



“Can Fin Homes Limited Conference Call”

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

Zhixuan Gao: I just want to catch up with you. I'll make it a quick one. So, any update on the Karnataka and Telangana situation?

Suresh Iyer: See, on Telangana, not much because the sentiment is affected. So, it will take a while for it to come back. But hopefully, at least last 2-3 months, there have been no demolitions. The government at least confirmed they will not do any more demolitions. So, that's a positive thing. As regards the Karnataka issue, some small development, yes, in the sense that in Q3, there was no e-Khata releases, almost very, very marginally low number was there.

But since then, in January and February, we had some movement at least in the corporation limits. So, within the corporation limits, some e-Khata movements have started happening. And about 20%-25% of our business comes from the corporation limits. So there we've had some movement. So, while we were doing about INR150 crores per month disbursement in Karnataka in Q3, in January and February, we've been able to cross INR200 crores, just marginally though. But we have been -- in both months, we have crossed INR200 crores in Karnataka.

And about 10 days back or something, government made a statement they will be opening up for the other areas, that is the development authority, that is periphery and also on the panchayat areas. So, therefore, once that also happens, then we will be back to kind of say normal within a month or two. Because once that opens up, we have quite a sizable amount of business in the periphery areas and in the panchayats. So, that will open up a little better.

So, we are just waiting for that also to happen so that things can come back to normal. It won't take much time, at least it should happen in the next month or so, month or something because government is also losing revenue. Plus, now that they have at least started for the corporation limit areas, I think the government has kind of sorted out or figured out how to manage the numbers and release e-Khatas. So, hopefully, that should help us in going forward also.

Zhixuan Gao: So, what's this corporation limit thing that you are talking about?

Suresh Iyer: Yeah. So, actually, the administrative mechanism for all these things is actually that if the population is more than say 10 lakhs or some particular limit, then it becomes a corporation. So, there is a separate corporation and all approvals are with the corporation. It's a much bigger administrative unit.

Then, the periphery areas which are a little less developed and where the population is yet to spread out and things like that, the future areas which are going to eventually will come into the corporation limits, they are coming under the urban development authority. So, they are not part of the corporation. They are still on the outskirts. These are the urban -- called the urban development authorities.

So here for the corporation, which is the absolute main center, so in every state, for example, there are about 6, 7, 8 corporations only. you have Bangalore, Mysore, Hubli, And Mangalore is a corporation. Whereas, other places, the population is less than that limit. Therefore, they are not classified as corporations. So this is where the concentration of population is very high.

And therefore, the regulation requirement, the infrastructure requirement, the administrative requirement, everything is much, much more. So, they have something that is called the corporation. It is only in the bigger cities. So every state will have only about 6, 7, 5, 10 only. So, here Bangalore is one corporation.

The outskirts of the corporation areas, which are still the developing areas or which have not yet been brought into the corporation, those areas are the development areas. And beyond that, then it becomes the villages. Villages means the population is much less. There are just about 30, 35 -- 3,000 houses, 1,000 houses, 500 houses. So those places become the villages. There, there is a panchayat. So, basically, these are the administrative, they are more sparsely populated, the panchayats. And it's not a contiguous kind of growth.

So, you have one panchayat, then there is some -- surrounded by some agriculture areas, some farming happening, and then there will be another panchayat after another little while and so on. So, that is how the administratively it happens. So, right now, they have already started releasing the e-Khatas.

Now, our case, because we have -- our segment is more in the developing areas and in the panchayats, therefore, because that's our segment, we are on the 20 lakhs to 50 lakhs segment. So, our ticket sizes are more in the developing areas and in the panchayat areas. So, there, once it starts, almost 70%-80% of our business happens there. That is how it is done.

Zhixuan Gao: So, for the corporation area, when they say -- when you say releasing e-Khata for the corporation area, is it already normalized there or it's still...?

Suresh Iyer: It is not normalized, but the speed has picked up and slowly things are getting normal. So, if you apply, earlier it was not coming only, there was no e-Khata getting released. But now, the e-Khata is now coming much faster. So, many customers who are applying within at least a week, 10 days, they are getting it and immediately we are able to at least convert it into a business.

