



“Can Fin Homes Limited Conference Call”

March 06, 2025



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

Questioner: It was a slightly short notice, but thank you for accommodating it. Sir, first thing, if you can help me understand, I mean, last quarter we saw whatever happened in Karnataka, right? There are also other peers who came out and said something similar. Everyone was impacted in Karnataka. Now, having seen these two quarters of this, I mean, two months of this quarter, right? What is it here that is really happening in Karnataka where, I mean, we are hearing things are getting better.

Suresh Iyer: Correct.

Questioner: But when we say things are getting better, what is getting better is something I am trying to understand.

Suresh Iyer: Sure. See, actually, we have the corporation that is the BBMP. Then you have the Urban Development Authority, which is the BDA. And then you have the panchayats or the gram panchayat approvals. So now what has happened is, in case of the BBMP, the last few, more than a month, the eKhatas have started coming a little more freely. The speed has also come down and the integration also, they have some integration which they have been able to manage, whereby the flow between the sub-register office and the BBMP and all is also happening much faster.

So that way at least BBMP areas, we have started getting some of the, you know, eKhatas much faster. And BDA and the gram panchayat areas, in fact, the chief minister had made some statement that now we have done this, we will very soon open it up for all the agencies. So it is likely that for BDA and for gram panchayat also, and in fact, he also made a statement that even for eKhata and not only eKhata, even for bKhata, we will be able to get it done and the, you know, eKhatas will start coming in.

So while that has not happened in the last 15 days, but at least the BBMP, whatever has started has certainly helped us because in, like for example, in the whole of last FY24, Karnataka contributed 2,640 approximately crores, which is about 220 crores per month. In the first six months of this year, Karnataka was doing on an average somewhere close to 275 crores. So which was a 20% growth.

So end of Q2, we were actually 20% growth in Karnataka. Then this happened. So monthly, we were able to do only about 150 crores in October, November, December on an average. So therefore, the growth has dropped and we lost somewhere around 350 to 400 crores of disbursement pertaining to Karnataka in Q3. That was one thing.

Now what has happened is with this BBMP slightly loosening, we have started getting some faster approvals and eKhatas are coming. So our January and February, both months, we have been able to cross 200, though marginally, but we have crossed 200. Because again, 70 to 80% of our business happens in the periphery areas and gram panchayat. So therefore, while BBMP has happened, only about 20% of the business has come about.

But still, that has helped in increasing our delta by about 50 crores. So that is what it is. Once the others also come, Karnataka should be back in the norm. But having said that, at the rate at which we are going 200, 200 in Jan and Feb in Karnataka and another probably 250 plus we will

do now expecting in March. So in that case, we will be back to the same number of 2,650 approximately for Karnataka.

Questioner: So YoY we could be flat?

Suresh Iyer: We could be flat for Karnataka. For Karnataka. But technically, we have touched 275 and whole of Q1 and Q2, we were roughly doing about 275 crores per month. So next year, even if we are back to 275 crores, once this BDA and gram panchayat opens, we will be back to 20% growth in Karnataka. That is one thing.

And, now that this has started, our BDA, BBMP, this thing comes. In the process, since that was happening, we have started some efforts in BBMP areas and trying to do tie-ups. So probably, in the long run, that will also help. But at least, this is the basic thing that we are talking about what has happened in Karnataka.

Questioner: Sir, when you say, started some efforts in BBMP areas, are you talking about those APFs that we have spoken about?

Suresh Iyer: APFs and some tie-ups. Yes, the same. Builder tie-ups. APF and other builder tie-ups we have started at least. Earlier, that 20%, so probably at least this will help us probably increase that 20% to around 25%-30% from BBMP. Because BBMP areas, the ticket size obviously is a little higher.

Questioner: Okay. And sir here, I mean, while we all keep reading media articles, what the Chief Minister has to say, right, and some other revenue minister has to say of Karnataka regarding this, right. Somewhere all of us acknowledge that the government is very clearly acknowledging that their revenues have been hit.

And which is where our expectation, right, that they'll definitely do something about it. And maybe something in the very near term where they will have to do something about it. Given that we have, I mean, a big might in this state, right, the biggest state for us, right, what is it that people on the ground are telling you, right?

I mean, see, one thing is what we read in media. One thing is what we hear from our own people who are more on the ground, sometimes a little more connected, right? What is it that they are telling you?

Suresh Iyer: See, I'll tell you, when in January itself, some of our DSAs, because our DSAs is still 70%-80%. They also go to the sub-register office. They were telling us, sir, we are going to the sub-register offices, it is going to be ready soon, please start keeping our files ready. Of course. So it was bound to happen. And it happened now for BBMP.

So now, very soon it may, as the Chief Minister has said, frankly speaking, there are two, I think the government didn't expect this volume of people applying for eKhata and everything. And maybe the connectivity, as you are saying, between BBMP and this to make it much faster did not happen the way the government would have probably anticipated. Because it is not that the government did it abruptly without planning or anything.

Actually, this was done in one of the smaller, much smaller corporations in Karnataka state in Davangere and all. Okay. But their volume was, compared to Bangalore, was so, so small that it worked well. It doesn't mean that, but it didn't work here. So the government had to probably put more people, more kind of thing. And the complexity of the transactions also is much, much larger here.

