



“Can Fin Homes Limited Roadshow



MANAGEMENT: MR. – CAN FIN HOMES LIMITED

Questioner:

Just joining on nominal what I wanted to ask is, see the way I'm looking at the business and this is slightly a longer question, is somewhere you've got the wherewithal of the cost of deposits, right? Everyone is looking for affordable, emerging, whatever the segment is. For you, cost of deposits or the cost of funds is not a major issue, but you know what could translate into NIM is if you probably stretch a bit and then try to get certain customers which is possible for you given your, wide reach and in certain customers you can and, you can play a little bit on the yields?

So, for a faster – see and this organization, in terms of, the growth was always lacking. So now, hopefully, things are behind, why can't you grow faster? Will you use yield as a bit of a lever incrementally to actually do it, part A? Part B, this is my contention, is now that the interest rate cycle, the downward thing is kind of over, it's more neutral to maybe upward way on things panel. During this time is when the BT-out pressure should be lower. Now, then you don't have that end pressure also, hopefully, that is my question later on which will come. So, then why not actually push the pedal on the growth?

Management:

Sure. See, first of all, your first part, answering the first question, so we did have an option to look at other because we have cost of fund advantage and we had an option to also see if we can improve the NIMs and the spreads and everything by looking at some other, aspects where we can improve it. So, that is what we have also done. We've slightly moved towards thin, I would say newer products, but a little more on LAP, a little more on self-employed and other things to improve on the yield.

That's why while our, cost of funds has come down much more, our yield has still, not come down as much. That's the reason why our spreads have improved. That's because we shifted some of our portfolio to, LAP, some of the business we started increasing it to self-employed also. Both have in fact, we had in '23 itself we had laid down our strategy that, there will be four pillars of our strategy.

One of them that will be geographical expansion, which we have now done. Today North and West constitute 33% of our almost one-third of our entire business. Second was that we will slightly increase from our 11% which was our housing non-housing to around 80-20. We are almost close to that. Third pillar was that we will move from salaried and self-employed, which was 73 and 27, to up to 65 and 35. In that also we've moved to almost now from I think a little below 70 is what is our salaried portfolio.

So the in the three years itself we have increased our share of this. Now, the other point that can happen is we can look at, appraised income or surrogate income proof linked products, like, average bank balance method or GST-based income or multiplier income product or things like that. Now, that, while as a product is not a difficult thing, but our teams are not yet ready to

handle those kind of products because they've always been doing documented income segment customers only.

And from the board also, that has to come as a, willingness to be able to. So, that is one area which we have not done. But otherwise, in terms of LAP, in terms of this, we have definitely looked at it. This year if you look at our growth, it is 23% in terms of disbursement. Next year also what we have targeted, we are looking at INR13,000 crores. That over INR10,500 again will be 20% plus kind of a growth in terms of disbursement. So, now on a consistent basis, we are looking at a higher growth trajectory and definitely we would want to settle at somewhere about 20% in terms of the disbursement growth.

Having said that, once that happens, the AUM growth will slowly start catching up and will reach around 17%, 15% to 17% is where we will on a consistent basis, and that is what is the sweet spot we are looking at where we should be growing our AUM CAGR of 15% to 17% CAGR should be there. So, this is the first part of it. Growth, yes, it is what we are looking at. We have for that triggered branch expansion.

We had a issue in terms of our, sourcing channel. That's why the fourth pillar comes in, that we wanted to add a sales team so that we can bring down the DSA reliance. So, our reliance on DSA will become up to 60%, 20% can come from our own sales team or DST team, and we can have our digital onboarding also coming in, digital sourcing coming in with another 10%. So, these are the part of it. And so, the second part regarding...

Questioner:

What are those, 60-20-10-10?

Management:

60-20-10-10. Direct walk-in anyway is 10, 10% digital, 20% sourcing will be through sales team and 60% through our DSA. So, this is the thing. So growth, yes, we are aligned that we want to grow at a 20% plus in terms of disbursement so that it comes to 15% to 17% in terms of our AUM growth. Now, coming to the second part which is, the rate cycle and whether, that yes, I believe we have during this period of rates coming down, we've used that to also shift our portfolio from annual reset to quarterly reset because that was a pain point in the past.

If you see in '23, '24, while the rates had gone up, the liability side moved up but the asset side did not go up. That's why our spreads had come down to as low as 2.31. So, this period we have used it to also not only, shift our loans from MCLR linked loans to repo-linked loans, we've also done is we've shifted from a annual reset to quarterly reset. So going forward, when the there's a reversal in interest rate cycle, the lag will be not less and we will not be impacted as much in terms of the spread.

Within a quarter at least we'll be able to catch up and pass on the entire benefit to our customers. So, that also we have done in this. And in as on April almost 85% plus of our customers are kind of in a quarterly reset. So, that will be taken care. Now, third, as regards our what happens if the rates go up or if the interest rate cycle reverses, then well whatever strategy we have followed in when the rates have been coming down, the same we will follow.

In the sense that today if when the rates went down by 125 basis points, we passed on 50 basis points because 40% of our portfolio was repo linked. Okay. Now, going forward, if the same

thing happens, then we'll do the reverse on the increasing trend. So, if a 25 basis points increase in repo rate will translate to around 10 to 12 basis points increase in our, benchmark rate. So that, from when it comes to the customer, we will be very transparent and that's the thing.

