



“Can Fin Homes Limited Conference Call”

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

Varun Goel: I think, sir, meanwhile, I think Gaurav will join, maybe we can start. Yes. So, should we start with just a quick comment from you on how the demand, especially post rate cut, are we seeing more inquiries, what is our sense and all because we have seen some slowdown in housing demand for some time. So, how are things looking for the next year or so?

Suresh Iyer: See, actually, in our segment that we are operating in, we have not seen any major, slowdown or anything. Our business and enquiries and everything continues, we are, run rate has almost remained the same at around 4,000 cases per month we have been disbursing. Of course, had this Karnataka issue not come up and this Telangana throughout the year, we probably would have done better than this also.

But it is more because of these two states. Other than that, if you see, if you look at the north or the west zone, which is north zone is basically for us, Punjab, Haryana, Uttar Pradesh, Delhi, Uttarakhand and all and west zone is Rajasthan, MP, Gujarat and Maharashtra as well as Tamil Nadu. We have seen a quite a positive disbursement.

In fact, all three zones, Tamil Nadu, west and north have already crossed the figure of last year's disbursement and already by now. In fact, where north and Tamil Nadu crossed in January itself, in 10 months itself, they have done business of last year's 12 months. Same way, west zone just crossed it in February because they were just short in January, they crossed in February.

So, we are already having 20%-20% growth in Tamil Nadu and in north zone and in west it is around 15% growth is already there. Same way, Karnataka also till September before this e-Khata issue came up, they were also growing at 20% plus. So basically the growth has been there, we have been seeing it and only because we have lost business and we have come down in the months of October, November, December in Karnataka that we have had this problem.

And Andhra Pradesh and east which is the last zone for us other than Telangana is in fact was negative in Q1 because of the same problem that Telangana was facing because the government was the same. Subsequently, with the change of government in Andhra Pradesh, that also has started picking up and they also will be closing positive by end of the year. So, basically what I am saying is that across the zones, we have had a decent growth other than in Telangana and this temporary issue in Karnataka.

And this temporary issue in Karnataka also at least in the first quarter we hope should get resolved. So then again we should, even that state should start doing positive.

Varun Goel: So, what is the status currently in Karnataka, sir?

Suresh Iyer: See, actually in Karnataka, the government sometime at least the last couple of months has opened up for the BBMP that is the Corporation Limited Properties and at least we are seeing a much faster trickle in terms of the e-Khata issuances and our customers have been able to get the e-Khata in the corporation areas. And therefore, you know it has helped slightly improve our business because in Q3 we were doing INR150 crores per month in Karnataka, whereas in January and February both we have marginally crossed INR200 crores disbursement.

Varun Goel: But as come before September we were doing what, sir?