The kind of volume of, in terms of the developers, in terms of the complexity of the land, the kind of subdivisions, maybe amalgamations, joint development agreements. So I think those are the bigger issues which the government probably could not anticipate or could not plan when they did it for Davangere and all.

So I think, you know, once now that they've got the hang of it for BBMP, which is a bigger chunk of it, I mean, BDA and this should be similar to what it is for the smaller areas. So I think that also should come.

Questioner: Got it. Sir and before I move to my next question, I just wanted to understand, there is a place called as Badlapur which is maybe two hours from Mumbai. So we happened to be there, maybe a week back or something, doing some branch visits. So one interesting thing that came up is not all lenders do Gram Panchayat properties. We do that.

So just trying to understand where on one side, we have been very, very clear about saying that, listen, no assessed income. We always go for documented income. We are very, very clear on the customer side. On the property side, why are we kind of going to an inferior property like a Gram Panchayat?

Suresh Iyer: See, it is not that in Gram Panchayat you don't have the government agencies. Even in a Gram Panchayat, you have an administrative setup of a postal department, education department, transport department and everything. Properties -- and they are not the typically large properties. Like, for example, I'll tell you Whitefield for that matter.

Questioner: Is still a Gram Panchayat?

Suresh Iyer: It was rural, a little while back...

Questioner: No, I was here for three years. So I know everything here. But was it still rural?

Suresh Iyer: Now it is not.

Questioner: No, no, now it is not. But let's say 3 years, 5 years back. It was before the whole thing. I did not 3 years back. I mean, I'm saying it was three years back. Until that time, it was classified or whatever. But I mean, till some time back, that was also rural. But the way it has now come up, it is obviously part of this. Understood.

So basically, when we say Gram Panchayat, it is not that the property is inferior. The approving authority is the Gram Panchayat. They can give only G plus 2 approvals. In Gram Panchayat, you also have four stories and five, seven stories also. But then approval limit or authority to

approve is only up to G plus 2. Like in there, if you see, it is only G plus 2 can be approved by the Gram Panchayat. So if it is a third floor, fourth floor, we will not do.

Questioner: Understood. Got it. So there also, I mean, the problem is not the property, what you are saying. It is more like, instead of a municipality, here it is a Gram Panchayat giving the approval. And like you said, G plus 2 is what the authority ...?

Suresh Iyer: Correct. And if it is a BDA, then it will be a different authority. If it is this, there will be a different authority.

Questioner: Understood, sir.

Suresh Iyer: So even in Gram Panchayat, if it is a larger building, the approval has to be from the corporation. If it is a larger one, smaller one, it is okay. So these are all administrative states. It is all linked to the state. That is what is happening. Second, like for example, if you look at Rajasthan or maybe a couple of other states, up to 500 square yard, there is no requirement for approved plan and therefore, you can just construct if you are having the land.

That is the state government decision. Land eventually is actually is a state subject. Falls under the state this thing. So there the guidelines will change. So, the question is whether it is an authorized approved unit or it is a non-approved unit, okay. Today when you look at banks or larger players, they are all operating in the 40 lakh, 50 lakh kind of average ticket size segment.

Whereas, in a Gram Panchayat, if you see that, normally the size would be 800 to 1200 square feet land or some small piece of land, 600 square feet construction, cost of the property itself will be, if it is a self-construction unit, will be not more than 20 lakhs, 25 lakhs is the cost of the unit itself. Funding would be even lower than that.

Questioner: So when you say 20 lakhs, 25 lakhs, this is cost of construction?

Suresh Iyer: Total cost of property.

Questioner: Including the land.

Suresh Iyer: Including the land, it will not be that much also. And even if it is a G plus 2, it will be a very -- much smaller kind of cost. Got it.

Questioner: So sir, basically I mean the takeaway for me is that these are not vulnerable properties.

Suresh Iyer: No.

Questioner: These are also properties where you can initiate surfaces. This is what I am trying to understand.

Suresh Iyer: Absolutely. But bigger players would not want to go there because the ticket sizes are smaller. They do not have that much of a presence and like in our case, mostly we are also having local sanctioning powers, but these bigger players, all of them have centralized powers. So from there, if a case comes, obviously the time taken to sanction those cases is also going to be much larger because they will be more interested in doing 1 crore, 75 lakhs and 2 crores.

