



“Can Fin Homes Limited Conference Call”

March 03, 2025



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

Suresh Iyer:

Got affected because of that. So, this Q3 we were doing about INR150 crores per month roughly compared to INR275 crores in Q2 in Karnataka, which now at least in January and February both months we have been able to cross INR200 crores, marginally cross INR200 crores, but both months we have done about INR200 crores in Karnataka. Because at least partly this e-Khata issue has started.

In the sense that, within the corporation limits the e-Khatas have started getting issued a little more faster and now we are also getting customers coming in and getting it much, much faster and so some of the old applications also they have started getting it. So they have come back and we have been able to do some business so that has slightly helped. But this corporation limit of course is within the ticket size are also much higher.

So our business per se from the corporation limit areas is much less around 20%, 25% only maximum comes from the panchayat and from the development authorities, which are the outsided urban development authorities. So, about you know this little thing that has helped has slightly helped us improve from INR150 crores run rate to about INR200 crores run rate but the government has been talking about opening up for the BDA as well as for the panchayat limits.

So, if that happens again we should be able to help but you know this statement had come somewhere in the last week of or rather around 23rd or 24th or something of February which when the Chief Minister had made this statement but throughout the last one week it has not come.

So, once it comes then probably you know things will improve in the BDA and panchayat areas also but anyway now that the Chief Minister has made a statement I am sure something will happen sooner rather than later so that we should come back to bring back the business back in Karnataka. That is one area which is the only area which is currently lagging other than Telangana.

Telangana of course we know it is a longer-term issue and we have almost discounted it even in the beginning of the year had Telangana, we have not even considering you know whatever little business they are doing now they have come down to roughly about INR100 crores per month run rate which is okay which is what we are considering only.

So, Karnataka if it picks up in again business should start. What we have done is we have targeted we had said we are looking at doing the same business in Q4 this year like we did in last year Q4, which is around 23 and we had done about 23, 13 or something last year in Q4.

We had said about 2400 is what we are targeting and we are on course for that from looking at the business done in January and in February we are on course for that and already as of now our north and our Tamil Nadu two zones crossed our previous year figure in January itself. In this month in February west has also crossed our figure of previous year business. So, these three definitely are in positive.

Karnataka and east zone which is AP and east zone they are on course to you know slightly turn positive in the month of March like Karnataka we just need about you know INR240 crores or something in this month. We are already doing INR200 crores plus and March normally is

always a little push. So, if you do INR240 crores also we will be positive in Karnataka also we will end the year positive.

So, we are quite hopeful that other than Telangana where it's a longer-term issue we will should be back we should be positive in all other zones even in this year in terms of disbursement, but because Telangana is pulling us down. So that's for overall you know we may end up somewhere in the range of about INR8,500 plus crores in terms of disbursement for the entire year per se.

And next year what we are looking at is that the momentum will continue and even this issue of Karnataka should get resolved. So, even if not in the first quarter at least by second quarter things should absolutely normalize and we should be we should be able to achieve a 20% growth. So, today if you look at it our Tamil Nadu and Telangana are already 20% plus growth. West also is almost 15% growth kind of thing it is going to have and if Karnataka also starts doing our 20% growth because in H1 we were up to 20% growth but because of this e-Khata issue we had a drop in Q3 and Q4 also it is less.

So, even if we are able to go back to what levels we were doing in Q2 which is Q1 Q2 which is INR275 crores per month then also we will end up with about a 20% growth in Karnataka as well. So, which means you know throughout other than Telangana everywhere else it is going to be 20% growth and Telangana at the rate at which it is doing right now you know from here I don't think there is any scope to go any further down. So, from here it will only be positive that as well.

So, that for next year we are quite confident about 20% growth in terms of disbursement should be possible and you know the only other thing in next year in Q3 we are going to have a implementation of our IT project which is a complete IT transformation project with LOS, LMS, DMS, GL, deposit package, HRMS and a lot host of other infra and security related matters.

So, there you know since that is going to may have a little impact we would we will try to push our business in Q1 and Q2 so that you know even a little bit of a blip in Q3 is offset and we are able to show some positive growth. A good 20% growth in the next year in terms of disbursement. So, 20% growth in disbursement.