Questioner:

Sir this, I know it's not right to take one quarter, so I'm just giving this as an example. If I kind of look at this disbursement this quarter of INR3,200, I mean, you did point about INR3,200. But AUM growth wasn't much, INR1,100 to INR1,200. Now, the balance is actually BT-out which you mentioned about 25% and it's own book which is growing. So where I'm trying to hit at is what is happening is incrementally though disbursements are going through, the AUM growth like on 14% disbursement growth is like on 18% disbursement is more like 4% or 5%. Will this likely to change in any way or next one year we might sit in this way?

Management:

Okay. I'll tell you, see if you I we have been very transparent and we have in our presentation shared this entire, run-down ratios table, which we've been doing for the last almost two years now and it has the data from '22 onwards. If you look at the same kind of simple, it's a simple no, no rocket science, if you just simple math for every other company you will find that the run-down ratios are in the range of anywhere between 17% to 20%, 22% also.

So, that is something which is a given. So, today knowing that, if my portfolio is INR100, it is going to end up with INR83 if I don't do anything else. So, if I want to reach from INR100 to reach INR115, then I have to do 115 minus 83. That is what I have to do. So, at any point of time, assuming 17% is my prepayment, I have to do one-third of my loan book has to be my disbursement. So if INR42,000 is my book, I should be doing INR14,000 crores. If I do INR14,000 crores, then my 15% growth is assured. That is the point.

Other thing is yes, I can do something to reduce my prepayment which when the interest rate before the interest rate started going down, the gap between the best rate we were offering and the best rate with which say an SBI or a nationalized bank was offering was to the tune of about, they were offering at 8.4, we were offering at 8.9. So, it was about 50 basis points. Today, that minimum has come down to 7.15 for banks and 8.10 for us. So, this gap has gone up mainly because they have straight passed on the full 125 basis to the customer, we've not been able to do that.

Questioner:

Sorry, the difference is 7.15 versus?

Management:

Ours is 8.1. Minimum to the best 775 plus CIBIL score customer if we are giving, it is housing customer, it is 8.1.

Questioner:

Wait.

Management:

So, this is what it is. So when the rates go up obviously, they will also pass on the full 25 basis points because it is all EBLR linked, whereas I will increase only by this. So when the rates go up this gap will reduce, so I can probably hope that my prepayments will not be as much. So we will have to work on reducing this 17% which is the run-down to approximately around 15, 15.5. So that itself will be a addition to the AUM.

Questioner: Cost of borrowing is something which is spectral to question you about. Still in terms of we've seen near term, the rates, I'm talking very shorter term basis, but pinching up a lot. Given your liquidity profile, which will happen six months down the line, are you going to prepare yourself and try to in advance do something whereby which your liability things are taken care over the next couple of years or will you wait it out through?

Management: See, another thing which, I have not been highlighted which I want to share is if you see our CP. CPs, we were at one point in time 11% of our borrowing for CP. Then we brought it down to 8% at the beginning. Okay. Today, if you look at it, on 31st of March the CP percentage is only 2.33 percentage. So short term also if there are small blips in interest rate you know this thing, I am exposed only to the extent of 2.33%.

I am trying to not only does this, reduce the impact or, give us a this thing, but even in terms of our ALM it is beneficial to us because, we are funding long-term assets with long-term liabilities rather than short-term which will lead to an ALM mismatch. So, that is another highlight which we have very consciously done is that, when the short-term rates can go up, whenever there is some small event or something, it can go up.

If at that time I have a lot of maturity coming in, I will have to borrow at that high cost and it will impact my profitability. But that we have tried to reduce. And we are keeping repo linked unutilized sanctions on hand from banks, which we can use anytime if at all that is there, we can at least go through for easily for more than a quarter without having to wait and we can wait through at least for a quarter or more.

Because I'll just tell you, like in the fourth, in the third quarter we received a sanction from NHB for INR1,500 crores. Now, traditionally Q4 the rates always spike up because of a liquidity, tighter liquidity. So, rather than utilize the entire INR1,500 crores, hello, in the third quarter we utilized only INR500 crores and pushed the remaining INR1,000 crores to Q4. Now in Q4 therefore we did not have to, when the rates were high, when the CP was also going at 7% plus, we didn't have to raise anything from the CP or NCD or anything, we could use the same NHB funds and we could do it. So this was also a conscious call. So basically, it's all liability management.

Questioner: So coming to that growth question again on Karnataka, Telangana, what is the scene now with current ongoing, is this thing resolved? You are going with that INR300 crores run rate in Karnataka, maybe something INR100 crores plus in Telangana or has it improved further?

Management: No, no. 300, so right now we were doing INR250 crores in Q2, Q3. Q4 we have done around INR290 crores per month is the run rate in Karnataka. And I think on a sustainable basis, we can do INR300 crores approximately for the year. So, we are looking at around INR3,500 crores disbursement from Karnataka in this financial year.

Questioner: But why can't it go up, because previously it was more to do with what has happened to the IT, ITES or to do with?

Management: No, no. We have for the last two, three years, because first of all we had, this issue in Karnataka, we wanted to tighten and thereafter immediately the e-Khata issue happened. So when we were

opening branches, one initially we wanted to have the slight realignment of our geographical mix. And then this e-Khata issue happened. So actually, while we have opened 54 branches in three years, we have not opened a single branch in Karnataka.

