



“Can Fin Homes Limited Conference Call”

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MANAGEMENT: MR. SURESH IYER – MD & CEO, CAN FIN HOMES LIMITED

Raghav: But how are things, sir?

Suresh Iyer: Things are okay. Karnataka, we are waiting that, if it can start because, we've had some improvement in the BBMP areas, but other two areas which are our main bread and butter, we are still, waiting for it to open up a little in terms of the e-khata issuances because that will pick up, help us in picking up our business because that has hurt us a bit in terms of disbursement.

Raghav: Right. So, sir, fair to say that things have not improved at all?

Suresh Iyer: Not, you can't say that way, because, the last quarter, this, circular came somewhere in end of September. October, November, December, we definitely didn't have much happening.

The pile-up, by the, I think, by the end of it, just about 1.25 lakh e-khatas issued out of a total of more than 12 lakh applications and all. But then January and all, at least BBMP, which is the corporation areas, have started releasing e-khatas a little more. The speed has picked up and numbers are also moving quite further.

The speed is there, and numbers are also started happening. So, corporation areas, we've seen some improvement. So, that way, we used to do about INR150 crores in, per month in Q3 in Karnataka, which has improved to about 200 plus in both January and February also. We were marginally able to cross INR200 crores.

Raghav: So that's a 33% improvement on a quarter-on-quarter basis, right?

Suresh Iyer: Yes, that is correct. But then, we used to do INR275 crores in Q2 in Karnataka. So, we are still much lower.

Raghav: So, you said 150 to 200 but lower than 275?

Suresh Iyer: It is still lower than 275, correct. And in fact, even if March had improved, because last year in March we had done INR328 crores disbursement in Karnataka. So even that way, it will still hurt. It continues to hurt much.

Raghav: Understood, sir. And sir, I mean, what is taking them so long? I mean, aren't the authorities taking note of this that people are finding it difficult to register? It's an issue of registering mortgages, right? If I understand it correctly.

Suresh Iyer: So, registration of mortgage is one thing. So, before registration, you have to get the e-khata. So, e-khata means you have to get the, this digitisation done in the records of the risk. So, you have to first go, submit all the papers and prove your ownership. And based on that, they will confirm everything and give you the e-khata. So, only after you get the e-khata, you can do the registration in the sub-register offices.

So, e-khata is a prerequisite for the registration. And e-khatas were not getting issued because when they came out with this guideline, they said these are the documents required. And they didn't have the proper infrastructure.

So, a lot of paperwork they would be checking. So, maybe the checking would take time or what, we don't know. But, when the papers were there, in fact, the list of documents was also so exhaustive that, hardly people were having all the documents.

So, then obviously, the clarifications and, for everything, sub-registers will require something on record or confirmation on paper to be able to take those kind of calls. So, I think that is what took time.

Raghav: So essentially, it looks like an exhaustive list of documentation which the end customers or people who are coming to register mortgages may not have. Is that right?

Suresh Iyer: That is correct. So, that is how it was there, and they were not able to, get it done. Now, corporation paperwork is much simpler than what it is for the BDA and for the panchayat areas.

So probably, at least in terms of the corporation areas, they have been able to resolve that. Many of, processes they have kind of streamlined or given clarifications or given authority to the sub-register offices. So that way, now, at least there, things have started improving quite fast.

In fact, in between, the state government also had said that, it is also because of lack of manpower and infrastructure. They were also talking about putting in another 300 people across the city to handle this load and process things. So, computers and people and all, they were talking about 300 more people to be deployed for this.

So now, I think they will have to do that for the BDA, that is the development authorities and for the panchayat areas also. So, that, and those whatever now in BDA or in panchayat areas where the complexities are little more, they will also have to now start looking at the cases and start giving clarifications for those cases also.

Raghav: Understood. Okay. So, sir, given that problems still haven't resolved, where do you see the disbursement? So, see, I don't think it's anyone's guess that this quarter will be saved between 2,000 to 2,500, right? But for next year, for say, for FY26, where do you see your disbursements going because of this issue? Or do you think that this will be resolved within March and, therefore?