- Suresh Iyer:** We were doing about INR275 crores because actually you know our ticket size and everything considered we are doing almost 70% to 80% of the business more in the urban development authority that is BDA and panchayat areas. So there they have yet to open up the e-Khata issuances in a full-fledged manner. It is not happening right now.
- Varun Goel:** So, by when do we expect this to fully normalize for us?
- Suresh Iyer:** Actually, as I said Q1 we should at least expect because you know about 10 days back the Chief Minister made a statement that you know they will do it for entire Karnataka including the panchayat, the BDA, the e-Khata, everything they will regularize shortly. So we are just waiting for that to be implemented and the government to you know put more resources or everything and open it up. So once that happens at least in Q1 we should see that picking up and we should be back to our 275, 300 numbers.
- Varun Goel:** And how about Telangana, sir?
- Suresh Iyer:** Telangana actually there is a demand issue for us and we also after this Hydra project been focusing only on the corporation limits because outside as we go outside then obviously the panchayat and all that is you know RERA approvals and all those things are also less. So, we have been focusing so it is going to last but already we have come to a level where we were doing INR150 crores, INR160 crores earlier we have come down to a level of INR100 crores. So, from here there is no further going down I mean it can't go below this. So, next year even we expect even Telangana to start picking up and showing some positive from next year.
- Varun Goel:** So, this Telangana contributes around 10% to 15% of our books, sir?
- Suresh Iyer:** Yes, sir. Yes, they are doing like this year they are doing about INR1000 crores they have done in the first 9 months, first 10 months up to this thing so up to January so you can say about you know 12% to 13% or something they are doing.
- Varun Goel:** So, this 13% will come for another 12 months we expect just to be a little depressed?
- Suresh Iyer:** Yes, it will be a little depressed that is correct.
- Varun Goel:** So, how will we compensate, sir? I mean is there any other geography where we can accelerate to compensate or this will bring down our growth expectation?
- Suresh Iyer:** No, I am saying you have already kind of reached the bottom so from here from INR100 crores we can easily INR110 crores, INR120 crores will also be a growth so at least it may not grow at the same rate but I think we should still from here there I do not expect it to go further down to INR60 crores, INR70 crores, INR80 crores per month it will definitely stick to a INR100 crores plus kind of.
- Varun Goel:** Understood, sir. In terms of any new products, any new kind of loans, targeting will remain to the same segment or we want to enter into newer areas?
- Suresh Iyer:** See, we have opened up our LAP a little bit and we have opened up slightly on our self-employed also that I think you would maybe if you see our last you know couple of quarters or last four,

five quarters you would see that we have indicated that we will be because that is what the strategy we have taken.

So that we have done, additionally there was one additional product which we were looking at launching which is basically on the self-employed category where there is a good amount of transaction by way of UPI payments and receipts I mean in their bank account because now everybody has moved to UPI so even if they are not filing returns the UPI transactions definitely indicate the volume of transactions and business they are doing.

So based on that or the GST returns we had designed a product but we got the approval also internal approvals and everything but immediately we had this RBI clamping down on the unsecured loan segment so we said we might as well you know stop it and not launch it.

It was not an opportune time for us to launch it because then all those loans from personal loan rejections from banks and other institutions as well as MFI customers would have come here. So we said let us hold on for a while once it stabilizes then we will launch it so that is one product which is with us we would like to push that a little bit once the scenario is a little more conducive.

Varun Goel: Understood. Right and in terms of talking about our liability side in the current environment how do we see the cost of funding environment change you know especially after the cut that we have seen how do we see the things going ahead?

Suresh Iyer: See by March we are expecting about 5 bps to 7 bps reduction in our cost of borrowing so at least the opening so in the current year we may not see much of a benefit because most of the reductions will happen by closer to the end of this month but opening of April definitely there will be about today we are about 7.52 or 7.53 or somewhere there we should open around 7.48 or 7.47 because you know definitely that opening itself we will see the reduction in our cost of borrowing.

Varun Goel: And this we will completely pass on?

Suresh Iyer: Yes we expect to at least pass on the 5 bps, 7 bps to the customer once we experience it by end of March we can look at reducing it for our existing customers yes.

Varun Goel: So, I mean from our margin point of view then this will be a margin neutral event?

Suresh Iyer: This is margin neutral. Now that we have moved to a quarterly reset policy, so now in fact that the lag effect which was there earlier will not be as much there. But to some extent like we will experience it first and then we will pass on, so to some extent that will be slightly time benefit will come but that will be either which is today when the rates are coming down, it will be to our advantage. Tomorrow, if it is going up then it will be slightly. But both ways it will not be beyond a quarter so the impact will be very, very limited.

Varun Goel: Right. And let's say during the course of the year we expect one to two more cuts by [inaudible 0:09:46] in that case also the impact will be similar with neutral to our margins or...?

Suresh Iyer: Yeah, because even today in fact if you see, the regulators are also keen to see that there is a quick transmission to the end customer. So I think we will be in line with that we will also pass on -- once we experience the benefit, we will pass on to our customers.

Varun Goel: Understood, sir. So then from a margin point of view, we expect margin to stay flat for the next year?

Suresh Iyer: Yes, we are talking about the same 2.5 and 3.5 spread and NIM kind of guidance for next year also.