Now, this year we are looking at three branches in Karnataka and slowly that cycle will start because now, and once it starts, then the growth will again pick up. So we opened branches in North, we opened branches in West, one or two branches in Tamil Nadu also we opened, but we didn't open a single branch in Telangana, single branch in in Karnataka.

Questioner: Total branches of Karnataka, Telangana?

Management: The Telangana we have 19 branches, in Karnataka I think we have 43 branches.

Questioner: So, Karnataka would be INR300 crores kind of a run rate and Telangana, which was we were looking at...

Management: About 125 full for the year, it is already 100 plus. And it is doing 100 plus consistently for the last nine to six months.

Questioner: So then the real growth which you expect is going to come from where?

Management: See, all zones are right now contributing. North also is now doing almost INR150 crores per month they have done. Next year we are looking at around 175. That already in the last 2 years they have been doing very well. We are looking at about INR175 crores or something coming from the North side. We have about 200 to 225 will be the run rate around Tamil Nadu.

Tamil Nadu has been doing very well for us and it has been one of the silent consistent performers where even delinquency has been very, very low and there we are almost doing we would have done about INR190 crores run rate in the Q4. So entire year next year we are looking at about INR200 crores run rate from 200 to 225 from Tamil Nadu.

And there we have opened some branches also, which are also doing well. So, that is another large market. It's almost going to be our second largest market for us now. After Karnataka, the second largest is going to be Tamil Nadu. And then INR160 crores, INR175 crores from North per month. West also almost same.

Now earlier East zone, which was basically AP and the rest of it, used to contribute about INR70 crores to INR80 crores only per month. Last year also they have done almost roughly that much only. We are looking at about INR100 crores to INR125 crores from East zone every month. There also we have opened branches and particularly now this AP market is looking very, very positive. At least we are very positive about AP. It's all-round development plus a lot of investment is coming in AP now.

Questioner: Any signs of stress which you are seeing maybe certain pockets of in the MSME space and employees related there, IT, ITES, the ongoing West Asia war which has happened and if there is anything on cashflows which you are seeing?

Management:

No as of now nothing in fact on the ground also we've been talking about. We have not seen anything. In fact, we on our own tightened slightly some of the NRI loan policies and all, but we are not seeing any stress otherwise. And in fact, I expect that our delinquency can further come down a little bit.

Questioner:

[inaudible 0:17:25]

Management:

No, we can't go down in credit cost, but at least we can see that the delinquency doesn't- can come down a little bit. Delinquency can come down, NPA can come down a little bit.

Questioner:

And that is specifically in terms of geography you are talking about?

Management:

See what has happened here is most companies have their write-off policy. Okay. In CanFin we don't have any write-off policy. We've not in the total, I mean from the initial till now if I look at it, I think there was about INR18 crores which was written off for various reasons. Okay. That's the only amount which has been there.

Today, that also we are having about -- so last year we started an initiative that one old NPAs where normally the on-the-ground mentality is that whatever accounts are in SMA-2, let's ensure that they don't move into NPA and whatever are latest NPAs, there is a scope. But once an account becomes older account, they generally tend to keep it aside because the chances of a recovery are less, so why put an effort over there.

But we set up a team specifically in our head office and we are following up such accounts. So, I feel that some of the older accounts where actually effort has not been done can definitely yield some results. And we have started seeing some results in the last year also. In fact, if you would see last year our bad debt recovery has also gone up because some old, old cases which are kind of 2015, 2019 NPAs also we have started recovery because we started aggressive action on those cases.

Questioner:

[inaudible 0:19:17] provision there is also the cost which I need to understand, last time we spoke we also spoke that to Indian employees, branch led plus IT and both the costs is likely to go up. Where are we in terms of that, what's- how's it going span out for the next couple of years in terms of that?

Management:

See, the employee cost will -- is already, I mean, we had a salary revision last year. We had a compensation benchmarking, we did a salary revision because we also had to attract talent. So, that is already done last year. We did it in May and the impact for the full year April to March has already been factored last year.

So, now the only salary incremental cost or increase in salary cost would be to the extent of the additional staff that we add and whatever little increments that happen every year, which is a normal thing. So, that one-off which had to happen, there is already done. Two, the Labor Code impact which was there was not applicable or rather was almost nil, negligible to nil for us because we were already complying with the 50% limit of basic plus DA.

So, that also was not an issue. So, that part is already factored in. It'll be a normal increase only that we will see in FY27. In terms of the IT cost, we've already said that IT cost we said it will all start from FY27, but in fact INR6 crores we have already taken in FY26 also, approximately INR6 crores, because some of the licenses we had to renew, we've renewed and everything, so whatever.

So, that cost is the only cost which will come. The third cost is the branch expansion cost. Branch expansion as and when we do it, we will have it. But now for the last 3 years, if you have seen, we have added 10, 15, 15, 15 branches or something. So, to that extent even that cost is a kind of a factored in on a regular rotating basis.

Questioner: But what is likely to be the IT cost now for the full year?

Management: See, IT cost we are expecting about INR60 crores will be the annual cost, including the depreciation and including the annual maintenance costs, AMCs, renewals and all those things. As against that, currently we are already spending about 20. So next this year when we go live with the new system, the old one obviously will have a sunset.

So those INR20 crores will kind of reduce and will be offset by the INR60 crores. So, net addition of INR40 crores is what we are looking at. So, today our total cost is about INR311 crores, right? INR311 crores, so 311 will become 351 because of the IT plus whatever is the increase which will come. Normal staff increase, branch expansion, increase in rents and rates and taxes, all those things may-, we may be around 375, 380.