Suresh Iyer: May not be in March, but definitely in Q1, it will not go beyond that because, the state is also, as you rightly pointed out, losing a lot of revenue. And the people also, they cannot handle so much of, this thing from the backlash or whatever. Because as of now, they have some improvements, some things happening.

So, there is some visibility, and it is just three months. But as the numbers keep on increasing, there will be some point where it will be very difficult to manage. They will have to resolve it.

So, I don't think it will go beyond that. But how soon is what we need to see and that is one item. And second, in terms of the numbers, otherwise, if you see, our North, West, Tamil Nadu, these other three major zones, if you see, they are all positive.

Okay. They are all positive. Like, North zone, which is our Delhi and Haryana, Punjab and Uttar Pradesh and that belt, Uttarakhand and all. There were already in 10 months, they crossed the business of previous year. Same way, Tamil Nadu also, in January itself, 31st January, already in 10 months, they had done what they had done last year in 12 months.

Raghav: Sorry, sir, which one? Tamil Nadu?

Suresh Iyer: Tamil Nadu. Then, West.

Raghav: In 10 months, they crossed 12 months?

Suresh Iyer: 12-month number. Okay. West zone, that is, four states of Rajasthan, Gujarat, MP and Maharashtra, they also crossed in this month. So, last month, they were some little bit short. In this month, they have already crossed the 12-month figure. So, already whatever business they are going to do in March is going to be state growth only.

So, and Karnataka also, for that matter, up to September, they were growing at almost 20% growth. Because last year, they had done about 2,500 and something crore, which was about INR220 crores per month. This year, if you see, from April to September, the Karnataka state, we were already running around at a rate of about INR275 crores per month, which is at 20% growth.

But because we, it came down to INR150 crores approximately in Q3 and now in Q4, it is around INR200 or whatever will happen in March.

Raghav: So, you are saying, in FY25, before these disturbances started happening, Karnataka was running at 20% higher run rate versus FY24.

Suresh Iyer: '24, that is correct. So, once this picks up again, now we are back to 220 only. So, by the end of the year, the way it is going, we may end up with around INR220 crores only average. We will still be around INR2,500 crores to INR2,600 crores only will come from Karnataka this year. Which means next year again, if even after this opens up, we are back to INR275 crores also. Then also, even Karnataka will be growing at 20%.

Raghav: Understood. So, this quarter should be around 2100?

Suresh Iyer: More than that. We should be doing more than that. Because already January plus February, when we are looking at it, we are somewhere close to 1,400 plus.

Raghav: Okay. Superb. So, around 2,200 to 2,300 kind of.

Suresh Iyer: We can definitely expect that.

Raghav: And sir, last time we had spoken, I had asked you, you have been concentrated in South, you have tried to build business outside of South India. But there have been some challenges or the other. But, I have again been looking at the numbers at least and like you also just highlighted that North, West have been picking up, the disbursements have been growing. So, is there

something that you have changed, from a strategy point of view, or any changes that you would have made internally just to push the sales force to do more of non-South business?

Suresh Iyer: No. So, we had actually a plan basically.

Raghav: Has there been a deliberate attempt to diversify?

Suresh Iyer: There has been a deliberate attempt because when I took over in March '23, in fact, the 5 Southern states were doing almost 70% plus. 70% to 73% business was coming from the 5 Southern states alone. And we wanted to make it at least 60-40 in the next 3 to 4 years. So, what we did was, one, we also looked at the new branch openings we are doing more in the West and the North only. So, that is one thing we have done.

So, obviously, those branches have just opened last year, 14 branches, and this year we are looking at about 15 branches. So, out of those 29 branches, probably 20-24 odd branches would be in the North and the West only. So, those 20-25 odd branches, they are already starting to do business.

Like in Q3, those 14 branches we opened last year have done about INR30 crores business, which means approximately, they have done about INR75 lakh business per month per branch. So, same way, they will start contributing more in this year because it takes 2 years to break even. This year, what we are opening next year, they will reach, in the Q3, will reach around the same level of 30 crores business. So, that way, that is one thing.

