacing our historical high-cost debt repayments of around INR800 crores in Q1 FY '26, which carries a coupon of about 12% by fresh borrowings at around 10%, which is a reduction of about 200 basis points.

Our profit maximization strategy will eliminate wasteful expenditure while streamlining operations. Over the next 3 years, we remain committed to sustainable business expansion and increasing investment in branch infrastructure; strengthening our multiproduct branch model will remain a top priority.

Another key focus area is bridging the gap between our best-performing peers and us, ensuring we remain competitive within the industry. With our strong capital position, we do not anticipate any need for additional fundraising over the next few years.

Let me now hand over the call to Jayesh to walk you through IndoStar's operations and financial performance.

Jayesh Jain: Thank you, Randhir. I appreciate the warm welcome. Good afternoon, everyone. Thank you for joining us today. Let me begin by sharing an overview of our Quarter 4 and FY '25 numbers. At a consolidated level, asset under management stood at INR11,053 crores, which is a 4% increase from INR10,624 crores in the previous quarter and a 26% growth compared to INR8,763 crores in the same quarter of the previous year.

Total disbursements during the quarter amounted to approximately INR1,535 crores, slightly lower than the INR1,572 crores disbursed in the preceding quarter. Our retail revenue strategy continues to yield positive results with retail loans now comprising nearly 95% of the total loan book.

For the quarter, our consolidated net interest income came in at around INR175 crores, representing a 4% rise over the previous quarter and a substantial 36% increase compared to the same period last year. Net interest margin is marginally up around the mark of 6%. Consolidated operating expenses stood at approximately INR157 crores we reported a Consolidated net profit of about INR36 crores compared to INR27 crores in the preceding quarter and INR35 crores in the same quarter of the previous year. Collections during the quarter reached INR1,356 crores, up from INR1,265 crores in the previous quarter.

Now I'll talk about stand-alone numbers. On a stand-alone basis, ICF's AUM touched INR7,963 crores, reflecting a 1% increase quarter-on-quarter and 23% year-on-year. Disbursement for the quarter amounted to INR1,081 crores as compared to INR1,091 crores in the previous quarter and INR1,465 crores in the same period last year.

Average disbursement yield stood at around 18.5%, supported by continuous focus on Tier 3, Tier 4 towns, along with an expanding mix of secured lower ticket size vehicles, including cars, pickup, light trucks and small commercial vehicles. As a result of this strategic focus, our average ticket size has steadily decreased over the last 5 quarters, dropping from INR8.2 lakhs in Q4 FY '24 to INR5.7 lakhs in Q4 FY '25.

Moving to the net income. Our net total income for the quarter stood at INR181 crores, reflecting a 0.4% increase from INR180 crores in the previous quarter and a significant 22% decline compared to the same period last year. Last year, we had a onetime gain from redemption of SRs during the last quarter, which led to kind of this decline.

Operating expenses were approximately INR120 crores, down from INR121 crores in the previous quarter and up from INR112 crores in the same quarter previous year. Our capital adequacy remains strong at around 28.5%. Our debt-to-equity ratio is at approximately 2x, providing ample room for future expansion.

During the quarter, we repaid INR1,261 crores, while simultaneously raised around INR1,198 crores. The overall cost of funds was about 11%, while the incremental cost of borrowing in Q4 was 10.3% XIRR. Over the past fiscal year, we successfully raised over INR5,284 crores at a notably lower rate as lender confidence in us has grown. Overall, it is encouraging to see improved fund inflows, coupled with reduced cost of borrowing.

We remain committed to further reducing our incremental cost of funds on a quarter-on-quarter basis. In the upcoming quarter, our strategic focus will be on significantly increasing borrowings through banking channels. Collections for the quarter totalled around INR1,166 crores, up from INR1,092 crores in the previous quarter.

Talking about collection efficiency, EMI to EMI collections remained steady at 91%, while EMI plus overdue collections improved to 97% compared to 95% in the previous quarter. This improvement, though seen mainly in the later part of the quarter is a positive sign for the future. Collections performance over the previous 2, 3 quarters has been impacted by multiple external factors, including severe heat waves, prolonged monsoons and broader economic sluggishness.