- Questioner:** Fair enough. Got it. This is useful. Sir, the other thing that I wanted to understand is, I mean, you recall two quarters back there were problems in Telangana, right. You have explained on the earnings call as well, Project Hydra, right. I mean, is it like normalized or still sometime?
- Suresh Iyer:** It is still there. The Hydra is still there. They are taking up area by area, doing assessment and then declaring properties as authorized or unauthorized or basically properties which are okay or those which are on lake beds or government owned land or things like that. That entire exercise for the entire city or for this thing is not yet complete.
- Second part, only good part about it is earlier when this was there, they immediately went ahead and demolished such properties. Now, they are not at least demolishing it. Last 2 to 3 months, they have not done any demolishing. The government said they would refer such properties to another department, environment department or something and thereafter, they would take a call which means they will probably levy some regularization fees or something and get it.
- Questioner:** So, that market, I mean, in the last 2 months, Jan and Feb has started picking up or is it largely there?
- Suresh Iyer:** No, we are still going slow there because till the time the areas are not cleared, we do not know something else might come up. That is why we have not had any property so far which we have financed, which has come under either this demolition or classified as...
- Questioner:** Got it. So, we are also going slow, right?
- Suresh Iyer:** We are going also slow.
- Questioner:** Because like you said, the entire exercise across the city has not been completed, is it?
- Suresh Iyer:** Correct, correct.
- Questioner:** So, it is just prudent to be going a little slow. So, now moving to the next part that most of my investors are wanting to understand. Sir, you were asked this question in one of the earnings calls also, I remember. And which is, sir, now that this year will be about the tech transformation that we are embarking on, right?
- So, sir, I mean, one of the learnings that we as analysts and my investors have had in the last 2-3 years, whenever these NBFCs and I have knowledge mostly of NBFCs and I can speak about them. Whenever NBFCs or HFCs have gone for a tech transformation, right? We have seen impact, business impact, right?
- So, a lot of investors actually -- and I am just thinking aloud, right? A lot of investors actually end up asking us on sell side that Abhijit, think about it. I mean, we saw Telangana, we saw Karnataka. For all we know, by the time we are out of the woods in Karnataka and Telangana, we might have some business disruptions coming from this tech transformation that we are doing.
- So, sir, then, I mean, in that context, I have two questions. One is, in that case, what is our visibility on disbursements and growth for FY26, taking that thing into account? And the other

thing is, sir, having seen that, right? We have seen that and you have seen that as well. So, how do we minimize that and how can we work with our vendor, which in your case is IBM, right? Who is managing all the other sub vendors, right, to minimize that disruption?

Suresh Iyer:

Sure. No, it is a very valid point and I think, the observation is also very correct. What we have understood and what we have also discussed before, we went ahead with the RFP, was that maximum amount of disruption happens, one, because of the LOS, LMS being a different, from a different OEM. So, then there are integration issues which come up. That is point number 1

Point number 2 is the resistance to change and integration with accounting package. These are the three major issues which are there. In our case, at least we made it very clear that LOS, LMS service provider has to be the same. So, thereby, this integration issues where LOS may, it is, you log in the file, but it does not get reflected in LMS or the LMS does not work or the LMS is not able to handle certain kind of cases which LOS is able to do, all those integration issues are taken care of.

So, in our case, that was one point which we already handled. The second thing is in terms of the vendor selection, that is, one of the critical points which was, I mean, for the evaluation of these vendors was that whether the OEMs they are bringing, they have worked with the OEMs before or not. So, it should not be that, I bring a new partner just because I am able to quote a lower price. It has to be that I must have the experience of having worked with a vendor in the past on a similar scale of project and similar type of project.

So, that also we have -- in fact, that was one of the parameters also in the evaluation of the -- technical evaluation of the vendors. The third thing is in regards the resistance to change. So, at least what we are doing is resistance to change is going to be there, probably a little stronger in our case because unlike other players who change every 5 years or 6 years their package, in our case, this package has been on from 2011.

So, it is almost a 12 to 13-year kind of a, you know, bond that is there. They are all used to it. So, I agree to that point. But having said that we are at least, we have already segregated, separated a team for this IT transformation project and they are, therefore, that is, that team is going to be completely working on it plus we have also worked with IBM to put a proper training module and everything in place for this entire transformation. So, that is also there.

Both LOS, LMS have actually been operational somewhere. So, migration is the only other issue. There is no other issue. Migration is the only one which will take time, but otherwise it can be implemented much faster. So, we are quite -- the 3 areas which are there, we have tried to at least address those issues.

I cannot say that, they are going to 100% reduce all the effort and all those things. But knowing that, but this was absolutely necessary. You could not have gone another 2 years or 3 years with the old package. Already it is 12 to 13 years old. So, this was something which we had to do. But within that whatever we see as problem areas, we have tried to address to some extent.

Questioner:

Got it. Got it. And sir, then two things help me understand. One is, I mean, in your earnings call only you have been suggesting that maybe by November is where the deadline is. But they

started in January thereabouts, right. Then fair to expect that latest by Feb or March next year, we will be done with this transformation, right?

So, my limited question here is, sir, first things, I mean, the RFP that you have entered into, are there some clauses in place which say that, hey, you have to complete it by such and such date. Otherwise, there are penal clauses.

Suresh Iyer:

Penalty clauses are there. In fact, we have put in place, so there is a 12-month implementation phase followed by a 3-month or 6-month, I am not exactly sure, period of hand-holding. Thereafter, the project will be running for 5 years and whatever balance, 6 months or 5 years and 9 months. Yes. That is what it is.

So, 12 months is the period from the date of issuance of PO which is in January. Right. So, technically they are supposed to complete the implementation by 31st December 2025. But the way we have planned, we have kept a buffer, we have said it will be in November. In fact, that also we are trying to push it a little early if possible because third quarter is actually a very critical quarter.

Third and fourth quarters are the quarters where actual business happens. So, you know, if possible, we would like to push it a little earlier, but let us see how, I mean, we are trying to figure out, but I think the earliest we have been able to push it is in end of October and November only.