Second thing that we have done is, we also looked at the staffing and have looked at strengthening the staff, this thing at the, in the North and the West. Because, there was also a little bit of -- some of the branches were less -- manpower was a little less or the branch managers were a little junior. So, we were right to kind of put a little more of some hiring and all those things also, we have done in the North and the West. So, to strengthen those teams to be able to manage.

Raghav: Sir, how have you strengthened those teams? Because I will tell you what when I have done my, some of my independent checks on Can Fin Homes. What I have come to understand is that generally, see, it's a South based company, right? Karnataka is their home state. And earlier, I think, and you can correct me if I am wrong, Can Fin then they used to expand outside of Karnataka. They used to send someone from the corporate head office to open.

There won't be any, there wouldn't be any lateral hiring. But, given the differences in culture and all that, generally, people have not been very comfortable in branching out of Karnataka or just going and staying there for a prolonged period of time.

So, now when you are building business in say North or West, are you doing lateral hiring or are you still sending people from the corporate head office? What is the thought process? You may not be able to quantify the impact, but intuitively you can think, right? Even if I go from my home state to any other state, I may not be lateral.

Suresh Iyer:

You are absolutely right. Actually, one is that. Second thing is, the stability also doesn't come because the people who are going from the South will come back after 2-3 years. You will still not have built a team. And it will not be -- But although it is not entirely the case because we still had quite a few people who were like quite senior.

Like if you see the zonal head who is in the North, he has been with the company. He's basically from Lucknow. And yes, he's now based in Delhi. He's been with us for more than 25 years. He's a DGM level person. He's been with us for more than 25 years and homegrown talent. And of course, he also moved across branches, many locations.

Same way we have in Delhi 3-4 large branches where the people and the National Sales Head whom we have appointed. It's a small team right now, but the National Sales Head is also basically from the North only. He is from Delhi. And he's also based in Delhi and handling the internal sales team. He's also been with us for more than 10-12 years.

Quite a longish innings. Same way, we have quite a few Chief Managers and all who have been in the same Can Fin system for more than 10-12-15 years. So, it's not that. Presently our assistant zonal head has been --he's basically from Gwalior. He's been with the company for more than 10 – almost 15 years or something. He's been with us.

The head Of Zonal Head Recovery for North and West zones who is there. He's also basically born and brought up in Lucknow. So, we have talent over there. But yes, what we have done is we have this time gone for a lot of lateral hiring.

Raghav:

Which wasn't the case earlier, is that true?

Suresh Iyer:

It's not that it wasn't the case, but we have at least a lot of places where we required additional people. We went for lateral hiring, local people preferably from those places. And that has also helped because they have a know of the market. They know what are the practices, some of the documentation.

Because particularly when you send people from the South to the North, the language becomes an issue. The local documentation is all in local language. So, that sometimes could become an issue if you're not aware. So, we have done lateral hiring.

Raghav:

Okay, understood. And, okay, so, I mean, because it's a people business, right? I mean, on the ground, you source files. There is a lot more of human element involved. That's why you would also see that the employee opex, not for you maybe, but at least for most of the NBFCs or housing finance companies, the employee cost tends to form about 65% to 70% of the total expenses. But, so these guys that you are hiring, they are well aware of Can Fin's underwriting standard because they are very, very strict.

And that's why you have always maintained a less than 1% GNPA ratio, which is a very, very good thing. But is it fair to assume or to say that, these guys come with that sort of an experience, or they are just meant to source files and usually the centralised credit system is designed in such a way that it will reject those files even if they are higher risk? So, what I mean to ask is that in a business which is so high touch and feel, right?

Either you institutionalise the credit underwriting system, you know, to an extent that, whoever you hire, it does not matter. At the ground level, the underwriting rule itself will reject those files.