While we saw a recovery in the second half of this quarter, addressing the issues in the harder bucket from the earlier phase remains a challenge in the short term. As a result of the efforts made by our collection team, our gross Stage 3 stood at approximately 4.52% and net Stage 3 assets saw a slight decrease to 2.46%. Overall credit cost for Q4 remained flat at 2.75% vis-a-vis previous quarter. With stable asset quality, decreasing funding costs, controlled operating expenses and growing AUM and interest income, we anticipate stronger profitability in the upcoming quarters.

Now I would like to hand over the call to my colleague, Shreejit Menon, who will provide more details on the housing finance business.

Shreejit Menon: Thank you, Jayesh. Good afternoon, ladies and gentlemen. Let me start by giving key highlights for the quarter and the year ended March 31, 2025. Financial year '24-'25 was a satisfying year for us in many ways as we continued delivering strong and sustainable growth. With regard to our asset book, we crossed a milestone of INR3,000 crores as we closed this financial year at an AUM of INR3,091 crores, which is a growth of 36% on a year-on-year basis.

During the year, we disbursed loans worth INR1,208 crores, which is 29% more as compared with the last financial year. We managed to achieve strong momentum in the last quarter, where we disbursed INR453 crores, which is almost 50% more than what we disbursed in the last quarter of the last financial year. Our active customer base now stands at more than 38,460 customers, depicting a granular nature of our assets with an average ticket size of INR9 lakhs.

Our core geographies of Tamil Nadu, AP, Telangana and Maharashtra continue to contribute more than 85% of our portfolio. This financial year, we focused on sweating our existing branch network to improve efficiency and productivity. Accordingly, we added only 17 branches in this financial year, expanding our presence to 141 branches as on March 31, 2025. These efforts yielded the desired results in the form of improvement in opex to AUM ratio by nearly 1%.

We witnessed a marginal increase in our 90-plus days past due at GNPA levels. Our 90-plus day past due continued to be under 1% at 0.99% as on 31st March, which is an increase of about 16 basis points as compared with 0.83% in the previous year. Our gross Stage 3 asset GNPA stood at 1.35% as of March 31, 2025.

On the borrowing side, we raised a total of INR1,229 crores during financial year through multiple borrowing channels such as bank loans, NCDs, PTCs and NHB refinance. The liquidity position remains strong with about INR200 crores in cash on the balance sheet and undrawn sanctions of about INR167 crores.

Now let me move on to our financial performance. Our total income for the quarter 4 of FY '25 and year ended FY '25 stood at INR122 crores and INR409 crores, respectively. Our pre-provisioning operating profit stood at INR37.7 crores for Q4 and INR105.6 crores for the year ended FY '25. Profit after tax stood at INR23.7 crores for the quarter and INR67.8 crores for the entire year.

Our return on asset as a consequence of this stood at 3.2% and our return on equity stood at 11.1% for the year ended FY '25. We maintain a strong capital adequacy of 49.8% and a debt-to-equity ratio of 3.4x. We will continue to drive innovation, efficiency and maintain a high asset quality, which are cornerstones of our success story.

Looking ahead, we remain focused on executing our strategic initiatives to further enhance operational excellence, expand our customer base in our chosen geographies and explore opportunities for growth. We are optimistic about the future and remain dedicated to delivering sustained value to our investors and our stakeholders. Thank you once again to all of you for your continued support and participation.

With this, I hand over the call to the moderator for further course.

Moderator: The first question is from the line of Vivek Ramakrishnan from DSP Mutual Fund.

Vivek Ramakrishnan: Good afternoon, Congratulations on good performance. My questions are the following. I'll just ask them in sequence. Collection efficiency seems weak for the March quarter, given the fact that traditionally, it is a very good quarter. So especially in the CV business, are you still seeing some economic lags? So that's question number one. Question number two is on there were sale of assets which you did even in Q4 of CV assets, which was Stage 3 assets.

Was the entire amount realized in cash? And is there any progress on the previous security receipts that you had done because of closure of the older businesses and sale of assets? The third question is on micro LAP, can you just detail out what segment, what ticket size? Any colour would be useful.