So it should be anywhere closer to INR11,000 crores in terms of disbursement and looking at the present you know prepayment ratio and all those things we should be somewhere in the range about a INR5,000 crores to INR5,500 crores of net addition to the book which will be around 15% closer to 15% in terms of AUM growth for next year.

Subramanian Iyer:

Understood. Just had one question basically in the areas like Karnataka, can you have a higher growth in the next year because there might be some pent up impact also right is it possible I mean theoretically?

Suresh Iyer:

It is possible, but only thing is what we are talking about in terms of the e-Khata applications and not 100% of that is actually applications for new construction only. Many customers who are already having their own properties might just want to perfect their security and therefore might be applying for a e-Khata. So that right now whatever 12 to 15 lakh or whatever number we are saying are the e-Khata applications may not necessarily be for new transactions.

They might just be old transactions customers are just wanting to get a e-Khata and keep it ready in case it is required in future. So there will be some and if it is there we will definitely want to do that. Because Karnataka otherwise in terms of our portfolio performance in terms of stability of staff in terms of everything else we are quite and our brand image and all we are quite strong. So if that picks up and we are able to cover up we will definitely want to do that in Q1, Q2 and shore up the business.

Subramanian Iyer: Yes, because in previous events like -- I am not trying a parallel but say events like demonetization or covid or anything whenever such events used to impact the business there used to be some quarters in the future where there would be like a big pickup because of just pent-up demand...

Suresh Iyer: True, if that comes about. We will definitely want to take advantage of it yes.

Subramanian Iyer: Understood. And just one more question here, there are mixed I would say new slow in the system about supply of houses in the affordable segment, or say affordable or mid segment, whatever you call it. So what are your thoughts on that? And how much are you impacted? Because I think a lot of your business is self-construction right?

Suresh Iyer: Yeah, so affordable, yes. In fact, I have been saying for quite some time that after the CLS's closure, the supply in the affordable segment has been going down. Today, in fact, what we used to say is affordable is up to INR15 lakhs. Now in fact even in a slightly smaller Tier 2 towns also, the INR15 lakh segment is not there, okay. So it's usually -- those smaller segments would mostly be cases where it would be a room addition or things like that and that kind of a volume is not much to drive business and get high growth.

So somebody who's only depending on the less than INR15 lakh segment may not see that kind of a growth. They will have to increase their ticket sizes, that is there. But mid-size segments, INR20 lakh to INR15 lakh, I mean more than INR20 lakh to INR75 lakh segment, definitely in Tier 2 towns, the demand is there. And I don't think that -- because that is a bread and butter segment and that I don't think is going to have any slowdown or a major slowdown. So that is still going strong for us. In fact, we are still seeing a lot of projects coming up in that segment. [CAT B 0:09:16] builders are there and that number they are still coming up with projects, there's no issue on that.

Subramanian Iyer: I'll leave it to Kushan to take the other questions.

Kushan Parikh: Hi sir. So just a few further questions on the business piece itself. Basically, if you could just also help us understand the progress around the approved projects funding? That was a new channel that we had opened up and spoken about. How do we see that moving and what sort of contribution can we expect in coming year from that?

Suresh Iyer: Yes. See, two things we started this year on the marketing sales front and we had a small team of about 30-35 people. That business is now almost contributing to 3% plus of the incremental business. Like in Q3 we had 3% plus. January and February, almost close to 4% of the business; now incremental business is coming from this channel, okay.

In terms of the second thing was the same team was also focusing on APF, that is approved projects. So we are close to -- we should end the year with close to about 75 approved projects, because we had about 35 in the month by the end of December close to 35-40 projects were there and we had another pipeline. So eventually by end of January we closed with something like 55 projects in January.

Now February also we've added some projects and March also, so we should end somewhere close to 75 approved projects by end of the year, closer to 70-75. And next year we are looking at increasing this number to around 250. So that's the kind of push we are looking at from the approved projects.

And now, in fact, initially, we could get the projects approved but the business was a little slow in coming but that also now we are focusing. Whenever we are doing APF, we are also pushing for business and there also we have started getting good business. And approximately in fact the average ticket size of the business that is coming from this approved projects is closer to INR35 lakhs to INR40 lakhs. The average business is about -- at least INR35 lakhs you can definitely say is the average ticket size. So the ticket size also is slightly higher than the normal business ticket size that we were getting.