Questioner:

Got it. And sir, how much have we kind of budgeted for this whole exercise?

Suresh Iyer:

That is already we have announced also. The total cost is INR297 crores of which INR100 crores actually is the capex. Then the balance INR197 crores is the opex. So, roughly it comes to, so if you now look at the thing, it starts from January. So, implementation is going to be in November or say December. Then the 3 to 6 months is the handholding period. Yes. So, technically whatever is the cost in March 2026 is going to be capitalized.

Questioner:

Cost in March 2026 will be capitalized.

Suresh Iyer:

So, from there we have about 5 years and a few months where the opex will run. It comes to around INR35 crores odd per month, per year, sorry, is the opex that is going to be INR34, INR35 in a year wise it is there. And then the opex which is INR100 crores is going to eventually be spread over the remaining 5 years as INR20 crores, INR20 crores.

Depreciation and all those. So, roughly you will have about INR55, yes, INR55 crores will be the cost per year which will be in the P&L. As against that today our cost we are already incurring is about INR15 crores. Now, November '25 if our current implementation is done, then even if we consider a couple of months for parallel run or to see whether in the old system it is working or not. Then also definitely by March 2026, that will be phased out. So, that INR15 crores is going to actually not be there. So, the net impact will be approximately around INR40 crores, on the P&L which will add -- in the first year today we are around INR38,000 crores is the book.

And our income is about 3,000 and something crores is 3,600 odd crores is the total income. So, if you look at it, it will also add up, the book size is also growing some 38, it may go up to 43, 44 whatever. And so, therefore, the income also will be...So, that way if you look at this, effectively it comes to around 1% of the cost to income.1% in the first year. And then as the years go ahead, this will, this impact will reduce because the income will keep going up.

Questioner: Got it. But sir, this bump up that additional INR40 crores that we are talking about, right, from when will it start?

Suresh Iyer: Let's just say in FY27. Because, maximum even the handholding period will be there beyond March 2026. So, whatever is the cost till that is going to be capitalized. That is how the...

Questioner: Got it. Got it. I understand.

Suresh Iyer: So, FY26, the impact will be very, very marginal, only some INR6 crores, INR7 crores where some of the things for which it will be added.

Questioner: In FY 26, FY 27 is where you are talking about.

Suresh Iyer: The INR40 crores.

Questioner: Delta of 40 crores.

Suresh Iyer: Is going to be. Correct.

Questioner: Got it. So, sir, if I understand correctly, I mean, that period from November to March is where you will have two systems running parallelly.

Suresh Iyer: No, we do not, I do not think the two systems will be running for that long. Maximum I am saying it will be December. If it is implemented in November, there is no point. If we have to run both the systems together, it is going to be a total drain on the people also. It is not a thing. And these are systems and LOS, LMS is already a tried and tested thing in other institutions.

So, therefore if you are implementing it and if your training is done, I do not think there will be a need for a second system max beyond a month. 31st December max, I think we should be able to end the...

Questioner: Understood. I think if there are slippages, you are suggesting maximum by March.

Suresh Iyer: March, it will be fixed. Which also we do not want to because as I said, we want to actually bring it earlier rather than.

Questioner: Third quarter is a critical quarter.

Suresh Iyer: Q3, Q4 is where 55% of the business happens in Q3, Q4.

Questioner: Fair enough. Got it. This is clear. So, basically, our intent will be to minimize this disruption, right?

Suresh Iyer: Correct.

Questioner: And some of the steps that you have already explained to me. One was this LOS and LMS service provider is the same. Right. How you chose the vendor. Right. They would have already worked with those AUMs. Right. Then you also explained the resistance to change part. Right. How we are trying to address that. And then lastly, you also spoke about this training packages that we are getting from IBM. And then, sir, you also explained me that what is the capex, what is the OPEX and when will it start. So, this is well understood.

So, now, help me understand. I am just going back a little bit, right? You will recall that Ambala fraud that happened for us, right? And then subsequently, we made changes, right? So, my limited question again here is, we had invested in a few things then, right?

Suresh Iyer: Correct.

Questioner: Which was one of the things was centralization of disbursements. If I recall correctly. And there are a couple of other changes that we have done. One of the other things I recall was a maker checker.

Suresh Iyer: Not maker checker. We have done a credit review monitoring, CRM department.

Questioner: Correct. Right. So, now, I mean, having done that. Right. So, at least in the last two, three quarters, we have not heard anything. So, is that comfort now there that at least all those things? Some of those open ends which have been there, which allowed someone to perpetuate something like an Ambala incident. Those things are now addressed.

Suresh Iyer: Yes. Like, if you see, at the time of onboarding, we have Karza, which is the tie-up. We have a Karza tie-up where we do..

Questioner: Sir, these are all.

Suresh Iyer: Implementation.

Questioner: Things that you have done in the last.

Suresh Iyer: 1.5 years.

Questioner: Since the time you have come on board.

Suresh Iyer: This is what I am trying to say. Karza tie-up we have tied up now where we are doing the verification with the UID for the Aadhaar. Karza also has a thing for PAN verification from the ITR department. So, then with the OTP verification from the customer, we are able to pull the ITRs filed on the, with the income tax department.