And the last question, I'm sorry, I'm just doing it in sequences. In terms of Brookfield, just in case there's more equity required for growth, I know that there's nothing required in the near term because you're well capitalized and there will be proceeds from housing finance business. Will they maintain majority stake or at least maintain management control? So these are the questions that I have.

Randhir Singh: Maybe I'll just take the third question first on the micro LAP. So we did cover this during my speech. Essentially, we're looking at lending to micro enterprises in semi and rural areas. Average ticket size of less than INR6 lakhs. Most of these enterprises are essentially in services business, could be Kirana store, it could be a small dairy business, a sweet shop, a tailoring business, a carpentry business.

So these are the traditional very, very local businesses. And our lending is going to be on 100% secured basis with really low LTVs. Our average LTVs are below 50% in the segment with yields of about 22% plus some processing fees. And we are bringing our loans of about 5 to 7 years.

Like you mentioned, the plan is to essentially grow this business slowly and thoughtfully, but essentially use our same infrastructure that we have created for vehicle finance business, for this business so that we have no incremental operating cost or even technology cost because we're really using the same systems. And that really is the thought behind this multiproduct model. Vivek does it answer your question on micro LAP? Or should you -- would you want more details?

Vivek Ramakrishnan: This is fine. This is perfect. It gives a broad overview. I guess we'll just wait for a few more quarters for execution.

Randhir Singh: Like I said, this is really a good start. What I would like to say is we made a good start for this business with good sort of productivity, low bounce rates, of course, 0 DPD, but these are early days. The book is not seasoned, so. But like I said, early indicators are quite good. On your capital question, I think we have more than adequate capital, right?

So we do not see any near term and when I say near term, I think for the next 2, 3 years, we do not need any equity capital, right? So I think we'll have a very strong balance sheet, especially after we get the proceeds from our HFC sale.

And where, as we mentioned in the last quarter, we did receive RBI approval. We are awaiting NHB approval, which should come in a few days. So I think we are looking at inflow very, very soon, surely within this quarter.

Jayesh Jain: Thanks for your question. I will respond to the other 2 questions on the collection efficiency. As you would know, in Q2, the collection efficiency has significantly gone down. In terms of CV, it has actually gone down on a EMI to EMI to around 88%, 89%. And now this has kind of picked up and it has reached to early 90s, 91%, 92%.

Yes, there is some bit of a work which can be done and which would be done to improve this further. And overall, at an overdue level, the collection efficiency is at 97%. In terms of your question on SR, the SR outstanding today is at around INR1,387 crores. And during the quarter, we made an additional provision of INR10 crores. With that, the PCR on the SR stands at around 26% thank you.

Vivek Ramakrishnan: So there's no progress on resolution of SRs, is it, in the sense they remain there in the books for a while. And also, the other question was the CV portfolio that was sold, was it sold for cash fully?

Jayesh Jain: So in terms of a resolution, there is no resolution which is there. As I said, the incremental provision was only required at INR10 crores only. So this kind of work is performing well and the money is coming out. In terms of incremental SR, , which was done was done in 85-15 structure, which was there.

Randhir Singh: And Vivek, let me just quickly add. I think in the last we did monetize some of our SRs, which were sold back to the ARC. So that was one large resolution. And what we're basically seeing is some of these indicated in the earlier calls was the real estate projects, wherein it is a slow but steady cash that we keep receiving on a month-on-month as well as a quarter-on-quarter basis. In fact, one of our large borrowers did pay about INR100 crores plus, which was also with one of the ARC transactions. So yes, this is a slow burn, but it is in line with what we had planned, what we had projected.

These are real projects as the construction is happening, we're doing slowly, but steadily, we keep getting the cash. So you would see this we cannot show a large drop in just in 1 month or 1 quarter. But as you see the trend over a period of time, you would slowly and steadily see that reduction. And as Jayesh just explained, we are very adequately provided for the exposure. And this really, like we explained, this really is the last bit that we have.

Moderator: The next question is from the line of Sambit from INR Bonds.

Sambit: Hello I am audible,

Randhir Singh: Yes please

Sambit: First of all, congratulations on the quarter and thank you for taking my question. My question is does the company have any plans for the coming fiscal year to raise funds via NCDs?