Suresh Iyer:

Yes. So, to a large extent what you just said is correct because, we have been very selective in terms of the customer segmentation and the kind of product that we are offering. Like, for example, salaried segment today 70% of our business is to the salaried segment. Now, salaried segment where the credits are coming in the bank account.

You know, it's a very simple green channel kind of a disbursement or business that we have to do. There is not much of a deviation, or a separate skill set which is required to be done for that. Same way, even in SENP, we are not doing the appraised income or the surrogate income proof kind of cases where the documentary income proofs are not available.

Mostly what we do is the cases which are having, ITRs filed on regularly. So, basically, you know, these are things wherein our products, though it has been a little niche, but we have chosen the ones which are very simple, I would say not person agnostic, but to a large extent the process is very, very simple and clear and not much of a deviation. So, that is why it is very easy to manage, but we don't have a centralised sanctioning.

Sanctioning is by and large very, very local. We have up to INR35 lakhs is the sanctioning power we offer to the Branch Managers. Of course, they have to be a manager. If it's a Deputy Manager or below grade, then obviously they will not have that much powers, but a Branch Manager who, so to reach a manager, they would be at least, you know, 7 to 9 years in the system before they can become a manager.

So, in that case, they would, if they have joined from the bottom, then they would take about 7 to 9 years to reach that level and at that level, they have up to INR35 lakhs is local sanctioning available.

Raghav:

Sir, how is this structure different from the one that you had when you had that Ambala fraud case?

Suresh Iyer:

See, Ambala case was not an asset fraud. It was more of a process related to the reconciliation process. It has nothing to do with the lending. There was no asset involvement in it. It was a non-asset fraud. So, nothing where, the process or the customer selection went wrong, or the process was not there.

It was more to do with the reconciliation because it was a centralised pool from where all the funding used to happen. So, the branches used to issue the disbursement cheques, and the funding used to happen from there. And here the cheques were being drawn in the individual account of the staff at that point.

So, that is where and in such all 200 odd branches, drawing from the same account, the individual branch was reconciliation, and everything was more the issue rather than the asset fraud. So, there are NPAs even in Ambala even today is not much. It is less than 1% there also. It is not very different.

Raghav:

Sir, I wasn't trying to ask only from, an NPA point of view or from an asset fraud point of view. What I was trying to ask is that given that you have given the sanctioning powers to your Branch Manager, how is this mechanism, fraud proof in the sense that this guy who is sitting there who has the sanctioning power will, it will not lead to, I mean, are you sure that the systems processes are built in such a way that there will be no fraud again?

Suresh Iyer:

See, I can't say that fraud will not be there again. Because, there could be some documentation issues, fraudulent documents or multiple finances happening because there are lot to do with the registration of process and all those things. But, while the process is there, what we have strengthened, we have further strengthened is one, at the time of onboarding, we have also tied up with Karza for Aadhaar verification, PAN verification, ITR verification and account verification directly from the portal.

So, if you have a PAN, we just have to scan, and the system verifies from the ITR portal whether the PAN is correct, authentic and what is the name, and all reflected in the portal. Same way, ITR, through an OTP verification from the customers, we can directly download the ITRs filed in the IT portal. Same way, Aadhaar also from UIDAI.

So, those kind of verification at the time of customer onboarding has been put in place and that has further strengthened the system. Second thing is, while the sanctioning is decentralised, what we have added is one more layer at the head office where everything is, anyway all the documents are scanned and available. So, this credit review monitoring department scans and reviews 100% of the sanctions which are done by the branches as a second check.

It is not a prerequisite for a disbursement, but it is on an ongoing basis in a very, two to three days' time, they are verifying all the sanctions done by the branches and therefore, if at all there are any branches which are running very fast or are, deviating the policy or anything, that gets caught over here in the CRM department.

That is something also which has been introduced after the Ambala. Earlier, it was only for a small department which was handling some of the cases where there was no branch manager or there was an internal person missed. But now, 100% of the cases are coming to the CRM department.