Kushan Parikh:

Understood. Sir just a follow-on question to this. Since you're doing higher ticket size, is this taking us into bank territory in terms of funding and would be at a lower cost or -- sorry lower lending rate or is this similar customer segment that we have when we fund the INR25 lakh ticket size that we are doing?

Suresh Iyer:

No. In some of the projects, yes, we have been able to get some good cases which otherwise would have gone to the banks. Of course, the absolutely Class A customers in the salaried segment are still going to the banks only. So some of the cases like there are husband, wife; both are earning and one of them is a self-employed and the other is a salaried income or maybe multiple income earners. So those kind of combinations which normally banks don't jump at, those couple of one, two cases we have been getting from these projects.

So we have not compromised on the rate. We are still offering the same rate that we have been offering for the last six months. So that way in terms of rate, but yes with this size increasing, obviously, we have been saying that it might slightly affect our yield a little bit. And for that only we are offsetting by offering slightly improving our LAP and our SENP segment.

Kushan Parikh:

Understood. Secondly, I just wanted to -- so the Karnataka issue is well understood and well fleshed out. But on the Telangana side, if you could just help us flesh out the exact issue? Is it purely related to the actions from Hydra or there is more to it and how long should we think this would take to resolve itself? Is it like a long-drawn issue in terms of one year or two years or maybe in a few quarters this time?

Suresh Iyer:

See, it's mainly because of Hydra only, because of the demolitions that happened in the beginning of the year, the sentiment is a little affected. But now as and when they are clearing the areas and saying, okay, this area we've understood and here whatever projects or sites we

had to flag and we had to demolish or take action upon, they have done it. So those areas are getting cleared and we are moving on.

But the second thing which comes out is that if this is the case, then in fact we are now focusing only on the RERA-approved projects and things like that in our Telangana region so that the chances of future problems like this are also much less. So to that extent probably that is also affecting us because we are playing it very, very safe in Telangana.

Otherwise, now at least for the last two months, the demolitions have stopped. So that is at least giving some comfort to the people. And so, hopefully, the sentiment should improve and business should pick up. But as I said, we are also taking a slightly cautious approach that we are now only doing RERA projects. So earlier like if you see, 40% of our projects used to come from panchayat.

Now we are doing only RERA-approved projects in the city. And if at all it is a slightly outside area where the project is coming up, then also they have to take the corporation approvals. Then only we are doing those projects also. So that way it's a resultant impact that we have been a little cautious also because of this. So that's the double impact. But slowly, the demolitions -- at least for the last two to three months, the demolitions have stopped because the government then said that if at all we identify such projects instead of demolishing it, we will refer it to the environment department and see how.

So probably they will come up with some solution of levying some impact fee or some kind of redevelopment charges or something and then go ahead. So that way at least that fear has slightly reduced. So slowly the sentiment should be back. And once we are also comfortable, we'll see. But in the meantime if we are able to do only RERA projects and build our business, I think that will be safer also in the long run.

Kushan Parikh:

Understood. That's quite clear. So largely clear on the growth part, just on the margins basically. Liquidity has remained tight and continues to remain tight from a system level and at the same time, however, we've seen also a 25 bps kind of rate cut also coming in. So how do you see this in combination impacting our borrowing costs going forward? Are we do we have any more MCLR increases that are pending for us to take from the bank side or that is largely done and on the other side I mean when do you see the MCLR decline cycle to start from the bank side and the benefit to get passed on to us from that perspective?

Suresh Iyer:

See in our case we don't have MCLR linked bank borrowings. We had about 60% borrowings through banks and in Q3 itself, we moved all our 40% of our bank borrowings were linked to MCLR, 35% by the end of the second quarter. That also we moved to repo linked. So we only have repo linked or T-bill linked bank borrowings now.

So whatever 25% bps benefit has, repo rate cut has happened, that should eventually come to us also, either in the form of wherever it is repo linked about 80% is linked to repo so those cases the 25 bps will come through. Now obviously it is not an instant transmission which is there the as per the agreement with each individual bank it is either at the time of the Reset period or at the time of the next repayment which is due.