Randhir Singh: Yes, we do have. In fact, what we are seeing is that we are adding bank lenders, of course. We added six bank lenders last year. We added 1 financial institution. Yet what we are seeing is that we are getting a very attractive rate in the NCD market. And that's why we continue to sort of access that. As we speak, our cost in the NCD market is actually lower than the bank borrowing.

So while we are growing our lending from the bank from keeping long-term view in mind, our cost of NCD sort of has really, really come down. And I would say it has come down by almost 2-plus percentage over the last few years. So yes, the simple answer is yes, we will continue to access NCD market. It's a bullet repayment typically for 2.5 to 3 years, which is great for our ALM, and it is available at a lower cost.

Sambit: Okay thanks I just have one more question. As we've seen in Tamil Nadu ordinance, that's also followed by Karnataka, do you see the other states to follow? And will it affect the collection efficiency going forward?

Randhir Singh: See, we don't know what will happen to other these states. But I think as we've seen, this is obviously not really applicable for lenders like us. And typically, after a few days of sort of confusion and chaos, I think people then do realize that those circulars are meant for unorganized lenders and not for formal lenders like IndoStar.

Sambit: Ok thanks

Moderator: The next question is from the line of Monshree Soni from MK Ventures.

Monshree Soni: Hello I am audible Yes. Please So I have a couple of questions. Firstly, what is the asset quality outlook for the used CV industry next year? Secondly, once the warrants conversion happens and also the money from the housing finance business comes in this year, how are the NIMs and cost of funds going to look like for this year?

And thirdly, in your opening remarks, you mentioned that the cost to income will eventually move towards around 50%. Could you just explain that more? And lastly, what is your aspirational ROA, ROE for the next few years?

Randhir Singh: Okay. So I think I'll cover your question in the order you asked. On the first was your question on the asset outlook for the used CV industry. So for the next year. So when we look at the trend that we saw over the last year where the last quarter was obviously showed much better trend, when I also look at some of the commentary provided by our peers, I think they are really saying the same thing.

So across the industry for all our peers who have declared the results, I think the consensus is that the next year does look much better over the last year, and that trend is very clearly visible in the Q4 numbers as well. So that was the first question. And I think on the warrant conversion and HFC sale, obviously, essentially, we will get a lot of cash, right? So I think the net result of that would be that we will use that cash essentially for the business, which is really for disbursement as well as for loan repayment.

I think we will actually have a significant interest cost reduction because in the past few years back, our cost of funds were quite high. In this quarter itself, which is the Q1 FY '26, we have about INR700 crores of maturity. And that itself, we can replace by almost 2% lower interest rate. So all this cash helps us in repaying a high-cost borrowing.

And I think it also gives us an option because we will be borrowing less. We also have an opportunity to have more time in negotiating with some of our lenders better than others.So I think overall, this should lead to significant cost reduction on our borrowings.

And we are seeing that if you see our results over the last 1 year, you would actually see a quarter-on-quarter reduction in the overall borrowing rate as well as on the marginal cost. On the ROA and ROE, obviously, the aspirational target for us, of course, has to be what some of our peers have demonstrated.

And most peers in our industry of our size typically have an ROA of about 2% to 3%, depending upon their life stage, how much they are investing in the growth, etc. And I think average ROAs obviously range between 10% to about 19%, right? So we would like to obviously be in the top quartile aspirationally as far as this industry is concerned.

Monshree Soni: And lastly, just on the cost-to-income.

Randhir Singh: I hope it answered your question.

Monshree Soni: Lastly, just on the cost of income eventually move towards 50%. Can you just explain that a bit more?

Randhir Singh: Sorry, can you please repeat the question? You were not very clear on the call.

Monshree Soni: On the cost-to-income side, you mentioned in your opening remarks, it will move eventually towards 50%. Could you explain that a bit more?

Randhir Singh: Sure, sure. So essentially, there are a few drivers for this. One is, obviously, as you would note that we have invested significantly in manpower as well as branches. We have opened about 150 branches in the last 2 years. We have invested heavily in people. Now some of that investment is yet to obviously fructify because of course, in terms of growth over the next few years, that itself additional AUM and the loan growth and the income growth, obviously, will improve the ratio.