The third thing we have done is that, you know, since this was a non-credit fraud, it is mainly to do with the reconciliation and all, we have also centralised the reconciliation and there is an automatic reconciliation happening wherein directly the bank statement comes from the Canara Bank because all branches are having accounts with Canara Bank. Our own system then picks up from our database and does the auto reconciliation. So, auto reconciliation has been introduced. Onboarding process has been strengthened with verifications. We have tied up for a velocity for a valuation check.

We have also done this CRM department and with this reconciliation and everything, we have centralized the disbursement process. So, now all the check writing powers at the branches have been withdrawn. So, they now have to focus only on the sanctioning, disbursement, collections and customer servicing.

Raghav: Understood. And sir, in North and West, the way that you are building, are the ticket sizes, customer profiles are similar to what you are already doing in Karnataka or in South?

Suresh Iyer: Actually, in Karnataka, that is basically in Bangalore and Hyderabad, our ticket sizes have been a little higher. There it would be more in the range of 15 to 20 lakhs whereas here it is almost 35 lakhs is average tickets as any which way because these two locations are pure in metro or very large cities.

Raghav: Sir, 35 lakhs is in Karnataka and Hyderabad?

Suresh Iyer: Bangalore

Raghav: Karnataka and Bangalore?

Suresh Iyer: Bangalore and Hyderabad, yes. And we have quite a few branches in these two cities.

Raghav: Correct. And then, other than that, it is around 15 lakh, 20 lakhs?

Suresh Iyer: 20 lakhs, roughly. 20 lakh Tier 2 towns, it will be 15 also.

Raghav: Understood. And customer profile and all, still you are taking documented income only, you are not taking any...

Suresh Iyer: No.

Raghav: Understood. Sir, next year growth, how are you looking at it? Are you still sticking to 15%? Because in my opinion, I have done my calculation for a 15% loan growth, you will have to deliver, say, INR12,000 crores, INR13,000 crores of disbursements?

Suresh Iyer: Not really about - see, today we are at December we closed at around INR37,155 crores as the loan book. Normally our run down is around INR1,350 crores to INR1,400 crores per quarter. And so, if we are doing about INR2,400 crores, we will have about INR1,000 crores roughly as the net addition to the book. So, we should end somewhere around 38,250 roughly, somewhere around that size.

Raghav: For FY25, right?

Suresh Iyer: For FY25.

Raghav: Correct, yes?

Suresh Iyer: From that to grow means you will have to add somewhere like around INR5,000 crores net book.

Raghav: Yes.

Suresh Iyer: So, INR5,000 crores. And right now, our run down, as I said, INR1,350 crores to INR1,400 crores mean we will have about INR5,500 crores of run down in the entire year, next year.

Raghav: Sir, 5,000, you will get a growth of 13%?

Suresh Iyer: Yes, 13% roughly. So, roughly 5,500 if we add and 5,500 run down. So, about INR11,000 crores if we are able to do, we should be able to touch about INR5,500 crores of net growth, net book addition.

Raghav: You are saying next year the repayments you are looking at is somewhere around 5,500 to 5,800, is that right?

Suresh Iyer: Yes, 5,500 is roughly that would be the - 5,500 to 5,800 would be the run down.

Raghav: Okay, I am still getting an 11% number loan growth, but - so, I will tell you how I am building this. I am assuming that 38,150 as of FY25. That's my number. 38,150 and then you disburse about INR10,000 crores next year. So, you are at what 48,000. 48,000 and then if you deduct 5,700, you get to a figure of 42 which is 11% growth. I am assuming a 15% run off on the opening balance?

Suresh Iyer: That's fair. So, basically we will have to do 11,000 is what I said. We will have to do about INR11,000 crores.

Raghav: So, if you add 1,000 more?

Suresh Iyer: We will have to do INR11,000 crores. So, about 20% growth from where we are, we will have to do about INR11,000 crores.

Raghav: Okay. And will you be able to do it, what is your sense right now?