Varun Goel: Okay. And growth will go back to what level, sir?

Suresh Iyer: We should be looking at about 20% AUM -- sorry 20% disbursement growth which probably will be around closer to 15% AUM growth next year. Because if we are doing about 20% growth, it will be somewhere around 11,000 plus kind of a disbursement is what we will be looking at. So, therefore, around 11,000 also if you do looking to the rundown rates we should be adding about INR5,000 crores-INR5,200 crores to our book. That will be...

Varun Goel: Earlier, we have had -- seen sir in times of rate card, we have seen bigger loss balance transfers and all, some people come up with more attractive, more aggressive kind of things. So do we envisage more loss of AUM because of some aggression? Have we seen some of that aggression from other players and banks especially?

Suresh Iyer: Not yet, because this has happened recently and so far -- I mean at least our main competition used to be from some of the other players like LIC, HFL or PNB, HFL or Bajaj but these players have not reduced their incremental lending rates. It is only the banks which is SBI, Union Bank, PNB and all those then who have reduced their rates. So you know the BT out to those institutions was much less. It was not a major force for us.

Varun Goel: Right, sir. So basically what we believe is 15% AUM growth is doable for us.

Suresh Iyer: It is doable, yes. That is correct.

Varun Goel: Right, sir. And in terms of any further expansion, any opex that we plan, new branches, how are we looking at that?

Suresh Iyer: See, last year, we opened 14. This year, we are projecting 15. And we will be -- we are on course for this year, so all of them are opening in this quarter only. So by end of this quarter, by March, we will have 234 branches. Next year also we are looking at additional 15 branches but basically branch expansion doesn't result in a big opex impact because all our offices are on lease basis. So, effectively, it is only a matter of the lease rental and one-time interiors and all that we have to do. So the cost is not a big thing.

Normally, if we are looking at 1,000 square feet office, then total cost initially would just be about INR7 lakhs kind of for the interior work and a little bit of staffing that we have to add but then within that period they start doing. Like, for example, the branches we opened last year in

Q3, Q4, about 14 branches in Q3 of this year in October to December they have done about 30 crores of business, these 14 branches which is approximately 75 lakhs per branch per month.

Varun Goel: So in terms of our share of LAP and self-employed, do we have any target percentages that we want to keep it within a certain percentage?

Suresh Iyer: See yes, we are open to up to going up to 65% for salaries, which is currently around 70% right now. We are open to go up to 65% that is what our current business strategy vision 2028 document is there. So up to 65% salaried is okay -- beyond that, below that we would not want to go so we still have some scope. Incrementally our self-employed is higher than 30%, that is why slowly this will keep coming down. So in another 2 years or something we can expect it to come down to around 65%-35%.

Varun Goel: But any limit on LAP sir?

Suresh Iyer: LAP not more than 8% right now, it is 6%. So basically, so right now our housing is around 85% and non-housing is 15%. Now 85 includes CRE but -- so it includes CRE so it is 85% and 15%. Within that 15% we have basically LAP we have top up loans and we have plot loans so LAP is about 5% and this 85% we would like to go not below 80% because excluding the CRE then it would come to around 70%. So 70% pure housing, 10% CRE, 80% and 20% is the non-housing. So in that scenario LAP we will be okay from the present 6% to about 8% about that much only we would like to go.

Varun Goel: Right okay and this in terms of change from a regulatory perspective, going forward do you expect any change for you. From the regulator is there anything any concern that the regulator has shared about the growth or generally how do you see the regulatory environment change for you?

Suresh Iyer: See the regulatory environment has been becoming a little more stringent but so far whatever has come we have not had much of an impact, except for that one change where we were carrying a little bit of advanced EMI which now they had to stop. So that led to some increase in our SMA 0, which we are also trying to work around and educate our customers, create an awareness and all those things. But other than that whatever regulatory impact has happened

Like for example they came up with this PBC criteria. Primary business has to be minimum 60%. In our case it is already 75%, excluding CRE, including CRE it is 85%. So we are very comfortable in that. There was a -- there is now a talk about this prepayment charges, we don't charge any prepayment charges so that's also not worrying.