Second big lever is our cost of fund. We are seeing consistent reduction in our borrowing cost, and we are onboarding more and more lenders. I think it's fair to say that for AA- company, we can and we would expect much better rate sort of borrowing rates over the next few years, and that will have a significant sort of improvement in our cost-to-income ratio.

Moderator: The next question is from the line of Maitri Shah from Sapphire Capital.

Maitri Shah: Hello I am audible Yes mam please go ahead; I had two questions. Firstly, on the AUM growth side, you said that we'll be growing by around 12% to 15%. Could you like split it between your two stand-alone businesses, the ICF side and the HFC side?

Randhir Singh: Okay. Shreejit, do you want to talk about HFC growth first?

Shreejit Menon: No, I think we demonstrated a growth of about 32% CAGR over the last 4 years, and I think we'll be well above that number on the HFC.

Randhir Singh: And for the stand-alone, we are targeting somewhere between 12% to 15% growth for the parent company.

Maitri Shah: Okay. And you said that our cost of funds will consistently be coming down for the next few quarters. So any idea where they would like to stabilize and what percentage will they be stable at?

Randhir Singh: Yes. I think in the long run, given our AA- rating, we should essentially be borrowing, right, while things normalize in 9% handle. So that's really what we are aiming for to achieve over a period of time. And I think the previous question was really on the warrant and large proceeds from our HFC sale and these things will certainly help in that journey.

Maitri Shah: So around 9%. And do we see passing any of these benefits forward to the yields? Or our yields will remain stable?

Randhir Singh: So I think this journey from today's level to 9% will happen over a period of time. And I think as part of the journey, as you've seen from many other lenders, you do get an opportunity to actually target some of the segment, which earlier you did not want to target given that NIM. So I think we will obviously calibrate. Some of this can be obviously -- can be used to access another segment without compromising on the NIM.

Maitri Shah: Thank you

Moderator: The next question is from the line of Varun Gajaria from Omkara Capital.

Varun Gajaria: Thank you for an opportunity, Congratulations on a good set. So just a quick question on the AUM. I could see that the AUM has grown fairly by around early single digits. So if you could just shed some light on why that might have happened in this quarter, particularly?

Randhir Singh: I'd like to mention that given some of the softness we were seeing on the collection in our portfolio as well as for the broader vehicle finance and NBFCs in general, on a selective basis for a few profiles we have tightened our policy. That has resulted in some drop. And like we said, as we are seeing that as the collections improve, of course, we will obviously go back to the previous policy.

But in the short term, it does have an impact on our disbursement and which is something we did as a proactive measure. And like I said, given our large distribution that we've created over a period of time, 450-plus branches in 23 states, we obviously have all the firepower to notch it up as we get sort of comfortable with the macro, which is already happening, as we described in the last quarter. We are already seeing very good trends on the collection, not just for us, but for most of the vehicle finance NBFCs.

Jayesh Jain: Just to add to what Randhir said, the AUM growth also got impacted because of the ARC transaction and the deal which we did in the quarter 4. So if you look at it, while the disbursement was muted, as Randhir explained, but considering these 2 transactions, the AUM growth remained almost flat.

Randhir Singh: And also one of the transaction was actually done with a very strategic intent in mind. We do have assets which qualify as agri PSL. And one of the PSU banks obviously requested that if we can sort of do a small transaction, which helps them meet PSL targets, with the intent to obviously provide us longer-term financing. We obviously went ahead and agreed with that request.

Varun Gajaria: So what sort of provision coverage are we looking at? I suppose right now, we'd be at around 47%. And historically, we've been doing around 55%. So if you could just shed some light on that.

Randhir Singh: Sorry, I'm not able to hear you very well. Can you please repeat your question?

Varun Gajaria: Yes. Am I audible now? Is it better?

Randhir Singh: Yes, this is better. Please carry on.

Varun Gajaria: Yes. What kind of provisioning coverage are we looking at? Because currently, I can see that we are at 47% for FY '25, while historically we've been doing around 54%, 55%. So what kind of provisioning coverage are we looking at in coming years?

Jayesh Jain: Yes, this is Jayesh. Thanks for the question. We understood the question. So if you look at it, last year, our provision coverage ratio on Stage 3 used to be around 60%. This was more to do with the older assets and the older stress assets, which got addressed during the year. And now a large part of the provision coverage is with respect to our core business, which is CV business and the provision coverage is around 47%.