Suresh Iyer: See, actually in Q2 when we were doing the regular growth even without Telangana are doing much, we were able to do about 2,400 in Q2 also. And had Q3 not gone down, we would have done about 2,400 in Q3 as well. And now also even without Karnataka touching 275 crores, we will be around 2,400. So, about 9,500 to 10,000, anyway the capacity is already there. We have done a couple of quarters with that kind of a capacity. So, we are just talking about the newer branches that will get added.

We are also going to add some more people into the system in this current year plus our sales team is also pushing and we are getting that also falling in place. So, definitely that will get us some better numbers. So, that's what we are looking at.

Raghav: Sir, what is the number of branches that you will be opening in this quarter on a net basis, I am assuming around 5?

Suresh Iyer: No, 15. We have already worked on 15. 15 branches are already in the pipeline, and we should be opening 15 branches. This will be opened before the end of this month. So, net-net we will be having 234 branches. We were 219 as of the beginning of the year. We will be 234 branches.

Raghav: Okay. So, 234 branches and then next year another 15?

Suresh Iyer: Another 15. Yes.

Raghav: Understood. And sir, last time when we had talked I had highlighted that I think you do about 150 files per branch in a year. Approximately 150 to 160. And then because of a lot of DSA penetration in your business which had gone from 50% to 80% during I think 2019-20 maybe till as last quarter or last year 80%. And that has resulted in the files per branch going up to 200 almost.

APF channel was supposed to be the one which could have enhanced that number of files per branch to 220-230 sorts. So, where are we on that now and what is the steady state run rate? I am still because of whatever we have seen in this year, Karnataka, e-khata issues and all that. I am building in a 154 kind of a number right now. That's my estimate. 154 files per branch in a year?

Suresh Iyer: 154 files. We are doing about 4000 odd cases per month. That is correct. So, in fact, we are doing a little more than that already. We are doing about 4000 cases per month. Anywhere 3,800 in a bad month and 4,200 in a better month. So, roughly about 4,000 -- even in January I think we did about 4,000 net files were added. So, about 219 branches. So, I think that's about 170 plus I believe.

Raghav: So, you're saying 4,000 cases per month, right?

Suresh Iyer: Per month. Yes.

Raghav: 4,000 cases per month. That's...

Suresh Iyer: That's 17 per branch per month. 18 per branch per month.

Raghav: That comes to about 220 files per year annualized?

Suresh Iyer: Annualised. That's what. Correct. So, we are at that. But that is without the APF. Today, APF we have about 70 or we should end somewhere between 70-75 APF projects by end of this year. We are already across 55 APF projects and we are already at different stages of that. Next year, we want to take it up to around 250 APF projects we should be having next year.

Raghav: And how much business is coming from these?

Suresh Iyer: So, almost 50% of the projects that we have already onboarded are giving files. So, we have 1, 1, 2 files are coming.

Raghav: In terms of value, how much would they be contributing?

Suresh Iyer: Right now, the value is -- the APF projects, the average ticket size is a little above 30 lakhs. It is closer to 35 lakhs kind of.

Raghav: Okay. 50% project giving business 30 lakhs ticket, 1 to 2 files understood. And this 50% should go up?

Suresh Iyer: Should go up. Once we build the rapport, once we get the comfort, the builders also get the comfort, should go up. Definitely should go up.

Raghav: And that 1 to 2 files number should also go up?

Suresh Iyer: That also, yes, somewhere you can -- because some of the projects will be smaller projects. Bigger projects we should obviously get better numbers and all.

Raghav: So, you have a lot of low-hanging fruits is what I am can sort of see that once this e-Khata issue sort of subsidies which is not in your control, unfortunately. It's in no one's control, except the government. Once that subsidies, I think growth from a very low base should pick up very meaningfully?

Suresh Iyer: I mean we do expect that we should, because right now except for Telangana all other states should end in positive in this year. So, if the momentum continuing and e-Khata issue getting resolved, next year even Karnataka will be back with about 15%-20% growth. So, definitely, that number of what we are targeting about INR11,000 crores should be achieved.

Raghav: Understood. And sir, Telangana is what part of -- how much is Telangana of the total...?