Questioner: So just want to understand, we've seen competition increasing, someone is offering a lower rate, someone of competition is also offering plus, top up plus and all. During this scenario, how do you retain the customer because that customer is going be high-rate customer, right, in a way?

Management: See, here if we look at the banks, the larger NBFCs and then the affordable housing. Affordable housing doesn't impact because today I am offering maximum rate of 12% where their rates start at 12%, so they- any affordable housing company taking over my loan is very minimal.

Even if at all it is -- even if at all something happens, it'll be maybe if they are able to give a huge top-up which I cannot give. That will be something then they may go for it. But that I think is not happening much. Okay. And even if it is happening today the regulator is very serious about this particular matter.

So they are not very keen to- sorry -- so even the regulator is very clear about this point because they have started analyzing as to whether there is a property or valuation bubble happening. For example, vendor A or company A has given a valuation of 30 lakhs , 125 lakhs. The same loan after one year is taken over by somebody by valuing it at INR50 lakhs and giving INR40 lakhs with a top-up of 15 lakhs.

So, that also they have started looking at it. So, I think that will have an impact in the sense that over a period, these kinds of fancy takeovers with top-ups might slightly reduce. Okay. So affordable housing companies, I'm not very worried because their rates start where my rates end. So, that's one point.

Second is banks, yes, they have a definite advantage in rate of interest, so there is a- this thing for advantage for the customer also to move from us to the banks. But then banks we are not seeing much of a takeover from banks, because they are more in the city centers and metro areas and all those things, whereas we are a little this.

Our ticket sizes are also INR20 lakhs and all this, which they are not very keen to takeover. That leaves in- the likes of LIC, Bajaj, PNB HFL to some extent and all. Now there it is happening and so we can't obviously offer wherever it is possible for us to offer within our policy guidelines a top-up and retain the customer, we do it.

But sometimes the rate advantage works and customers go out. So, out of 10 branches, probably if you ask them, 8 of them will say that LIC is taking over the maximum. Obviously, because they are also offering 7.15 and all, that is the rate that they are offering sometimes. So, that happened.

But one thing is they're very clear that as per the guideline, today we cannot have a differential rate for customer X vis-à-vis customer Y who are on the same credit parameters, same equivalent platform we cannot differentiate between A and B. So today, if you say for this customer on a selective basis we reduce half a percentage just to retain the customer, we cannot do that.

We are not supposed to do that and we don't do it. But fact of the matter is yes, I believe in the market it is happening. Selectively also rate reductions are being offered to retain by competition, which we don't do. So, to that extent, maybe that is also one of the reason why we have a higher prepayment probably.

Questioner: But as we spoke earlier, affordable is still not a thing you want to get into?

Management: Not right now. I mean, there is, I mean, eventually we'll have to look at something if because that is the only way now going forward, we have nothing left in opex, we've nothing left in credit cost and we are already offering a competitive rate. So, today if we have to improve our ROA, ROE, we will have to look at affordable or something which is a little high yielding, maybe 5 paisa, 10 paisa, a little bit here and there. We'll have to keep looking at options.

Questioner: What are the other possible areas for that, like apart from affordable?

Management: So we did -- we have slightly increased our LAP and we still have a scope to improve, increase our LAP another 1 or 2 percentage point. Affordable-, sorry, this SENP also we have a scope. We have done it. Today, incremental 45% of my business comes from SENP category, 55 from housing, from salaried.

So, that is also one small area. But the simple guideline is while we are okay to increase our self-employed, we don't want a position where our salaried actually starts going down. So we are also ensuring that while my self-employed has gone up by 25%, salaried should at least go up by 10% over the last year. So, that also we are cognizant of.

The other ways are looking at it is yes, there are some small, small within our policy and product guidelines, there are ways in which we can look at something, like for example we are getting

cases where you have- there are multi -- CRE particular category by CRE category and a regular housing rates are same. We can charge a 5 to 10 basis points higher for CRE because obviously it is a non-housing. So, those kind of small-small opportunities are there, we keep reviewing it and little by little we will try to do it so that we can improve our yield.

Questioner: But builder funding, builder financing is not an option?

Management: Builder financing is an option, yes. We have taken approval, we might do it on a very small basis, we might start.

Questioner: Anything on the other non-basically interest income side which could be interesting?

Management: See interest income side, let me tell you in the recent December 5 guideline which has come, the RBI guidelines which have come, they're full set of guidelines, there in fact, there are certain restrictions they have put for all, where we cannot be doing things where like third-party product selling and all if we have to do. We have to but separate approval from RBI will have to be taken and all. I don't think those options are now available. We were frankly speaking we were contemplating such things also, but I think now these guidelines itself have come because they also [inaudible 0:29:15]

Questioner: They don't want that at all?

Management: No, insurance is fine. Insurance, core insurance is fine, which we are doing. And in fact, our penetration was very, very low. It was just 37%. So slightly, even if we increase it to 50%, I think that [inaudible 0:29:28] which we have already increased. So from when 3 years back it was 37%, now it has slightly gone up to 41 and probably now we- we will probably look to push it up to 50% at least. That is one option which is there. That is I think the only one available option, which is there.