The ECL, as you know, is the mathematical and statistical exercise based on the money which is received from the customers on the bucket 1, bucket 2 and bucket 3. So that's where the provision coverage is assessed. Over last 3 quarters, the ECL coverage is around 47%. In our estimation going forward also considering the recovery and the business growth, this should remain within the range of 47% to 50%.

Further, in terms of company's policy at a periodic interval, we kind of continue to revisit our model and revisit our provision coverage. And in case if we see any stress or any improvement, that we will change it on a case-to-case basis.

Randhir Singh: Yes, we do have…

Moderator: Ladies and gentlemen, the management line seems to have disconnected. Please stay connected. Ladies and gentlemen, the management line is connected.

Randhir Singh: Sorry. Sorry, we dropped off. We don't know where we dropped off. But can you hear us, now? So I think what we were explaining was that we feel very comfortable with these numbers because like I was stating that on the Stage 1, Stage 2, our provisioning is on a conservative basis when we compare ourselves with our peers as well as the overall 3.3%, again, is on a conservative basis. So I think, yes, we do feel comfortable with these numbers.

Varun Gajaria: Sir, at the start of the call, you were talking about the SR. If you could, probably give me a little more clarity on what is the SR outstanding currently? And how much does that reduce from the recent sale of stressed asset?

Jayesh Jain: So the gross value of SR outstanding as on 31st March 2025 is INR1,387 crores. On that, we are carrying a total ECL provision of around INR365 crores, which is around 25%, 26%. In terms of the SR resolution, we continue to work with ARCs, borrowers to speed up our realization on the real estate projects or monetize the SR through any other means.

So as was explained by Randhir in the earlier question also, SR continues to have our focus, and we continue to explore opportunities to see that how do we kind of realize it very quickly. Having said that, the current realization in terms of these SRs has been as per plan, and there is no need for extra provision. These are adequately provided for.

Varun Gajaria: Okay. So the recent sale of assets that you've mentioned in the presentation, that was from the SR only?

Jayesh Jain: Yes, that was on the SR book, which was in the 85%, 15% cash sale basis.

Randhir Singh: And another example that we provided was that we sold our SR to the ARC itself because they were comfortable with the progress on that particular project that was the previous quarter.

Varun Gajaria: Okay. And sir, you mentioned that the used CV industry is now is picking up, should look better. So probably can we expect that next quarter in terms of disbursement should be better?

Randhir Singh: Yes. Yes. I mean, typically, just in terms of trend, what you would see is the first half is slower, right, for most of the financials. But yes, in terms of trend, we should see an uptick.

Moderator: The next question is from the line of Chirag Gandhi from Astralit Investments.

Chirag Gandhi: Hello I am audible, yes, thank you for the opportunity, Apologies, my line got dropped in between. So I don't know whether this question has been answered or not. So my question is around the AUM guidance of around 12% to 15%. So my thought process is that since we have a lot of liquidity on our balance sheet post, let's say, the sale of our housing finance company.

So what restricts us from doing a higher growth, let's say, around 20%, 22% versus the 15% guidance that we have given? And just one more question to that is what explains the drop in for this quarter? These are the 2 questions.

Randhir Singh: Yes. Actually, we did cover, but we'll quickly sort of answer your question. So what we explained was that there's been no liquidity issue anyways. Even in the past, we had sufficient liquidity. And HFC, of course, just sort of gives us much more firepower in terms of our future growth. It also helps us improve our cost of borrowing.

The reason for slightly lower expectation and guidance release, like we explained that we did take some policy measures and tighten some of our creditors selectively in few geographies because we swathe trend in the market, not just for us, but for NBFCs general. And those filters may remain in place for 1, 2 quarters. And that really is the reason for a slightly lower AUM target for this year. Goes without saying, opportunistically, we'll obviously we'll try and maximize our growth.

Chirag Gandhi: This explains it. And one more question is on your multiproduct approach. So like last year, we started with micro LAP as a segment. Which are other products that we are looking to start in, let's say, next couple of years, if you can guide us.