So most of the banks our -- some interest payments and some repayments are whatever quarterly resets are happening that will happen in the month of March. So most of the benefits will get by end of March only. And what we have worked out approximately it comes to around 5 to 7 bps is where the reduction will happen. We will experience by end of March.

So the opening weighted cost of borrowing as on 1st of April you can expect which is now about 7.56 or something 7.52 will probably come down to around 7.45 in the as on 1st of April. But as of now this quarter also most of the repo rate cuts will start impacting only in the last week of March probably when we have to make the repayment of the term loan, the installment of the repayment.

Kushan Parikh: Got it. And then from a point of view of the lending rate side, essentially, will we look to pass it on, I mean, at least on the incremental loans immediately or we'll probably wait for borrowing costs to come down further before we pass this on, this benefit on?

Suresh Iyer: No, as of now, we at least not this year. We have month of March. At least in this month, we don't expect, we don't plan to pass on any rate benefit to the customer because most of the benefit we will experience in the last week of March only when we have the repayment schedule to the term loans. So in that case, we will see in the 1st of April, if at all there is a sizable benefit, then we may look at passing on something to our customers.

Because you know 60% of the term loans of the borrowing side is linked to our bank borrowing and out of that 80% is linked to repo rate. So effectively you have about 48% of the loans only on the liability side which will get impacted by 25 bps. So net-net if you look at the overall cost on the entire liability side it is only about you know 6-7 bps or something.

Kushan Parikh: Got it. So then I mean largely we should be able to hold our loan spreads and NIM for next year as well essentially in the broadly in the 2.6, I think 2.6%, 3.6%?

Suresh Iyer: 2.56 is the present spread.

Kushan Parikh: Yes. So that we should hold I mean?

Suresh Iyer: We should be able to hold our spread and NIMs 3.5 plus.

Kushan Parikh: Okay. And in the long term in the long term we guide for 2.5, 3.5. Does that mean that through the cycle as we enter into a proper rate cut cycle and further rates are cut, we might dip below the 2.5% spread, 3.5% margin in a low rate cycle before we come? I mean, is the 3.5 guidance through the cycle or there is a range within which we should see these rates moving?

Suresh Iyer: No, the spreads will definitely continue at 2.5 because as I said, our philosophy will always be to first experience the benefit on the liability side before we pass on something on the asset side. Anyway, our asset side also is quarterly reset. So every quarter the customer can expect if in this quarter, even if there's a 25 bps benefit, it will only translate to over 7 bps for us.

So we will see on 1st of April, we will try to pass on if there is a sizable thing to maybe to the customer. So that way, the spread will not get impacted. Anyway, we have given a guidance of

3.5 whereas our actual current NIMs are also at closer to 3.7 and above. So I think that guidance of 2.5 and 3.5 will continue and that will be throughout the cycle I think we will endeavor to maintain the same or above that.

Kushan Parikh:

Got it. Subu, do you have any questions on the margins?

Subramanian Iyer:

No, I think I'm broadly good on the margins. I mean, say anything from a RBI perspective to keep in mind here in the sense that. Is RBI pushing the lenders to do more transmission and all that? Also, we have been seeing that RBI has been coming out with these draft norms at least on foreclosure charges and prepayment penalty and all that. So that was one question that would we be able to hold back on the, say, pass through to the customers?

Suresh Iyer:

See if you recollect couple of years back when actually this issue had really come up that the transmission and EBLR was introduced for banks. At that time in fact what was decided was that instead of compelling the HFCs and NBFCs to also go for EBLR linked trades, it was decided that we will allow the customers to move without any prepayment charges. That's why the prepayment charges were waived for floating rate loans.

So that was the kind of decision. Now by bringing questioning that okay we had given the chance that you should not charge so please ensure that you don't charge for floating rate loans and in our case we don't charge at all for prepayment charges under not even as prepayment charges not even in some other name, because that is what some other HFCs were doing that.

It was under some other guys of some other name like transfer fees documentation charges and all those kind of things. We don't have any such charges either we don't have charge the customer anything for two months time we give free of cost for the customer to take the documentation. There is no penalty for holding the documents. There is no penalty for collecting the documents from the third party vendors.

So no such charges, no hidden charges are there in our case any which ways. And we are passing on. So last time also when the NHB had come for their inspection, what they saw was whether, whenever the rate cycle has moved and whenever the rates have gone down, whether there has been some transmission to the customers, which we have continued and we have shown and it is there.