Earlier, sanctions in September were just lapsed in October, I mean, October lapsed in November, November lapsed in December. December, some of the cases which were in corporation areas, we could get that e-Khata. So, we have converted and done the business in January and so on, now it is moving. So, I think it will normalize, in a couple of months, it will normalize. But at least, if you want, you can definitely push and get the e-Khata done quickly.

Zhixuan Gao: Got it. Okay. So, in the third quarter, just to check, you were saying that we do 150 crores a month in Karnataka and then January, February, we are doing 200 crores a month in Karnataka.

Suresh Iyer: Correct. And in Q2, we had done INR275 crores per month we were doing. Before this e-Khata issue came up, we were doing INR275 crores in Karnataka.

Zhixuan Gao: Got it. INR275 crores a month. Okay. Got it, sir. So, overall disbursements, how is it trending, you know? I think, compared to last year, are we seeing improvements or in the fourth quarter?

Suresh Iyer: See, January and February, both months, we have combined, we have done better than, marginally better than what we did in January plus February last year. So, we had done 1,300

and something, we have done just cross 1,400 and something, we have done in these two months. January plus February put together both months, we have crossed INR700 crores disbursement.

And this month, we are looking at another, anywhere closer to INR1,000 crores. So, we are targeting between 2,300 and 2,400. Last time, in this Q4, we had done 2,313 crores, 2,313 crores. So, this quarter also, we are expecting at least that much or a little more than that.

Zhixuan Gao: Got it, sir. How much bank lock are there in Karnataka? I.e., if we were doing INR275 crores a month in Karnataka before this. But if things fully normalize, there should be some form of backlog over there, right?

Suresh Iyer: There would be a backlog. But, so, if you see the numbers, for quite some while, almost two weeks or something, there have been no new numbers coming out in the newspapers. But prior to that, it was almost like 12 lakh e-Khata applications were there. Out of which, only 1,25,000 e-Khatas had been issued. So, there was a good backlog of almost 10 lakh plus applications, which now in the next 15 days, although it has started coming up, I'm sure, it's still not 100%.

So, probably, it will now be around 3-4 lakh. I'm just assuming maybe 3-4 lakh e-Khatas issued, whereas now the total number of applications would be around 15 lakh. Something like that. So, there is still a backlog, but not necessarily that the entire backlog is only in respect of new loans or whatever. Because many customers would also have applied for perfecting their security, getting the document and keeping their file perfect, property ownership document pakka.

Zhixuan Gao: Got it, sir. FY26, how are we thinking about the total disbursements in FY26 and looking at the situation now?

Suresh Iyer: See, at the rate at which we are going, we should expect around 20% growth over current year disbursements. Because, we are already, three of the zones are almost at 15%-20% growth. Same way, that is, North zone is more than 20%, is going already at more than 20% growth.

Same way, even Tamil Nadu is growing at more than 20% growth in the current year also. Our West zone should be somewhere in the range of 15% growth because in February, they already have crossed the previous year figure of 12-month disbursement. They have finished in 11 months.

So West is also growing at around 15% growth. East, Karnataka, which is a very large chunk for us, was growing at 20% but because of this e-Khata has come down. So, next year, even if they go back to the INR275 crores, which they were doing in Q2 and all, I am sure they would, that would also become a 20% growth.

So almost most of the areas, we are looking at a 20% growth. And Telangana is one area where already we have kind of almost bottomed out. So from here, I think, we should definitely be able to pick up and do a little better from here. So that way, I am assuming 20% growth over disbursements of current year should definitely be something we can achieve.

Zhixuan Gao: On the RBI circular, talking about the NAP, reducing the pre-payment foreclosure charges, any impact to us?