So, then manual ITRs or things which are, could be, chances of any fabrication on the, fabrication on the ITRs and all, that is also there because we will be taking from there. We are also tying up with an aggregator whereby we will be able to pull the direct PDF files from the bank itself of the bank statement. So, then that can also be verified.

We already have a Perfios tie-up. Perfios tie-up was there, but before I came into it, but the other things are now done. Then at the time of valuation, we are tied up with Velocity whereby all the valuations -- one is we have started all property visits, there is a geo-tagging happening.

Second Velocity we have tied up. So Velocity, all our vendors that is our impanel valuers have been given an app where they have to fill up all the details in that in a standard format. So, all the valuation reports are coming in a standard format. There is no question of any differences or deviation or somebody giving an inferior report that is one.

Plus, velocity itself gives some value adds in the sense that you know they have tied up with other lending institutions also. So, in that pin code what are the last transactions which have happened at what rate. So, we get some fair idea whether our valuation is correct or not or little bit of deviation is ok, but anything more than 10%, 12%, 15% we can question the branch again. Velocity we have tied up.

CIBIL which was manually being pulled by the branches, now it is through API directly getting pulled. So, the it comes in a standard format there is no question, whatever is entered over here the Aadhaar, PAN, date of birth and everything which is pulled from the Karza app, directly from the UIDAI app that itself is used to pull the CIBIL report. So, the question of that is also eliminated.

Then in case of for re KYC, KYC verification, I mean this AML verification and everything we have tied up with the vendor where we are now verifying that customer classification, categorization of customer as high risk, medium risk, low risk that is implemented.

Then we also have this eNACH which is also done through mobile this means that there itself we are able to send the link, correct it and through API it gets activated and it is done. So, the eNACH is also done.

For recovery, earlier our old system which we had, before our application of our system was not having API. Now we are having it is API enabled, it is a microservices environment. So, we are able to directly -- we have for collections also we have tied up for BBPS facility where as a service provider our name also appears and customers can directly go through any of the mobile app at this thing service UPI app and make a payment for the use.

Centralized disbursement of course is there, CRM department of course is there. Vendor Suresh Iyer, once this Ambala happened, basically it's cheque signing powers were given to the branches. Now disbursement was the majority chunk 90% of the debit side at the branch where the disbursements and cheques were being issued by the branch, that was centralized first thing.

Thereafter even for the remaining 10 odd percentage where that you know vendor payments were being made, utility payments were being made, all that was also getting centralized. So, there also it is happening. So, that also gets taken care.

Reconciliation, auto reconciliation is happening. So, the branches also do not have to physically sit there and call for the reports and do it. From Canara Bank we are directly getting the reports

we are able to put it into our tool and the reconciliation. So, basically all those things are now getting done.

I would say the only probable thing that we can say which competition is having and which we probably do not have is the e-sign, that is the customers can sitting in wherever they can do the digital signature. That is something which we are not having, customers have to physically come and sign our own document.

Questioner: Sir, any thoughts around any vendors who are suggesting that you also implement it or do we also always wanted to be a physical signing?

Suresh Iyer: No, we have vendors who are always there. A lot of competitors have gone with other vendors like Leegality, eSign and all those things. But we feel that one contact with the customer and we have not had any issues. So, we are doing it.

Questioner: Got it. Sir, I mean usually peers and mostly these, how do I put it? New age HFCs right or to be more precise, new age affordable HFCs right who have kind of come about in the last 10 years or so right. They always talk about three things eNACH, eSign and e-Stamping right. So, is eSign and e-Stamping the same?

Suresh Iyer: No, no. eSign is this where the customers can do a digital signatures through Aadhaar verification. E-stamping is of course we have like Maharashtra has you know. So, I mean I don't know what is the scope. We have not explored that e-Stamping and all those things. But eNACH anyway is possible.

Questioner: Yes, eNACH is possible.

Suresh Iyer: That is the most important thing. Other than that I don't think others we have explored.

Questioner: Got it. So, this is good for me and the next thing I wanted to understand is, sir now that repo rate cuts have started. We are now after a long time right expecting rate cuts will happen. Finally, we are in a declining rate environment. So, sir obviously that question I mean a natural question that comes here is sir or rather two sub parts to this question again.

One is sir since the time you have come on board you have shared with us that the way we used to reprice loans right have undergone a change. Rather than doing it annually earlier, we have now moved to a quarterly repricing. Now the other thing is sir in the past interest rate down cycles we also know right? Competitive intensity banks right now sir are in no mood to cut MCLR.

I don't know I just remember reading somewhere in one of the conferences where one of the large private banks participated. They said that only after 3 to 6 months we will think about cutting deposit rates because of the competition which is there for deposits. So, sir if they are not thinking about cutting deposit rates for all we know the transmission of repo to MCLR will also take that much longer.

Unless of course the RBI or the government finance ministry intervenes and tells banks, right, that you have to pass it on. So, in an environment like this how should we be thinking about our spreads and margins?

Suresh Iyer:

See in our case HFCs we are not bound by the EBLR regime. We are not under the EBLR regime. So, we have our own PLR. So, we will pass on when we actually experience the reduction in our cost of borrowing on our liabilities. That is the very plain and simple thing.