Questioner: Going [inaudible 0:29:53] when we look at the increase of different companies, all the housing companies. We have a few ones which are obviously at that advantage, maybe 10,000, 15,000 odd crores which are growing at 30% kind of number. We have more than ours, even at 80,000, 90,000 or probably more than INR1 lakh crores also, they are talking about 25% plus kind of a growth. They all are talking about doubling their book in the next two-three years.

For us, the main issue has always been, like when we missed it from the growth perspective, though we can put it on certain states or on certain things, which did not work out. But irrespective of it, last three years we've seen like growing only at 10%-11% kind of growth. Do we really envisage or we have like certain things which did not work for us and probably we are re-evaluating and looking that we can grow at 18%-20%, maybe not this year, next year we can reach that number or it would be difficult for us unless we add up another segment?

Management: Not at all. We can easily with the same model reach 15% to 17% growth and this year itself we are talking about 14%, 14% to 15%, and next year we will be looking at 15% to 17% because see AUM growth comes with a lag. A fall also comes with a lag, increase also comes with a lag. This year we have grown at 23%, but the AUM growth has not come.

Next year again when we do 20%, this AUM growth will slowly catch up and it will catch up. So, without changing anything also, we can easily talk about 15% to 18%, 15% to 17% AUM growth, which is definitely doable. We had obviously issues, we had the -- this fraud which happened in Ambala, because of which we had to redo our entire review of our policies, strengthen issues and all. Then we had this issue in Karnataka.

So those issues have hurt, because of which if you see the last two years of growth has been in FY24 it was a negative growth and in FY25 there was a marginal increase only. It is only now - - so obviously that impact of those two years is what we are witnessing in the AUM growth. But now with growth at 23% this year, next year also we are targeting 20% plus because we are targeting INR13,000 disbursement, this will increase to 14 and the year after that it will increase to 15 plus.

Questioner: At the same business model?

Management: Without any changing any business model.

Questioner: So what had changed specifically in terms of, apart from external events like you were in Karnataka. This fraud still actually impacts in a particular region or something, but ultimately the disbursement [inaudible 0:32:22]. So what had changed for the disbursement scale-up to happen?

Management: See, we had stopped our branch expansion from '19 onwards, post-COVID. So there was, you know, that had completely stopped. Second thing was even in terms of our sales engine, we were only dependent on the [inaudible 0:32:43]. In the last two years we have now developed our set up, our own sales team. Last year our sales team has contributed almost INR870 crores of disbursement has come from our own sales team, which is just about 80 people, 82 people in the end, in between it had gone up to 90 and all.

And second thing is the branches that we've opened after '23. Those branches last year have contributed INR820 crores, which both 870 or 820 almost comes to around INR1,700 crores. That INR1,700 crores the year before that was only about less than INR400 crores. It was in fact 300, just about a little about INR300 crores.

So you can imagine the maximum growth has come because we set the ball rolling two years back with the sales team and three years back with the branch expansion. Now this year, the same two aspects are going to contribute more than INR3,000, close to INR3,000 crores. Because we are increasing this team of 90 people to 150 people plus the -- this year also we are opening 28 branches plus that some of the branches will also increase and [inaudible 0:33:46].

Questioner: 28 branches on the basic strength of? How many branches were there?

Management: Currently 249. So almost 10%.

Questioner: And ticket size?

- Management:** Ticket size, of course is also one of the things. That will anyway slightly keep increasing, inflationary thing will happen.
- Questioner:** What will [inaudible 0:34:11]?
- Management:** Nothing, just...
- Questioner:** Okay.
- Management:** Okay. Now coming back to your point is -- thank you. So, [inaudible 0:34:30] see if you get some of the other players you rightly mentioned, are talking about 25% growth. In fact, there is also an inorganic element of growth which is coming. Portfolio buyout, DA, portfolio purchase that is. Now in our case, we are not doing-, there's also builder finance, there is also a portfolio buyout and there is other lines other than housing also which is there, because of which they are under a stress for EBC criteria.
- In our case, we are not getting into any of those things. Okay. That's a conscious call that we don't want to get into, right now we don't want to look at inorganic. Okay. Otherwise, we can easily at this rate also, we can also be buying portfolio from other [inaudible 0:35:12]. But that is not there. We are not doing co-lending. Okay. We are not doing DA. That is one thing. Second, we are not even doing builder finance or we are not doing lease rental discounting or things like that.
- Questioner:** [inaudible 0:35:27]?
- Management:** No, no. It's DNA, I would say exactly the same answer to that is that just like we are not looking in a position to right now look at surrogate income products. Same way we have for this it'll be a different vertical we'll have to have that approach. The team will have to be different, the sourcing model has to be different, the payout structure has to be different. That is something which we are not looking at.
- So inorganic at least even now we are not -- even this year we are not looking at any inorganics, no DA, no co-lending. In terms of builder finance, yes, we'll take one at a time and slowly see if we can do 50. So builder finance, yes, we have taken an approval for a small exposure to start with, maybe INR50 crores or something, which is hardly anything. But at least to it'll give us the experience to build a team, to develop, get the understand the market, and then probably slowly we will grow on that.
- Questioner:** [Inaudible 0:36:31]?
- Management:** We are just started, I mean, we're looking at, yes. [Inaudible 0:36:36] are going.
- Questioner:** And the process [inaudible 0:36:41], so how much of efficiency we have actually coming through that? So maybe a person who could do like three files, four files, how much does that improve like from two to four or what is that [inaudible 0:36:55]?
- Management:** I mean, it's not so easy to give a number just like that, but just I'll give you a [inaudible 0:37:00] like for example, we are saying we are going to increase this team from 90 to 150. Now, we are

not going to recruit people from outside. All the efficiency that will come from this IT implementation is what from where we would be able to take out these people and put them at sales.