- Suresh Iyer:** No. We are anyway not charging pre-payment charges for our customers. In fact, almost 100% of our loans are floating rate and we are not charging pre-payment charges. And we are not even charging other hidden, there are no hidden charges as well. It is clearly, only the loan plus outstanding EMI interest and whatever. There are no charges for pre-closures.
- Zhixuan Gao:** I see, sir. Got it. Any updates on this previous circular on the bank, financial institution and subsidiary?
- Suresh Iyer:** So far, no further development. The last we know is that, the RBI asked the banks association, IBA to form a committee and study and come back with some feedback or suggestions. So, I believe since most banks have anyway, suggested not to go ahead or give some relaxation and not allow, make it compulsory for every institution.
- So I think, this may not, at least for the time being, there is no further development on this. No further. IBA probably will give a feedback, then RBI will reconsider and all those things. Even the new governor who has come, because this was announced on 4th of October, since then the new governor who has taken over at the RBI, there also, since then, no further discussion has happened on this. At least not to our knowledge.
- Zhixuan Gao:** Got it, sir. That's clear. Okay. On the margin front, just to check, so we are 60% bank loans, right? Sorry, 50 plus percent bank loans. Is it all of them are linked to EBLR or how does that work?
- Suresh Iyer:** Yes, all of them are linked to EBLR. 80% of the bank term loans are linked to [Repolid 0:12:00] and about 20% a couple of banks are linked to T-bills. So, we will have almost all of them, the rates will start coming down as per the agreement. So, some of them are going to get repriced at the time of the next repayment which happens on end of this month. Some of them are on a monthly basis and so on. So, any which ways by 31st March, we would have experienced some benefit across all the term loan lines.
- Zhixuan Gao:** Okay. So, the reset period is from 1 month to?
- Suresh Iyer:** To maximum one quarter because normally we have quarterly resets. So, quarterly repayments. So, if it is a 7 year loan, it is a 2-year moratorium plus quarterly installments spread over 5 years or else it is a 10-year loan with 1 year moratorium or 2 year moratorium spread over 8 years and things like that. So, mostly it is all quarterly repayments. So, in our case, all the quarterly repayments at least would come latest in March.
- Zhixuan Gao:** Okay. I see. So, for the June quarter, it should be down by 25 basis points?
- Suresh Iyer:** The entire may not be 25 basis points because as I said we have about INR37,000 crores of assets, but our borrowing is only about INR32,000 crores, INR33,000 crores, of which about 60% is term loans. So, on that we will get the benefit. So, effectively when you look at the overall cost of borrowing and everything and eventually it may just be a benefit about 5 bps to 7 bps overall.
- Zhixuan Gao:** I see. Got it. And on the asset side, we are all floating on our internal benchmark?

Suresh Iyer: Sorry?

Zhixuan Gao: On the asset side, on the loan side, it is all floating on our benchmark?

Suresh Iyer: It is all floating. So, we will be passing on to our customers as well, but that will be post-March only because by then only we will experience or the transmission on our liability side will happen by March only. So, after that we will see and to the extent of the benefit that we are getting, we will pass on.

Zhixuan Gao: I see. And the reset period over there is like?

Suresh Iyer: We have a quarterly reset now. On the asset side, we have a quarterly reset.

Zhixuan Gao: I see. Got it. Operating expenses, the tech investment that we talked about, when does that start kicking?

Suresh Iyer: See, that will happen in FY27 because we are almost - we just signed the contract with IBM. So, there is a 12-month implementation period and thereafter there is a 3-month or 6-month hand holding or support period. So, basically till that period, we will be all capitalizing the expenses. One is the infra that we are investing plus also the support cost and everything will be capitalized. So, basically, you know, the entire cost will get capitalized and it will come into - from FY27 only it will start actually coming into the P&L.

Zhixuan Gao: I see. Got it. So the cost-to-income for FY26, so far FY25 we are running at like 17%, 18%?

Suresh Iyer: Yes 17% only. That's right - 17 between, little more than 17%.

Zhixuan Gao: So, FY26, it shouldn't be a problem.

Suresh Iyer: Yes, FY26 also it will be roughly the same because now the costs are - because of this capitalization, it will go into FY27.

Zhixuan Gao: Okay. Got it. So, FY27, then the cost-to-income will go up to 18%, 19%?

Suresh Iyer: Yes, about 1.5%, 2% will get added. So, 17 will become 18.5% to 19. That is in FY27, but by that time our existing cost on IT is about INR15 crores. That will get reduced. So, net addition will be somewhere in the range of about INR45 crores, INR47 crores would be the net addition.

Zhixuan Gao: Okay, sir. That's clear. On asset quality, how things trending on the ground?

Suresh Iyer: Asset quality, see our gross NPA we have said is around 0.9% and that is the realistic NPA which would continue. On the Stage 1 SMA 0 and SMA 1, there should be some reduction because SMA 0, there was a spike mainly because of the charges which we could not recover the check bound charges and everything. Because now there is no advance EMI or part advance that we are carrying.