Even now, when we experience the reduction on a liability set, we will pass on something, may not be an equivalent amount to the customer, but we will pass on something to the customer. So that should be okay with the regulator.

Kushan Parikh:

That's fair. Thanks. So just on the operating cost, essentially, we've been guiding for 18% cost to income once we are through with the IT implementation. So since the implementation is to happen in Q3, should we see, I mean, cost to income broadly ranging in the 17% ballpark figure for the first half and then jumping to 18%, 19% in the second half is I mean is that the right way to look at look at IT costs?

Suresh Iyer:

Yes, see originally, yes. We had indicated that when the cost of IT transformation will happen we will -- there will be a spike in our opex. However, thus once we finalize the vendor and we

have sat down with them and worked out the cost what is coming out is that the implementation is likely to be in the third quarter which is around and the agreement which is there with the vendor is that there will be a 12-month implementation period and then there will be a 3-month handholding period.

So, we signed the contract in the month of January. So effectively till 31st December 25, there will be a handhold - there will be the implementation period and 3 more months for the handholding period. So, basically our costs till 31st March 2026 anyway are going to be capitalized. So, in fact what we had said that the spike will come in FY26, in fact will start coming only in 27 not in 26 because till that time whatever cost is there either is the hardware cost or whatever is the implementation cost they are all going to be capitalized.

Kushan Parikh: And typically this would get depreciate, the capitalized cost would get depreciated over a period of 7 years, 8 years?

Suresh Iyer: No, it is 5 years.

Kushan Parikh: 5 years. Okay, over a 5-year period and the depreciation would also start from FY27 onwards?

Suresh Iyer: Yes.

Kushan Parikh: Okay and including the depreciation of the capitalized cost and the normal operating cost that we have, that would be 18% cost-to-income?

Suresh Iyer: Yes, because currently our IT expense is about INR15 crores a year and once this FY27 comes we have a opex of about INR30 crores to INR35 crores will be the opex and the capex which will be about INR100 crores will also add about INR20 crores because it will be amortized over 5 years. So, 20 plus 35 about INR55 crores will be the expenses, but by that time in fact our existing IT vendor will be completely pulled out. So, that cost will stop.

So, net addition will be about INR40 crores would be the total additional cost net-net of this. By that time our book size would also have increased and everything. So, net-net it will impact to about 1.5%, 2% in terms of this. That is why we said in the first year that is FY27 there could be a spike from 17% to about 18.5%, 19%.

Kushan Parikh: I understood. That's quite clear and from a technology perspective basically once we make this major implementation change in 3Q F6. Besides the security, infrastructure and process driven advantages, how would we be capacitized in the sense that, I mean, how long would this implementation last us, I mean till what book size or if we have any numbers around that?

Suresh Iyer: See this present us RFP itself is a 7-year RFP. So, basically it is 12 months for implementation and 3 to something months for 3 months for the - in a hand-holding period and then thereafter 5 years and 9 months is the period for which it will have to be maintained by the present vendor. So, at least if you are looking at starting from FY '27 then F 'Y27, '28, '29, '30, '31. So, at least till '31, '32 I think it should not be a problem. This should definitely last us till that time, there would be no further major thing that would be coming up major.

Kushan Parikh: Understood. Fair enough. On the asset quality just coming to the asset quality part how is 4Q trending in terms of, I mean, typically 4Q is one of the good quarters generally for HFCs in terms of asset quality, and we had seen a little bit of an increase in 3Q as well, which was which largely was attributed to seasonality factor. Will we see that rollback come Q4 and how should we look at credit cost from that point of view because again we maintained our guidance at about 15 bps for the full year that I mean for the fourth quarter perspective implies near zero credit cost. So, if you could just help us understand the math?

Suresh Iyer: See in terms of our gross NPA we are at 0.91 or something and then I earlier also indicated, in fact, a couple of in a good quarter like the Q4 or the September quarter normally, there is a pressure and with the NPA levels come down, but eventually they again come back because that's the real level of, I would say, the assets which are under stress, customers who are under real stress and finding it difficult to pay.