Because the work that was being done by say a branch with nine people, now that same team can probably be done with eight people or seven people also, the same amount of work. So basically we'll be putting two people, the two people extra will be able to generate more business. So, that's how it is going to work out. Without much addition of staff, we will still be able to now generate more business.

Questioner: What has happened [inaudible 0:37:50] started to grow, but we are not very confident that it is actually translating into that 18% plus kind of growth or is there a saturation where beyond which a book cannot grow?

Management: No, no. There is no saturation. There is -- it's just that, you know, we have had some, I mean, geographical concentration was a risk which hurt us, right. There were, I mean, Karnataka has hurt everybody, but then for people who had having 3% or 5% exposure in Karnataka, it was not hurting them as much as it has hurt because for us 30%, 35%, 32% was in Karnataka.

Questioner: But lately what I've seen, suddenly everybody is talking about 20% growth in AUM this year and like without fail like everybody is commenting. PNB Housing is also saying that Aadhaar, Aawaz, you will also reach there totally [inaudible 0:38:55].

Management: I mean if you ask me, I've been saying this from the time I've joined that, affordable housing as a segment has been -- as a market has been going down. Today it is going NHB is talking about it. RBI's data shows, credit information bureau data shows affordable housing segment is now going in single digits. So, I am surprised.

Questioner: [Inaudible 0:39:22].

Questioner: What is your aversion to affordable housing?

Management: There is no aversion, it's my first love, but the issue is that I need to have a team to do it. I can't just -- the products, policies, everything will have to be different. Today the team is very comfortable in assessing the documented [inaudible 0:39:49] build the scale because let me tell you in [inaudible 0:39:53] when we started off the first year we had a INR25 crores [inaudible 0:39:59] approval for doing affordable housing way back in 2003.

Questioner: What is your ticket size normally in a bank and what would be the affordable [inaudible 0:40:08]?

Management: Affordable today, see in [inaudible 0:40:12] our ticket size was INR11 lakhs. Okay. Today, I think even the affordable housing people are talking about 15 to 20.

Questioner: And what is your ticket size average?

Management: Ours is about 25 lakhs.

- Questioner:** Where I'm coming from there is not much of a difference?
- Management:** No. So, it depends on how you [inaudible 0:40:33]. So, today let me tell you, certain companies which claim to be affordable housing companies are having more loans of value more than 50 lakhs than I have, with a balance sheet less than half of mine. But they are in the affordable segment. Why? Because they are doing the so-called surrogate income and appraised income category.
- Now, what is the definition of affordable? It is a ticket size or is it the customer segment? If it is the customer segment, I am not in that segment. I don't do affordable because I am only doing documented income. But if you are saying that somebody who is doing I can tell you there are people who have more in absolute numbers, more loans which is having more than 50 lakh value than I have on my INR42,000 crores book. But they are on the podium talking about affordable housing. That's okay, that's fine, fine with me.
- So, I guess it's more of whether it is a documented income segment or it is a appraised income segment. So, I guess appraised income segment when you talk about it, yes, we are not there. But our ticket size if you look at it today, INR17,000 crores of my portfolio out of INR42,000 crores is having a loan amount less than INR20 lakhs.
- Questioner:** Which category affordable, which is affordable?
- Management:** [Inaudible 0:41:57]. So happens is -- if you look at a PE, they -- no, no, you hit it right. What happens is affordable with a appraised income segment will start at 12.5%. Today when I am doing documented income case, I will be giving it at 9%. So, that is not attractive.
- Questioner:** So how do you solve this conundrum? That's the core question for Can Fin that as a scale-up, your customer is effectively a prime customer, predominant part, probably 80% of your business. I think it is from a customer side. He has a document to show. So, you will always have somebody coming with lower cost of funds than you, which is a private bank or regional bank. I don't think most. This customer has done a year of campaigning, has given money to DSA or has gone to the, I will take it right now?
- So, how do you solve this conundrum and grow faster? Because at least personally, I have to worry that your prepayment rate increases. So, you have to, your trend will be lasting faster and faster. So, to get the, your customer will tell everyone that he is a new customer?
- Management:** Yes. So, affordable housing, we definitely not be able to do because they are starting to think. But yes, banks will look at it. LIC will look at it. [Inaudible 0:43:14] will look at it.
- Questioner:** People whose cost of funds is a little less than yours or the scale is bigger for them.
- Management:** That is correct. So, prepayment is one thing which we will have to keep on monitoring.
- Questioner:** [Inaudible 0:43:23].
- Questioner:** No, it is all there. We are running down. Quarterly 4% is what you are saying?

Management: Yes. Slightly 3.6, 3.5, it has been around this.

Questioner: [Inaudible 0:43:56]?

Management: So, now in Q4, when all the annual reset has happened, it should come under control now.

Questioner: [Inaudible 0:44:14]?

Management: No, no, you do. No, no, I will -- I don't do. You do this. This I have given quarterly. Now annual, you do the same math. You do the same math, okay, for anybody. You do it for people like LIC and Bajaj also. You do it for Aadhar and Aavas also. You will find that. It is higher than my 17%.

Questioner: But their topline is also showing that much, right?