Suresh Iyer: Now, in fact, Telangana is doing about 12% to 15% of the business.

Raghav: Disbursement basis?

Suresh Iyer: Disbursement basis.

Raghav: And what is the issue there? There was some -- the new government has changed some laws, and they are not demolishing or they've -- what has happened?

Suresh Iyer: Actually, they came out with this, the new government they reviewed the projects and a lot of previous government, they claimed they have done a lot of projects on this government land or in this lake beds and stuff like that. So, they started demolishing some properties, some of those properties which had come up on lake beds and all, which actually were projects properly approved by the previous government. So, I mean there was no reason to demolish it. So, that actually sent us kind of a scare or a fear in the minds of the people and the sentiment was affected.

Of course, 2-3 months back, they said they will stop the demolitions and since then there have not been any demolitions basically. So, at least that confidence slowly should come back that max-max even if it has happened something like this, they would probably levy an impact fee or some charges and then regularize those cases, although they are not -- basically the customers have done it based on the approvals available with the builders. So, that is the main issue why the business has kind of affected. And once this has happened, we have also moved mainly to the corporation or RERA approved projects only in Hyderabad.

Raghav: Okay. Sir, RBI very recently, they -- not recently, I think somewhere around September or October, they had released some circular -- not a circular, but I think a paper on saying that there cannot be an overlap on lending activities between group entities?

Is there any dialogue that you have heard, what is your sense? Generally, I mean since the new governor has come and it seems that he is a lot more pro NBFC, at least that's the impression that everyone seems to be getting, right?

And I also understand that whatever they are trying to do in terms of cutting down of overlap in terms of lending activities between a bank and NBFC, it's mostly because of a few bad apples, not everyone, right? So, what is your sense? Will that happen? Because if that happens, it's a very big risk to your business?

Suresh Iyer:

Yes. That is correct, because we have -- the parentage does matter, and it has been very this thing. But see, this was actually a draft circular which was issued on 4th of October by the RBI. And by 21st November, all the banks were asked to give their feedback. And I believe many banks were not in favour of this or they had some observations and suggestions and feedback on not to give it or give more time or whatsoever.

So, a lot of other things were there. So, as of now, a couple of things have happened since then. One, I believe, of course, as you mentioned also, the change in the governor and the new governor is a little more has been going a little easier on NBFC. So, this is one thing. Second is also that this bank, since they were not very keen on this and had given their feedback.

So, looking to the feedback, the RBI I understand this is what I hear is that they appointed -- they have asked the IBA to set up a committee and study this thing and then come back with the suggestion. So, I think this is actually, right now, we will take some time before the IBA does it and submits its report. RBA considers it, discusses it. And anyway, since then there has been no mention after this, the new governor also in this policy not has not mentioned anything.

Raghav:

Okay. But sir, how can the regulator just say that there cannot be any overlap of products? I mean the kind of segment that you may be catering to, some other NBFC may be catering to, which is very different from what a bank?

Suresh Iyer:

That's precisely the kind of suggestions and feedback that the banks have also given because the segments are different and banks, because of their multiple products that they have to cater to and offer, they are not able to have that specialization of this particular field, which is a very big industry and a very, necessary this thing for to the for the growth.

So, I believe that is the main reason why they have said so. And even otherwise, if you see the RBI has given the approval to some, not given the approval to some, if they had to implement it, that could have been probably specified or more differently given when the HDB Financials thing has happened. So obviously, these are some of the things where the clarity or this thing is not as much there.

Raghav:

And sir, repo rate cut, so think all of your bank borrowings are repo rate linked now, right?

Suresh Iyer:

Not all, about 80%, the remaining 20 % are T-bill linked, but indirectly the interest rates, yes.

Raghav:

Okay. So basically, you will not see any benefit of an MCLR cut whatever has had to happen has happened for you in terms of repo rate cut passed through right?

Suresh Iyer:

Yes, that is correct.