So, 0.9% would continue as our NPA levels. So, that being the case, I mean, it could be a little down and up, but effectively 0.9% is the actual NPA in the books. Now having said that if that is going to remain constant from now on, I think the levels will remain the same. There was a little impact because of our ECL calculation wherein because of the sudden increase in our SMA 0 which is our stage 1 and SMA 0 and SMA 1 levels.

That is why there was a slight impact because of which our provisioning was higher, but now in Q4 with all the changes now that we have and we have that has impacted and we are taking corrective steps. I think that should again be maintained or come down. In fact, we are expecting it to definitely come down in terms of the SMA 0, SMA 1 levels. So, that way the impact or the net addition in terms of the ECL calculation might be very marginal in Q4.

It could be 0 also, but at least I would say even otherwise even if it is there because of the incremental book size it could be very marginal. So, therefore we are comfortable with this 0.1 - with this 15 bps in terms of our credit cost and I think that we should be able to maintain.

Kushan Parikh: Got it. And 15 bps is something that would be there in the steady state basis also for future?

Suresh Iyer: Correct.

Kushan Parikh: Then from a provisioning perspective, I mean, our current levels of provisioning broadly like specific provisioning of about 45% and total provision including overlays etcetera stands at 132%. We did some management overlays also last year. So, just wanted to understand are there any additional provisions that you think are required or we are satisfied with the current level of provisioning that we have from a stage 3 or even from a restructured assets perspective.

And just a follow-on to that would be like as the restructured book keeps coming down will we be rolling back the overlay as well going forward?

Suresh Iyer: See there are two parts to it. One is the overlay and the second is the provisioning that we are carrying for our restructured assets because there was a COVID restructuring requirement of 10% for the assets which we have given. So, basically that small percentage will keep coming down the COVID restructuring provision which was there because the restructuring pool is

coming out and not only is it coming out there are also prepayments and closures happening in the restructured book.

So, as and when the book itself keeps going down, there will be some freeing up which will happen from that portfolio because we can continue to have the provision on the restructured asset, whether it even although it is more than one year since the accounts came out of restructuring. But even then, we can still continue. But even the account itself is closed, we obviously cannot carry, even the auditors will not allow to carry the provision for the closed accounts under the restructured pool.

So that we will beslowly coming out and that you wouldquarters also slightly it has come down from about INR64 crores it has come down to around INR57 crores or something.INR52 crores this quarter. Also, we have yes --so it is about -- so as and when the portfolio is coming down we are withdrawing that but the management overlay is a different issue. We are in fact, in a good year if there is a better profit. In fact, we would like to have a slightly higher provision, that has nothing to do with you know any stress on the portfolio or anything of that sort.

As a management -- conservative management policy, we would like to slightly carry some management overlay maybe, 10 bps extra or 15 bps extra or something. Right now on a book size of about you know 37,000 crores we have about 34 crores 34 point something crores as a management overlay which is just a little less than 0.10%, right? So that way 10 bps or something.

So we may probably want to always have some 10 to 15 bps as an extra cover which is more of a management policy rather than anything to do with the stress in the portfolio. Whenever there is a slight stress then anyway we are making provision as per ECL and that we will continue to make but the management overlay we will like to continue extra.

Kushan Parikh:

Understood so just my follow on question to that would be, from a management overlay perspective, how do we build the overlay on the ECL model? I mean will auditors allow us to maintain this, given if our asset quality continues to, I mean, perform as expected essentially?

Apurav Agarwal:

So Kushan, how it works is that we have to -- based on some assumptions we have to devise the INR17 crores we have been carrying during the last year and the total number is INR34 crores which is largely based on the restructured book, based on their performance. So this is largely based on that but as we think now that the restructured book is out we will definitely like to review this but definitely we would like to keep it on the book.

Suresh Iyer:

So as I said, we will try to convince the auditors that over and whatever is there let's have some percentage of 10 bps or 15 bps or 12 bps that we want to carry as a management overlay. So right now as I said a ballpark figure is 37,000 crores against which we are carrying 34 crores so maybe you know you can say 10 bps is right now what we are carrying. Maybe you can say 12 bps is what we would like to say in this year you can project.