Randhir Singh: Actually, these are the only 2. I think in both our current product set, which is vehicle finance as well as micro LAP, I think they offer a fairly large addressable target market. And I think the LAP segment itself in sort of these ticket sizes is fairly large, as you can see from many of the regional NBFCs who may be concentrated in just a few geographies. And we obviously have operations in 23 states.

So we do think that these 2 products should be sufficient for our growth ambitions over the next 2 years. So in other words, no plan to launch, let's say, a gold loan business or a personal finance business. I think we'll just stay focused on these because they offer a great sort of opportunity and there's a lot of adjacency, not only in terms of geographies, which is really essentially semiurban, rural, Tier 3, Tier 4, Tier 5 towns, but also in terms of profile, which is essentially assessed income, lack of documented income or sometimes a formal access to borrowing. So I think these 2 segments for us have kind of natural adjacency and complement each other.

Moderator: The next question is from the line of Kunal Panjabi from Ionic Assets. Mr. Kunal's line seems to have disconnected. Moving on to the next question.

We have [Anuj Agrawal from AA Investment.]

Anuj Agrawal: Hello.

Randhir Singh: Yes, Anuj. Please go ahead.

Anuj Agrawal: Hello.

Randhir Singh: Yes, Anuj, we can hear you. Please go ahead.

Anuj Agrawal: Yes, hi.

Randhir Singh: Yes, Anuj, we can hear you. Please go ahead.

Moderator: Mr. Anuj's line may have disconnected. The next question is from the line of Vibha from FairConnect.

Vibha: I have one or two requests on data. One on your liability side, can you please start including a slide on asset liability maturity profile so that one knows that what are your inflows and outflows. In any case, you give it in your annual report as per RBI disclosures. And second thing is that the focus, I would say, unnecessary focus on the housing finance business, as you said, that you're just waiting for NHB approval, so as far as investor of IndoStar, I'm just concerned with your stand-alone performance.

So I'm actually surprised you talk about consolidated performance. Is there a doubt that deal will not go through? And if there is no doubt, then possibly we should be focusing more on stand-alone performance and how much inflows are we getting from the deal? These are 2 observations. And third, just trying to reconcile that how much funding would you need? If we see in terms of asset growth, you said 10% to 15% AUM growth.

So that's about incremental INR800 crores to INR1,200-odd crores for assets. And I don't know what are the maturing liabilities, if you could throw some light on that? And how much would be the inflow from the deal? And what would be your incremental net borrowing for the coming year?

Randhir Singh: So Vibha, specifically, we are required to declare results for our subsidiary. This has got nothing to do with our confidence of receiving the money. In fact, we did share the information that RBI approval's already come.

And I think in the beginning of the call, maybe you missed it, that approval is expected any time now, and we did guide that we should surely receive the inflow in a few days and surely this quarter, right? So we do think that this should happen very, very quickly. So at least as a management team, we have no doubts.

We would thanks for the suggestion on ALM, we will include that information, yes. And I think as far as the incremental borrowing is concerned, I think we are very well placed, we're very well placed. Jayesh, do you want to provide the numbers?

Jayesh Jain: Sure. Considering the expected inflow, which is a large on the HFC sale and considering the 12%, 15% AUM growth, we would probably need to raise incremental funding of around INR4,500 crores to INR5,000 crores considering the asset growth and the liability repayments.

Vibha: 4,500 to 5,000 Jayesh?

Jayesh Jain: Yes. We will have a liability maturity.

Randhir Singh: I think maybe Vibha is asking what will be the net increase in the borrowing. So Vibha, the numbers that we're telling you is the gross number, so in the sales.

Vibha: Yes, yes I understand. Okay. So there is a lot of maturing liabilities?

Randhir Singh: Exactly. And we also have significant cash flows every month, right?

Vibha: Yes. Can you please upload your ALMs?

Jayesh Jain: Sorry?

Vibha: Can you please upload your ALM, Asset Liability Maturity profile because that will give those numbers.

Jayesh Jain: Sure, Vibha. We'll explore or maybe otherwise, one-on-one separately, we'll speak to you.

Moderator: Thank you. Due to time constraints, we will end the call. Ladies and gentlemen, on behalf of MUFG Intime India Private Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.