Then there is a regulator has spoken about some changes in the deposit. Again our deposit base is very small. So even when they reduced it from 3x NOF to 1.5x NOF, it is not affecting us. We are quite safe about that. There was something on LCR, we are already comfortable in LCR. We have always in fact, when the regulatory requirement they stepped it from 60 to 70 now 85 from January, we were always as the internal board practice policy, we had kept an internal policy of 10% higher.

So when it was 60, we were maintaining minimum 70 when it was 70 we have maintaining 80. In fact now it is 85 we have internally - we are maintaining above 100. So that way also we have always maintained well about the regulatory requirement. So the only other regulatory thing which is right now there, which can have an impact is the draft circular which was there on which came in October last year.

But that also, in fact, since the change of the new of the RBI governor that also has not been spoken much so we do not know. And we expect that probably either it may be delayed or not come about or whatever. As of now at least definitely for the immediate future we are not expecting anything.

Varun Goel: So how exactly would that impact us sir, let us say, if they were to push it?

Suresh Iyer: So that October 4 circular is saying that for banks, they cannot have two - either subsidiaries or groups or verticals with the same line of business. So Canara Bank itself is having housing and they are - we are also doing housing. So obviously this becomes a two different things.

Varun Goel: Then Canara Bank has to sell this thing?

Suresh Iyer: If that comes about, but normally in the past also when this point has been there, there is a clear demarcation actually the ticket size in the segment, in the location. So in the sourcing method and everything. So normally so far that point has not been and that is precisely the point which all lenders have also been highlighting and pointing out. So maybe that is the only thing which is somewhat there which could affect, otherwise we have always been in terms of regulation, in terms of guidelines, we have always been conservative, we have always been compliant. So not an issue.

Varun Goel: In any view which your parent has shared on that?

Suresh Iyer: In fact even before the circular last year also they said we are - we know that there is a good amount of valuation in the company. So we are right now not keen at this price, we will see when it goes up. Same thing in the last quarter also after the results and somebody asked the same question was given, there is a good amount of valuation we are keen to hold and work on towards improving the valuation and all those things. So let's see - no other, but as of now I don't - there is no discussion there is no talk within the group or nothing to our knowledge of any such idea or intent.

Varun Goel: Gaurav, do you have any questions?

Gaurav Kochar: Yes, hi sir. Good afternoon.

Suresh Iyer: Yes, good afternoon, Gaurav.

Gaurav Kochar: Yes, just a couple of questions. First on the PLR, one of your competitors have raised the PLR yesterday. So in that context do you see any pricing now that the repo rate have impacted, while you indicated no rates and margins should remain stable, but with higher competitive intensity do you envisage PLR cuts going forward in your portfolio?

Suresh Iyer: No, I mean as of now I don't I am not aware. It's only the banks as I mentioned earlier who have reduced their lending rate. Otherwise they have not reduced their incremental lending rate, at least not the HFCs to my knowledge. So, I don't expect because everybody has to maintain at the current rate the borrowing costs have not yet come down. So, only when they see something on the liability side something can happen.

Otherwise, it will be more of - in anticipation or you affront the rate cut before you actually start experiencing it, which will be you know impacting the spreads and NIMS. So, I don't think that is the current issue.

Gaurav Kochar: Sir, but I think Bajaj housing has taken a 15 basis point PLR cut on the back book yesterday. So, one of your competitors may not be the similar customer segment, but perhaps with competition may be. While the direct competitors like you mentioned LIC housing, PNB they have not taken it yet, but given that large competitor Bajaj housing has taken, is that a precursor to maybe competitive intensity and with rate cut in annual perhaps some more pressure on?