So if this year our project our this thing is 38,000 or 38,500 crores where we are going to end then in that case you know right now 34 crores so maybe 5 to 7 crores definitely we would like to keep it so that we are at 10 bps at least. And if possible and if we it's looking at the year-end

if there is a scope we may maybe next year you can say we would like to make it as 12 bps of the book, something like that.

So that's what we will talk to the auditors but otherwise yes management overlay has to be supported by some kind of a -- justification has to be there. So we would like to have some kind of a policy or try to convince them.

Kushan Parikh: Sorry I think we lost audio.

Suresh Iyer: Is it clear now?

Kushan Parikh: Yes we can hear you now.

Suresh Iyer: So as I said, so you can kind of factor in something like a 10 bps or 12 bps is something which you would like to carry. Of course it is subject to the auditors getting convinced but I think, if we have a small percentage and we have a policy around it saying that this is the policy we are going to follow, I think we will be able to convince them. So this will be over and above whatever the ECL provides right

Kushan Parikh: And this will be within the 15 bps guidance that we give. I mean so when if our ECL is coming below 15 bps, you might use the balance to increase overlay. Is that the right way to think about it?

Suresh Iyer: No I think 15 bps would be the credit cost management overlay we would probably could be a little more than that or something. I mean, like we had a good year last year and we felt that -- so we created it, maybe we will look at it

Kushan Parikh: I understood. Subu, do you have any questions on the asset quality?

Subramanian Iyer: I just had a very top-down question that, basically, last 2 years you had a good say, benign asset quality situation largely on the secured side, unsecured obviously we have seen problems. And obviously first half of this year we had some economic slowdown as well, elections and everything. Do you see any kind of a normalization and as a result an increase in credit cost broadly in the next couple of years or do you think it's not something that we are really seeing and you think that things are going along very -- on very similar lines like last year?

Suresh Iyer: See, I don't see the rub off effect of this slowdown or because of this MFI and personal loan space getting affected. That rub off effect might happen probably in some of the low ticket business but if you are talking about I know 20 lakh, 25 lakh kind of customers, we are basically talking about customers who have worked anywhere upwards of 60,000 to 1 lakh kind of an income per month, family income.

So that kind of a segment generally is not much affected by or are involved into the MFI or into MFI borrowing actually. So they are purely into the financial segment. They are, I mean not the kind of -- they are not coming into the financial inclusion segment like what MFI's normally deal with. So I don't think in that segment there will be a rub off because of the MFI but yes

personal loans is something which is there because customers do tend to have credit cards, too many credit cards, too many personal loans, two to three personal loans and stuff like that.

So that is something which at the time of onboarding we do take care that if there are too many borrowings, too many kind of inquiries in the CIBIL report or something, in the near past, recent past, then probably we would tend to not consider such cases. But yes going forward we will have to see whether really there is some impact of customers subsequently over borrowing or taking multiple loans subsequently.

We have not done that study on our portfolio but that is something we may have to look at because so far we are not seeing any major delinquency but at least on the delinquent pool we may like to look at that kind of a study and maybe devise some policy or something because currently we are not -- only at the time of the onboarding or only in the case of an account becoming NPA or SMA-2 we do pulling the report again and again, otherwise we don't pull the reports to see or what is happening

Subramanian Iyer: Got it. No, I think that's clear. Thank you.

Kushan Parikh: Great. I just have a couple more questions. One is basically just a more business related question. Just wanted to understand, what the mix would be from a disbursement and from a book perspective from self-employee, sorry, from self-construction perspective versus apartments for us?

Suresh Iyer: Yes, approximately, I don't have the exact number, but roughly I can say it is around 65% is the is a self-construction bit or it's a plot plus construction or an only construction case and apartments is about 30% and it is about 30%-32%. I don't think it is more than, definitely not more than 35% is apartment.

Apurav Agarwal: What is 6% to 8%? 40%?

Suresh Iyer: Yes, there is purchase in it. We really don't know. It could be apartment also. So not more than 30%, I think. 30%-35%.

Kushan Parikh: Understood. And this suggestion in relation to that, the Karnataka and the Telangana problem would be across both self-construction and apartment or would have largely affected apartments only?

Suresh Iyer: No, it is both because like in Karnataka you have to go for a registration. So even if it is a like okay in Karnataka the thing is since it is relating to the registration, so if it is a new purchase, whether it is a self-construction, I am buying a plot and going to do my own construction or I am buying an apartment, either case I have to go for a registration so it is affected. But if it is a person who has already purchased the land say in 2021, '22 or whatever and today is only coming for a construction loan that is not impacted.