So, that is slowly that - so the number of cases where check bounds had happened and the customers had not - had only repaid their EMIs, that itself was a very high number of almost

INR770 crores. So, we are working to push that down because it's basically nothing to do with the customer's intent. It is more to do with the lack of understanding or awareness or something.

So, we have increased the number of SMSs we sent to the customer. We have increased the number of, calls we are making. So, that should come down. So, technically, net additional NPA normally Q4 the NPAs come down a little bit.

So, that is one thing. So, net NPA in percentage terms should not cross the same number. So, there is no spike or anything further expected. And so, in terms of the provisioning in Q4, there will be either a marginal or no provision required in Q4.

Zhixuan Gao: Got it. Just on the SMA 0, you are saying that the increase that we are seeing last two quarters sequentially is, our SMA 0 last quarter is up to INR2,500crores, right? INR2,600crores?

Suresh Iyer: The SMA 0 you are talking about?

Zhixuan Gao: Yes.

Suresh Iyer: That has gone up to INR2,493 crores or INR2,473 crores in end of Q3, December. Correct.

Zhixuan Gao: And that is because of the check bounce issue?

Suresh Iyer: Yes. About INR770 crores of this portfolio INR2,493 crores was basically those cases where the checks had bound. There were less than INR850 outstanding because whenever we collect the money, the amount first goes towards the charges. So, it was apportioned towards the check bounce charges first and therefore, the EMI was showing as outstanding.

But basically, customer had made the payment. Only thing that, the customer had only paid the EMI amount which had bounced, when the EMI bounced. They didn't add the check bounce charges and pay. So, the check bounce charges equivalent to that, it was still showing as outstanding.

Zhixuan Gao: Okay. And the SMA 0, is it coming down already or takes more time?

Suresh Iyer: It will slowly gradually come down. Definitely, we should see some reduction in March itself. But over a period of, 1 or 2 quarters, it should definitely come down.

Zhixuan Gao: Okay. Got it. And the reason why we think that off quarter, we shouldn't see much credit cost is because there is no NPA addition?

Suresh Iyer: There should not be an NPA addition. Normally, there is a reduction. But even otherwise, our 0.9 is kind of the genuine realistic NPA which is there. So, even if it comes down, the provisioning may not be much in Q4. Even if at all, it will be to some small extent and that's it.

Zhixuan Gao: I see, sir. So, overall, the rate cards will be margin neutral for us, because whatever benefit we get, we will pass on to the customer?

Suresh Iyer: That is true. What we experience, we will pass on. But we will pass on, obviously, with a 1 or 2 month lag because once we experience, then in the next quarter, April, we will do it. Then as and when we further, rate card comes, depending on the, when we experience it, we will give it. So, there will be some marginal, time lag but that's not much. Because we are also having a quarterly, most of the liabilities side also, it will be passed on to us on a quarterly basis only.

Zhixuan Gao: Got it, sir. And in terms of the demand on the ground, any changes you see on the demand on the ground?

Suresh Iyer: Not, actually in our segment of this midsize which is the bread and butter, the 2BHKs, 2 bedroom hall kitchen houses which are small, 800 square feet to 1,200 square feet, those kind of properties, it's I think the steady demand, there is not much of a change. We are not seeing any major change.

Zhixuan Gao: Got it, sir. Cool. I think that's all from my side. Anything else I forgot to ask, sir?

Suresh Iyer: No, I think broadly we have covered, we have covered credit cost, we have covered opex, we have covered margins, disbursements. I think we have covered most, we have covered all of it. Rest anyway, it's a steady business that we are running. It's not much of a change segment wise or in terms of the, this thing, it's quite steady.

We have only thing probably we can say is that, we had said we will be opening 15 branches and we are on course to open those 15 branches. So, I mean, it's just that reiterating that point. Otherwise, I think everything else on the strategy side is on course.

Zhixuan Gao: 15 branches in fourth quarter or...

Suresh Iyer: This quarter, yes, Q4.

Zhixuan Gao: Okay. And what's our branch plan for '26?

Suresh Iyer: We plan another 15 odd branches in FY26 also. Additional 15 branches.

Zhixuan Gao: Okay. Got it, sir. Thank you so much. Thanks for your time, sir.

Suresh Iyer: Thank you.

Zhixuan Gao: It's a pleasure. Thank you.