Suresh Iyer: No, see our stated policy is very clear once we experience it on the liability side we will also pass on to the customer. There is no intent of holding it back or not passing on to the customer or doing that. So, only thing is, our liability side impact is going to happen mostly at the end of this month only, because that is how the various bank borrowing agreements are worded. So, basically we will experience it by the end of this quarter which is by end of March. So, we will pass it on from April or there about yes.

Gaurav Kochar: Got it. And sir, any benefit that we see what percentage of our book would be repolling on the borrowing side, on the bank borrowing side, what percentage do you think will get repriced and what is the reset period in that case?

Suresh Iyer: As I said we have our bank borrowings entirely are on either I mean 80% of our bank borrowings are on linked to repo rate and the remaining 20%-odd basically two large vendors they are linked to T-Bill rate. Another thing is the CP that is also obviously market rate driven

Now, for bank term loans either the reset will be impacted at the time of the next repayment which is the quarterly repayment that will be doing at the end of this month or at the time of some of them at the month end or something like that. So, most of it actually is going to happen in the end of March only, only in the CP we could have benefited something, but then in fact March is also a month where liquidity is a slightly tight.

So, that also actually has not accrued to us. So, net-net we are expecting that, by end of March our weighted I mean our blended cost of borrowing would be down by just about 5 to 7 [WIPs 23:04] only because of that one is the only on the 60% of the bank borrowings which is there on that only we will get the benefit. CP has actually not benefited us so far and therefore, the opening cost for 1st of April would be probably about 6 to 5 to 7 WIPs lower which we may look at passing on to the customers.

Gaurav Kochar: Understood. And sir, on the incremental disbursement front let us say of whatever disbursements are happening now incrementally after the rate cut in the first week of Feb, are you seeing any

competitive intensity because what we hear from banks is that SBI and other PSU Banks have started to taper down the incremental offerings?

So, has that trickled down to your customer segment as well where LIC or others are because of the rate cut probably pricing 27 WIPs lower than what they were in January. Has that anything of that sort happened?

Suresh Iyer: No, we at least on the ground we are not hearing or any pressure for reduction because as I said it is only the banks who have reduced it and banks are doing our BT out or taking over our loans has not a very large percentage. It is only the NBFC some of the larger ones who are a bigger competition for us who are the ones who are taking over our loans more. So, it has not been much for us so far the impact has not been much.

And as you also said that segment also is a little different because banks have a slightly higher ticket size of customer base whereas our ticket size is a little lower. So, maybe that way also the segment is different.

Gaurav Kochar: Sure. And sir, this last question from my side the SMA book SMA 0, 1, 2 last quarter was a little insulated. If I look at last three quarters the SMA book SMA 0 especially which is basically your current 0 to 30 that seems to have increased. So, has that stabilized now or and when will that start reversing?

Suresh Iyer: See that actually we have as I said we have this mainly because of the change in the regulatory guideline for this advanced CMI that we were carrying for a little bit whatever some odd amounts little bit here and there they were carrying extra and if large amounts obviously were going towards prepayment but some small amounts were always available to us.

So, check bound charges and all always used to get taken care of. But now with a change in that guideline we have to educate the customer, we have to create that awareness. So, we have started sending more SMSs to the customers. We have also changed the text of the message that is going to incorporate this aspect also. So, all those things are done.

I mean slowly over the next 2 quarters I am sure this should come back. So, some of it in this quarter and some of it in the next quarter. Sir, I think we are largely done with our questions.

Gaurav Kochar: Okay, so your [par zero 26:00] if I can find it was 13.2%. That number would come down in this quarter, maybe normalize in first quarter of '26. With that...

Suresh Iyer: Yes, somewhere around 11% or something and then maybe further down in the next first quarter of next year or something. At least that's what, at least this quarter it should come down by a percentage or something.

Gaurav Kochar: Got it sir. Yes, thanks.

Varun Goel: Sir, I think we are largely done with our questions. Thank you so much. We just wanted to have a quick interaction. Thank you so much for speaking to us.

Suresh Iyer: Yes. Thank you so much. Pleasure.

Varun Goel: Thank you.