Management: Because their disbursement is also growing so much. Now, I am telling you. If you are growing -- because my 2 years of my downfall, it has come down. So, now it will take a while, another 2 years to pick up to that 15%. But if you represent consistently -- I am growing at 20% disbursement in another two years you will find I will also be growing at 15% to 17%.

Questioner: But when we are saying that these -- they are good customers, then the LIC folks take them, but the problem is that -- LIC is not seen on the book. You never see that growth, because someone else is taking that. So, it will be the same situation for us also that probably we will get good customers, somebody will keep on taking, so that funnel will never close and build up for us.

Management: See, this year, we will do at INR13,000 crores.

Questioner: How much will Bajaj and LIC's be?

Management: Bajaj's is separately it's more.

Questioner: Bajaj's is more than that. No, Bajaj's is more, but their yield is also more?

Management: No, you can't take only one, right? Theirs too. Theirs is LAP and the rest is behind. Only 55% is their housing, right, pure pure?

Questioner: Why I'm asking that question is because you and LIC are the pure effectively prime on housing companies. You're also giving your yield competitively in the same way. After that, you're spending everything to bring in the customer. DSA give it to the DSA or do it yourself. After that, the customer leaves, more pain. If they came at a 13% yield and left after two years, it's fine. I have recovered my cost. But for a prime customer, I have not recovered my cost and the customer has left me?

Management: That is so-, so 17% is a given. So, we will have to consistently do one-third of my book as disbursement. So if my book is...

Questioner: So is there no way to reduce this? Is it not possible?

Management: No now that we have moved from annual to quarterly, I am -- I feel this percentage will slightly moderate. Because earlier there was when the- see, it was stable at 3.75 when the rates were not, had- had not been coming down. Now when the rates have come down, there's an attraction for the customer to go elsewhere. Now that we have reduced it and we have done it, it should not go down further. That's my point.

Questioner: So was there anything reverse in the cost of funds?

Management: In cost of funds not much. I would say, in fact we are at below 7% today.

Questioner: What is driving lower NPA across the system?

Management: See, in terms of collection, I think there are better and this modes of collection, more aggression is also there. You have more better tools to monitor the- the delinquency, early warning signals are there. So I think all those things are anyway getting implemented in industry because of which things are improving. Having said that, I think you must also realize that in our book when we are saying our gross NPA is 0.85, it is without a write-off policy.

Without writing off anything. Whereas when others are- there are others also who keep saying that their NPA is 1.2, 1.15, 1.3 or whatever, but it is after writing off every year. So, I think that anyway will get reflected in the credit cost.

Questioner: So DSA, how much are you technically paying?

Management: Approximately 50 basis points.

Questioner: 50?

Management: Average is that. 70% to 75% of my DSAs are doing less than three cases in a month. So, in fact, they get the lowest slab only.

Questioner: Yes, DSA. So on DSA is there any time? Like for example, one year if the customer goes away?

Management: See, basically DSAs they're just distributor –

Questioner: Proper distributor. Like any other distributor. But you can't create an incentive, disincentive structure like that. If there would be 20% of your book...

Management: The only thing is when- when we find that there are- takeovers are high or if the quality of the portfolio being brought by the DSA is not good, we deactivate them. And we have a annual review mechanism where every 12 months we review the performance of the thing and it has to be renewed. So at that time again there is a feedback mechanism.

And everything, there is a ratio calculated and based on that we do it. So wherever the NPAs are there, we remove them. Wherever quality DSA we feel that they are taking over our loans or our- of the same, we again don't renew them.

Questioner: How much the top 20%-25% DSAs would be contributing?

Management: That's less than 10%, 11% only, anyway. That also in fact we have given over here. Our total top -- our top 20 DSAs account for 9%.

Questioner: That's on Page number?

Management: That is 30. Page number 30. Yes. So, steady state ROA I think 2.3 to 2.4 we can work.

Questioner: Do something to increase the yield. A little marginal, I know it won't happen in one day but...

Management: No, last year if you look at our yield, so that also we have given. You know, our spread has gone up from 2.56 to 2.86. So, so all this has been while we have passed on the highest to our customers, 50 basis points to existing and to new customers. In spite of that we have increased our yields from 2.56 to 2.8. Our spread from 2.56 to 2.86. Spread. So obviously we are -- there are things, levers we are slowly, slowly doing, maybe, you know, 2% of the portfolio. Is this, okay, something can happen there. We are -- those kind of things we constantly keep doing.

Questioner: And where did this delta come from predominantly? Which one? The delta that has come, of 25 bps --30 bps?

Management: So, some of it is from the SENP that we have increased, where while our, you know, cost has come down, our yield has not come down as much. So, if you look at it that way, so if you see, the cost has come down but has not -- yield has not come down for the simple reason that when it came to SENP we are slightly increased, LAP slightly increased. So those are things which we are slightly scope is there, we are doing that to improve our yield.

Questioner: Yes, I agree, spread 2.7 to 2.8 going upward it didn't translate into ROA?

Management: We have very little levers frankly speaking. Our credit cost is so low we cannot further bring it down. I mean there is- there is- we are hardly any. Opex also we are among the lowest.

Questioner: Will it increase now?

Management: Our PCR has increased.

Questioner: But actually that differentiation hasn't remained. How much is your credit cost? 10 bps, 15 bps? All those in affordable are also reporting only INR0.20-INR0.25. Then I don't understand that- how everyone is doing business like this?