The question is whether we will do it or we will not do it of course we will do it because you know transmission is the most important thing that the RBI and the regulators have been pushing for. There has to be transmission. The whole purpose of reducing the interest rate is that you know it should be passed on to the customers.

The only thing is we will not want to be out of pocket at any point in time and now that you know we have moved to a quarterly reset we will be able to pass on every quarter to the customer. The only thing is like for example our repo rate happened but we are going to get the benefit of the repo rate only by end of March because while 60% of our borrowing is bank borrowing and 80% of that also is linked to repo rate because we do not have MCLR linked borrowings. But that also is like at the time of the next repayment option, at that time only it is going to get repriced.

So, which means although repo rate was reduced in February, we will get it on end of last week of March when we do the actual repayment, of that quarterly repayment. So, at the end of 31st March, by 31st March that whatever portfolio is there in bank borrowings which is linked to repo rate, we will get the benefit. Effectively on the entire book it is going to work out only about 5 to 7 bps only.

So, from 1st of April we will be able to pass on 5 to 7 bps, say we pass on 5 bps to the customer. In that case the customer who has taken a disbursement in the month of say January or April or July or October will get it in the month of April itself. The ones who have taken it in February or May or August or November will get it in May because that is a quarterly reset. So, every quarter it says so those who are taken.

Questioner:

Sir, when you say quarterly reset, if I understand correctly, it is on a rolling basis 3 months is it not quarterly reset?

Suresh Iyer:

Yes, so quarterly only. So somebody who has taken in the month of November, their cycle is November, February, July, I mean, August and this thing. That is how the cycle will go. So, in September they will get it. So, suppose you have reduced by 5 bps in 1st of April whenever falls due which will definitely be within the quarter they will get the reset.

Questioner:

So, if I understand this correctly again, what example that you just took right, November right, the next reset for that person will happen in February?

Suresh Iyer:

There is no change. We have done it in April. So then the next cycle would be in May. So, in May they will get the reduction of 5 bps.

- Questioner:** So, basically the reset for every customer is approximately 90 days on a rolling basis.
- Suresh Iyer:** Correct, but one thing we have done it from 1st of January 2024 for all incremental loans. For the old loans we have been writing to the customers to come and to convert it to the annual to quarterly. Obviously, the rates are not changing no customer was doing it. Hardly any customers have come.
- So, today even though we have a quarterly reset only about 20% to 25% of our customers are in quarterly reset. But now obviously when the rates are coming down, customers will come forward and we will be able to get the documentation done and move forward. So, right now even though it is on quarterly reset even if you pass on 5 basis points, only that 20%-25% will get it immediately in this quarter unless more come forward.
- And that obviously with our rates coming down more and more customers will come forward and when we send the next message I am sure more customers will be willing to come and do it. It is beneficial to them and rightly so.
- Questioner:** So, logically speaking if only 20%-25% customers today are on quarterly reset, the impact on yields will only be 1-2 basis points to start with and then as gradually more customers start migrating to the quarterly reset they will also get repriced.
- Suresh Iyer:** Correct. So, that might slightly help us.
- Questioner:** A little bit, a few basis points like you said here and there. So, sir I mean here my question was, I mean, while this answers my question but one question that comes to me in follow up is that, while one thing is that you are not linked to any external benchmark you have your own internal PLRs that you benchmark to.
- But sir now having seen almost one month since repo rate cut has happened, aren't customers already coming to you and saying that, hey I need a BT out, such and such bank is offering me a lower rate. Have you not started seeing that in one month already?
- Suresh Iyer:** Not much because our main people who are doing our BT outs or where our loans were going to were those larger NBFCs or HFCs like LICHL, PNBHFL or Bajaj Finance which who have not reduced their incremental lending rates. They have not. So, therefore there is no impact yet.
- Banks yes have, some of the larger banks have already reduced their lending rates, incremental lending rates. So, therefore it is there but they were not the main chunk of our competition actually, the ones who are taking away our loans.
- Questioner:** So, to that extent that impact we have not seen as yet. So, the other thing I was trying to understand is if you look at it, when we started this, we kind of tried to address the growth bit, Karnataka, Telangana what is happening? So, just to close that growth picture, if you can also help me understand how are other states behaving?
- And sir one thing I just wanted to ask you is when I speak to my real estate analyst, the gentleman who tracks real estate for us, he tells me that at least the data does not say that when interest

rates are cut, it spurs the demand because they get data predominantly for the top seven cities, where they get the absorption rate and then we also know how the repo rates have trended.

So, when we look at it, there is no direct correlation between interest rates coming down and absorption or units going up. So, you having seen decades of this interest rate and mortgage cycles, what is your view on this?

Suresh Iyer:

See, there are definitely an impact of the interest rates because the straight benefit would be the reduction in the EMI. So, definitely eligibility becomes, so it may not be that your customer who is wanting a house will go for a house, but the point is today if I am able to go for a INR20 lakh house, but if the interest rates come down by say 50 basis point, I might be able to go for a INR23 lakh house, I might be able to go for a INR25 lakh house because my EMI has come down. That is how it will impact.