- Raghav:** Because T-bill would have anyway re-priced earlier, because you tend to anticipate or pre-empt the cut in repo rate and repo rate whenever it happened would have happened for you also?
- Suresh Iyer:** Correct, So basically MCLR a lot of banks earlier when the rates. There was a talk about the rates coming down and that went on for quite some time. The banks were not keen to offer us repo linked loans. They were more keen to give us MCLR linked loans, because there they don't have to pass on the benefit to us. They can still continue to earn at the older rate.
- And in fact, MCLR was actually going up when the talk was going on for the repo rates to come down. So, that's why we also moved, and we requested all the banks, and we were able to talk and negotiate and get them to move to a repo link late.
- Now therefore we are getting the benefit whereas the MCLR has not come down. Now if at all later at MCLR comes down we would have already enjoyed the benefit as and when the repo links are coming down.
- Raghav:** The price for you, do you, I mean yes you are on a PLR system if I'm not wrong?
- Suresh Iyer:** Yes, it is an internal PLR.
- Raghav:** So have you reduced your PLR also or...
- Suresh Iyer:** Not yet. Because we have yet not experienced because all the repo rate cuts, will be passed on to us depending on the individual agreement with the bank. So, some of them are at the quarter end, some of them are at the time of the next repayment which will happen in March, because we have quarterly repayments.
- So, it will be effective from that date. Only some of them are from the next, following month or something like that. So, we will experience it by end of 31st March. Definitely we will experience the...
- Raghav:** But have you taken any price revisions because see, you would have a lot of overlap maybe with the SBI or HDFC in terms of competition or, customer overlap, target customer overlap. So, from that perspective and from a new customer acquisition point of view, are you seeing that your competitors, bank competitors are offering a lower rate than you?
- Suresh Iyer:** So, some of the banks definitely have reduced their incremental lending rates, but none of the HFCs or NBFCs. So, our immediate competition, obviously, in the segment that we cater to of 20 lakhs, 25 lakhs is more of the LIC, PNB, Bajaj and all those places who have not reduced the rates.
- Raghav:** Okay, understood. Okay. Sir, do you see any risk from or has RBI ever mentioned that even HFCs need to move to an EBLR regime?
- Suresh Iyer:** No, actually no, because a few years back when this issue had come up that there is no transmission happening of the interest rates and all those things, that is when the rates were at that time coming down. At that time, discussion was there. At that point, eventually, after all the discussions and, feedback and all those things, RBA finally took a call to waive or make it, they

mandated that, prepayment should not be levied any prepayment charges at the time of prepayment.

So that, you may not be able to reduce the rates as much as you want, but customer should not be, affected because of this. And therefore, you should allow the customer to move away from to some other lender who's offering a lower rate. So that decision was taken.

So now again that continues and in fact this time now that again after the rates have started coming down and the repo rate cut happened. This time again the regulator, stipulated or once again reiterated that prepayment charges should not be levied and wherever it is we observe we will take a strict view of that.

So indirectly it's saying that we are not moving to EBLR probably but then in letter and spirit the prepayment charges decision should stay and customer should not have to pay a penalty for it.

Raghav: And the last question, IT transformation, do you expect any kind of disruption, business disruption because of it in third quarter?

Suresh Iyer: See, we are working towards absolute minimization of the disruption, and we would like to not have a disruption, maybe just a small blip of business, but not a disruption because disruption is a very strong one and will take a couple of longer periods for correction or to come back.

We would like to maybe yes November month some transition impact may be there but we would like to limit it to that and not have a disruption in the business. So, some of the things we have taken some steps like same LOS, LMS vendor so that it is not a problem.

We have done thorough verification also that the vendors who are brought by the by the SI which is IBM in this case they have worked in the past together so that, the experience is also there of having implementing this kind of a module or this kind of a solution.

So, that we have done, and we are also putting a lot of this thing on stress and importance to training and how the transition happens. So hopefully that should minimize the challenges and maybe just a small impact would be there.

Raghav: Sure sir, this was all from my side sir. Thanks a lot for your time sir.

Suresh Iyer: Thank you so much. Thank you very nice talking to you.