Okay, so that way, to some extent, the non-apartment portion is not impacted because there, it could be a customer who has purchased the land some time back and is coming for a only construction loan. Apartments, every apartment will have to go for a registration. Therefore, it

will be 100% impacted any apartment. Even if it is a resale apartment, second purchase, then also registration will be required. So it is entirely impacted.

Lab book either which way apartment or self-construction is not impacted because either way it is a cell phone unit on own land then also lap will not be impacted because the registration has happened in the past apartment also if it is just a lap on an apartment it will not be impacted because it is on this thing. In case of Telangana it is at across, because it is more of a sentiment issue and also the fact as I mentioned that we have been cautious not to go for a Panchayat so that way it is more of a it will impact all the business in Telangana.

Kushan Parikh:

Understood. That's clear. Last question from my end would be, we've been doing broadly around 2.2% ROA, post IT implementation and the higher costs associated with that. I mean, will we still be guiding towards the 2.2% ROA?

Suresh Iyer:

No, so we have been talking about 2.1% as ROA. We have been maintaining at 2.2%, but we have been guiding at 2.1%. And I think we will stick to the 2.1%. As I said, we are trying to offset some of it. The cost is one aspect where we will have a net impact of about INR35 crores, INR40 crores will be the net addition in terms of the opex because of the opex and capex because of the IT implementation.

But otherwise in terms of that, we will have to work on seeing that you know little bit of NIM or something if we can work on and we are doing in terms of our lab book and our this thing so some of it will get offset from that we will try to see that it doesn't impact go below 2.1% currently it is 2.2% so I think that should be we still have a margin and that should be able to absorb looking considering that it will happen from FY '27 and our book would also go up by then.

Kushan Parikh:

Lastly on the Canara Bank ownership. I mean, last quarter in their call there was a question around the RBI draft circular essentially and what that would mean for them from a CanFin as a subsidiary perspective and there was a comment from the MD there regarding the, I mean regarding that if the circular becomes final then they might have to look at sale. Have you had any conversations with the bank on this? And I mean, how do you think about the circular and the implications?

Suresh Iyer:

There are two parts, one is how do I think about the circular. First of all, I've already indicated, the circular, like all banks have also kind of given a feedback not to go ahead or because it will have a much bigger impact on the thing. So I also feel, it is not, personally if you ask me, I would always feel that, this is a strong parent promoting a housing finance company has always worked well.

It is only the wherever there has been a strong promoter that the institution has also been able to build and have a steady performance. Had it been, say for example, not been for LIC. LIC, HFL did go through some problems, but they were able to face it and were able to sail through it because of the parentage. Same way, PNB also had some issues and they were able to sail through it because of the parentage. Had it not been for a strong parentage, it might have had a much larger impact on both these institutions.

So, I personally if you ask me I always feel that, a parentage is going to help. Okay. But having said that if RBI does come with a policy like this, I think the -- what MD sir that is Canara Bank's MD sir said, if the policy comes through then it will have to be followed. There is no question about not adhering to the regulations of the RBI. So, if the RBI does go through with this it will happen. It may have to be done and it will be done.

But the point is today, this circular came out on 4th of October, on 21st November, was the date by which everybody had to give their feedback. And I believe that since then, there has been some looking at the feedback. RBI suggested that our IBA should come up with some committee and should give some suggestions on this.

So I have a feeling it may, again, because IBA also, most of the banks have had a similar opinion on this circular. So if IBA has to give some suggestions I have a feeling it may either get postponed or it may not come about in the way the draft circular was drafted.

Kushan Parikh: Understood. Subu, do you have any follow-ups for that?

Subramanian Iyer: No, I'm good on that. I mean, because I also noted that the in the press policy in the in the post policy press meet RBI Governor did say that they will have to take interest of all stakeholders into consideration I think which was a good issue. Thank you.

Kushan Parikh: So I think that covers all the questions that we had on our side.

Subramanian Iyer: Sure. Yes. Thanks so much.

Kushan Parikh: Thank you. Thank you for your time.

Suresh Iyer: Thank you so much.