We can increase our ticket size and that will help us. So, if today that customer we are able to offer or we have to limit that customer because of the eligibility criteria to a INR20 lakh loan, we might be able to give him a INR22 lakh loan. Subject to LTV of course.

Questioner:

Fair enough, fair enough. So, that is a direct impact of interest rates coming down.

Suresh Iyer:

Yes. So, you may not see that the absorption in terms of earlier 100 units are going, now only 103 units are going, that is a different issue. But the point is builders will definitely want to either increase their property prices or they will start building slightly larger houses because eligibility has now become better. So, you will have to look at it from both sides.

Questioner:

But sir, won't you also admit here that, this thing is just psychologically better for a customer because the thing is given the typical tenure of a home loan, which in most cases are contracted tenure is at least 20 years. Behaviorally, we have seen 7-8 years to 10 years, is the behavioral tenure of. So, even in let us say 8-10 years of a home loan, a customer will see cycles, interest rate cycles.

So, in that case, when interest rate comes down, obviously his eligibility goes up and he will maybe go for a slightly more expensive property because he is eligible for a higher loan. But then while servicing the loan itself and what we saw as recently when sir, interest rates went up by 225 basis points, that time they might come in stress?

Suresh Iyer:

See, normally what happens is, a 15-year loan when they are going to repay in 9 years means they are always making agreements and the EMIs have been coming down. That is one thing. Second thing is it is only the first 2 to 3 years where the customer has a strain in terms of the cash flow.

Otherwise, if this income is stable, then what happens is the income would have slightly gone up from say a INR1 lakh would have become INR1.10 lakh, but the EMI has not gone up. And the customer's cash flow, family expenses, everything gets adjusted in that period where they are now able to manage the family within whatever is left. So, that is what it is.

And the stress therefore is only in the first 2 to 3 years because not only it is the house which is there, but when you buy a house, people also end up taking maybe personal loans or something for the furniture, little better, bigger amenities and all those things, so those things also add up. But in a matter of 2 to 3 years, all those things are settled down, so then the eligibility or the ability to pay or service the loan does not become too much of an issue.

Questioner:

And sir, then I mean just to close this discussion, I mean, like I was saying, I mean, well, while we spoke about growth, how are other states doing right now?

Suresh Iyer:

See, our West zone, I mean, North zone and Tamil Nadu, both zones in January itself had crossed the previous year figure. So, in 10 months, they have done more than what they have done in 12 months last year. West zone, so North zone is actually Punjab, Haryana, Delhi, Uttarakhand, UP. Tamil Nadu is Tamil Nadu, Pondicherry and Kerala. Next is West. West is Gujarat, Maharashtra, MP, Rajasthan.

That was in January a little short, but in February, they have already crossed. So, in 11 months, you can say they have done 12 months' business. They are already positive. So, therefore, at the end of the year, North zone, Tamil Nadu, both will end with 20%-20% plus positive in terms of growth. West zone will be around 15% positive in terms of growth, okay.

Karnataka, as I said, was doing 20% growth, but because of this eKhata, it has probably come down. But basically, the capacity to grow at 20% is already there. That leaves Telangana and East zone, which is including Andhra Pradesh. Andhra Pradesh was also negative for us, but now, post the change of government, the sentiment is positive. It has also started catching up and that will also end positive at the end of the year.

So, in this month, it is likely to, it will be definitely crossing our previous year 12-month figure. So, which means only Telangana is going to be negative in terms of this. And if already the momentum is there to run at 20% growth in North in Tamil Nadu and Karnataka and 15% growth in West, then there is no question of, so that momentum also if we carry, the growth is going to come.

Now, the question is Telangana. Telangana already has seen, this year is probably is going to be as bad as almost 30%-33% negative is what we are going to experience in Telangana alone. Last year, we did about INR1,727 crores, INR1,727 crores in Telangana. This year, we will be close to INR1,200 crores is where we are going to end. That is about 30%-33% negative in Telangana.

But now, if you look at it, we are doing almost INR150 crores in Telangana, which has now come down to INR100 crores. I feel below this, there is no point, there is no chance or anything of going because we have already hit rock bottom types. Looking to the kind of number of 19 branches in the state, all out of which 14 are in Hyderabad city alone and only 5 are outside.

So, 100 crores from these 20 branches is not a very big thing considering the kind of business that we have already done in the past. So, from here also, Telangana also should see a little bit of a positive in the next year. Therefore, growth for next year, the way it is should, if the momentum continues also, that is why it gives us the confidence, we should be able to do 20% growth next year.

Questioner: Got it. So, basically, whatever you just explained, sir, kind of gives you that confidence at 20% disbursement growth.

Suresh Iyer: Yes, plus I will tell you, we opened 14 branches last year in Q3-Q4. Those 14 branches in Q3 this year, when one year has elapsed, have done about, have contributed INR30 crores additional, which was its pure addition, which is about INR75 lakhs per month per branch. They are still at a halfway stage because breakeven happens at the end of 2 years or 18 months to 24 months.

So, that means, next year in December, when we see the same branches, 14 branches, which were opened in FY24 should be contributing somewhere around INR60 crores per month additional.

Questioner: Yes, 30 to 60.