Management: No, but you look at our PCR is 54%. I think a lot of them are moving in the 27% to 32% PCR bracket.

Questioner: How does ESOP structure in...?

Management: Yes. We have a ESOP. We introduced it in '24. November '24 we had the first tranche given to, you know, the top four levels. Chief Manager and above. And then every year, you know, so November '25 was the second allotment. Second, sorry, grant. And the vesting of the first one has happened. The first lot of vesting of the- from the first grant of '24 happened in '25.

Questioner: And chief manager and above.

Management: Everyone from chief manager and above. Which is I mean in quite total numbers about 70-odd people.

Questioner: And at what price, at the market price was it done? Or discount?

Management: No, we give it at market price.

Questioner: Did Canara Bank say so? Did Canara Bank say so?

Management: No, no that is I think everybody is doing at that only. If it had been unlisted thing, it would have- people would have given at a discount and this and that. In a listed company...

Questioner: Not at face value, at the market price. Can it come at market...

Management: But I mean, we by and large most of them do it at -- 40%, 50% discount because then there is enough immediately on the table and then you keep putting in effort to make it double, triple, whatever.

Questioner: One question about the industry. DA. Of course your prime book is there and but this is a secured business, correct? So you guys lever it seven, eight times?

Management: Right now we are at 6.4, 6.5.

Questioner: So, but when you look at 6.4, how is your ROE 20%-22%? It was more this quarter. ROA half into six and a half would be 16%-17%.

Management: Now it's 18.

Questioner: But I think, if I'm not mistaken, at 16, 17, 18 you guys had leveraged even more than this. You used to lever even up to 8x-9x. So this- why the rest of the guys, why industry is not like PNB Housing, it's such a large balance sheet, now no NPA there's no NPA either, again almost a triple-A rated entity. At least now the balance sheet is perspective but. Okay. But they don't give more than 5.5x, 6x like all that. Is it just some buffer or change in appetite?

Management: See it is also-, it's mostly a function of the rating. So in our case the rating agencies are okay with up to 8. But of course, we'll not go below- beyond 7.5. So actually in 2023, when we were a AA+ rated this thing, at that time the concern of the rating agencies was that yes, you are, you know, leverage is high. So, we at that time, I know, because when I joined immediately after that, we said okay, we will assure you we'll bring it down below 8.

Now since then, we had this, Ambala issue, we had this, so growth came off. So now what has happened, in fact our leverage has actually been coming down. But otherwise rating agencies I think up for us up to 8 they should not have a problem. Though we may, you know, not go beyond 7.5. So today there is a scope to increase our, gearing from 6.4 to up to at least 7.5 at least we have a scope.

- Questioner:** But why should-, like, sorry, it's a digression, but why should rating agencies have a problem because vehicle finance companies also leveraging 5.5x, 6x and you guys are also leveraging 6x. You have assets which are completely...
- Management:** This is a question I cannot answer because the same point I had also raised. I said friend, it's secured, you have got a such a good this thing, why, you should have a problem with that. Okay. Because there is a, if the risk is because of the ALM, yes, there is our ALM is also comfortable.
- If the risk is on LCR, banks have LCR, now we also have LCR, we are doing 100% LCR and maintaining for the next, you know, this thing. If it is about, security and this thing, we are 100% secured. So on those parameters if you look at it, every on every box we are- there is a -- we are checking every box. But still, that it is a thing that somehow, not more than 8.
- Questioner:** Because all the balance sheets have now become large. See initially I can understand like even I'm just clubbing for broadly all of you guys in the same bucket because the ticket size is similar. All the affordable housing companies are also now INR20,000 crores, INR25,000 crores balance sheets. So, they are no more like a book of INR2,000 crores, INR3,000 crores, INR5,000 crores. Everyone has capital. But that ROE just isn't being made? Then how will capital come into the sector?
- Management:** No, but capital is coming there.
- Questioner:** No, it's more there, that's why, but it got derated, right, it became half of 3x, right? Now, at one time when we used to trade the stock at 3.5x, from there you guys are now trading at 2x. That was '18. And rest and it didn't have effort after '20. They were trading at most of them were trading at 3x, 3.5x, from there those people have now come to two times or 1.5x.
- That is happening because at some point of time you guys will make ROE. But you make, sorry, you the other industry. But the rest of the guys are-, are just not growing. So private equity that you put in money made that INR1,000 crores book into INR10,000 crores loans, sold it to someone else, after that ROE we need ROE.
- We need a compounder. We need growth. Private equity have also realized it's not. Now how to get out of there? Money-, money will stop coming. Now there is a need for housing. ROE will increase, only then capital will come.
- Management:** But why do you still have-, I mean, money is still coming into the industry, there are still people wanting to...
- Questioner:** This logic, everyone private equity folks are selling. New companies are not scaling up that much. The scale-up that happened from '15 to '20, '22, capital came from the private equity side, that's why all businesses became large. Now that is not happening.
- Management:** But if you look at it and that was also the '17 to '21 was also the period where, you had a lot of benefit coming because the CLSS. The affordable housing finance companies and the growth was also driven very...

Questioner:

In fact largely by CLSS. In general you have housing requirement. There is a customer, true, at INR10 lakhs, INR15 lakhs, INR20 lakhs. But there is not going to be enough capital at some point in time. Because banks are not going to go and do that. Chola and Bajaj is not going to do that. LIC is not going to do that. Stay in INR10 lakhs then the ROE will go very high. Logically competition should go down...