Suresh Iyer: And this year we are opening 15 branches; they would be around 30 crores. So, that is one thing and next year again, we are going to keep opening. So, the cycle of branch expansion, which has stopped and which has now started in the last 2 years, that is now slowly going to keep helping add a little more. That is point number 1.

Point number 2, earlier we had only dependence on DSAs. Now, we are building our own channel. So, that channel also in Q3 of this year, because we started in June, in Q3 of this year with 35 people approximately, we have, they have contributed close to 3% to 3.25% of the incremental business in Q3. So, and that also is likely to go up. What we expect is that next year, there should at least be somewhere around 7.5% to 10% of the incremental business next year in Q4 should come from this channel.

Questioner: See, in Q4?

Suresh Iyer: Means, slowly this 3.5% is increasing. So, it will become 4%, 5%, 7%, 7.5%. 7.5%, 10% definitely by the end of this year because eventually our aim is to have that DSAs come to 60%, 20% from our own sales and marketing and direct channel that is another 10% from digital marketing, which will happen once our IBM project is ready and implemented, that will start and the remaining 10% anyway today also, it is coming by way of walk-ins, top ups to existing customers and all those things.

Questioner: Okay. So, then I mean, just to kind of sum up this discussion, if I am understanding you right, that, I mean, given how the interest rate trajectory is going to be, maybe we can see a minor compression later, not right now, but later in the cycle?

Now, what I mean by that, sir, is that while you rightly said that we are on our own PLR, somewhere once, maybe if one more rate cut comes, and let us see if it is only 25 basis points, then with 50 basis points, banks have a further leverage in terms of attracting customers. And so hopefully by that time, some transmission of MCLR will also start happening. Once that starts happening, maybe some of these large HFCs that we spoke about, who are more direct peers for us or for names where we see BT outs happen.

So, over the course of time, don't you think that maybe immediate, we might see a few basis points expansion, what we just discussed, maybe 5-6 basis points improvement in cost per boardings, when it gets passed on, maybe a couple of basis points benefit. But over the course of time, we should see start seeing some compression in a declining rate environment?

Suresh Iyer: I do not know why you are saying that, because when we are -- 60% of our borrowings are linked to the repo rate, we are experiencing the benefit now, we will also be passing on. So, it is not that only they will be doing it and we will not be doing it. In fact, as I said, in fact, we will have to pass on to our customers.

Questioner: Transmission has to happen.

Suresh Iyer: Transmission has to happen. Only thing is we are not linked to EBLR. So, we are not having to give a equivalent 25 base benefit to the customer. It may be a little less, but the same thing will happen for others also because they will also be only able to pass on what they are going to get.

So, that is the thing. And the main monitorable here is when and whether the incremental deposit rates start coming down or not. Because today, although the record rate has come down, the banks because of the pressure to raise deposits is there, they are still offering very attractive rates on deposits.

Till that does not come down, the banks also will not be able to pass on a lower rate to the customers as much. It may be there for a quarter, but in the long run, they will not, it is going to be, it is only going to be hurting them. So, that is the thing. Currently, we are having 2.6 or 2.56, 2.58 as the spread and 3.7 close to that as the NIM, but we are giving a range of 2.5 and 3.5 and that is what we will definitely maintain because incremental spread also we would ensure that we have that kind of a spread will be there.

Questioner: Got it. And then, sir, somewhere, I mean, that shift that we are making to self-employed, that shift that we are making to LAP a little bit, all those things are helping us, like you said, to maintain those incremental spreads where we want it to be.

Suresh Iyer: True, very true.

Questioner: And sir, just one last question because you just made that point that banks unless they start seeing benefits on their cost of deposits, will not be able to pass it on, maybe near term that they have to do. Sir, if it remains like this, if the cost of deposits does not come down in a hurry, and what I am trying to get to is, let us see if repo rates come down by, let us say, 100 basis points, just taking a hypothetical example, but deposit rates, given the competition might come down by just maybe 30, 40 basis points.

So, in that scenario, do not you think, if there is a scenario like that, that repo rates have come down by 100 basis points, but because of competition, deposit rates have come down by maybe 30, 40 basis points, in that case, there will not be a lot of keenness to push housing as a product, right, from banks? Because for banks, this is a repo rate linked product.

They have to keep cutting that rate because it is repo rate linked. But as a bank, I might choose not to push that product a lot, because it is hurting me. My deposits are not coming down. But as a product, the rate has to come down.

Suresh Iyer: Correct. I mean, I know it is 100 basis points reduction and this is not happening. Of course, it is a very, very difficult kind of situation.

Questioner: Usually, it should happen. I mean, basically, if repo rates are coming down. It should come down, deposit rates should...

Suresh Iyer: It should come down. But yes, but I do not think the pressure to push housing will reduce or they would want to pull out of that product because it is, in terms of this, it is a secured asset. It is a very safe in terms of the lowest delinquency and all those things, long term things of all the assets on this side also.

So, I do not think that situation will arise. But yes, that it will be a problem where whether they will be able to pass on and every time keep on passing on 25 bps again and again and again without the deposit rate coming down will be a bit of a pressure. So, NIMs for the banks will come under pressure.

Questioner: Got it. Great sir, this is all that I have. Thank you so much for your time.

Suresh Iyer: Thank you. Thank you so much.