



“Can Fin Homes Limited Conference Call”

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

Vijay Singh Gour:

My senior, Mr. Rahul Malani, who has 10 years' experience. He is a lead analyst and 10 years' experience in BFSI sector. I am Vijay Singh Gour. I have also 10 years' experience in BFSI sector. Thanks so much, sir, for joining us. Our fund manager, Mr. Binod Modi, he handles around INR700 crores AUM. He will join in some time. Thank you so much. We track all banking stocks and majority of the NBFC stocks.

Can Fin is one of the stocks. We track it. I just wanted to understand how is the Business scenario and what is the current status of e-Khata book registration issues which we encountered in Q3?

Suresh Iyer:

In terms of business, we had given a guidance that at least in Q4 we will do somewhere in line with what we have done in last year Q4 because Karnataka, we are still having problems and the issue has not been completely resolved. So, we are as of now on course or on track for achieving this figure. Last year, we had achieved INR2,313 crores.

We should cross that figure. That is what we are targeting for this quarter. Based on the figures of January and February, we are on course to achieving that number. That is point number one. As regards e-Khata, actually this quarter there has been a little improvement in the sense that like in Q3, the e-Khata was not happening at all and the registrations were all stuck up because of that. There was a huge pipeline somewhere in the range of by the end of the quarter there was a number of about 12 lakh applications and only 1.25 lakh e-Khatas were issued.

But since then, some improvement has happened and the government at least for the Municipal Corporation area that is BBMP, they have been able to sort out some linkage between the sub-register offices and the BBMP office. So, therefore, some speeding up of the e-Khata issuances has happened and therefore, some improvement in business has happened. Although for the BDA Development Authority and Urban Development Authority and the Panchayat areas, it is still pending.

They have not been able to resolve that issue. So, registrations in the Urban Development Authority and Panchayats are not happening but at least in the BBMP or Corporation limits it is happening. So, therefore, slight improvement has happened in terms of the registrations in Karnataka.

So, Q3 we were doing about INR150 crores per month disbursement in Karnataka which has slightly improved to INR200 crores. So, both in January as well as in February, we were able to cross INR200 crores disbursement in Karnataka. So, there has been a slight improvement.

Although we are not back to the original levels because in Q2 also we were doing INR275 crores of monthly disbursement in Karnataka, which still we are not able to reach, and we were hoping that we should have been doing 300 plus in this quarter had everything been normal. But anyway, there has been at least some improvement. So, we are on track for the guidance that we had given in terms of disbursement.

That is what it is. Other states, when you look at it, our North zone and Tamil Nadu and West zone, they have already crossed their last year figures and therefore they should be ending somewhere in 15% to 20% plus growth. Like North and South will be 20% plus growth in this year.

The West zone will be 15% plus growth. Karnataka should still be positive in spite of the problems we have faced in Q3 and Q4 because in Q1 and Q2 we were already doing 20% growth. So, we should end the year with a marginal positive even in Karnataka in spite of these problems.

And only Telangana continues to be a problem which we had highlighted in the first quarter itself so that we are not targeting much from Telangana and that we expect it to be slow. Even the East zone which is Andhra Pradesh and East, there also we had a negative in Q1 because it was part of the same state and Hyderabad was the capital. But after the separation of the capital and after the new government coming in Andhra Pradesh, sentiment has improved there and there also we have recovered.

We should be ending in positive in the East zone also. So, basically except for Telangana, everywhere we will be ending positive. And with this kind of trend continuing, we are targeting for about 20% growth in the next financial year in terms of disbursement.

Vijay Singh Gour:

Sir, just give some more detail on Telangana issue. Just a bit more about the Telangana issues. What exactly we are finding the problems there?

Suresh Iyer:

See, actually in Telangana, first of all there were some issue regarding this government land being used for construction and all those kind of things. This is the previous TRS government which was there. So, when the new government, came into power in February 24, they set up a department called Hydra.

That department was overseeing many approvals given and whether any construction has happened on government land or on lake beds or things like that. So, there they started off with first identity whenever they would identify some property which was considered on government land or lake beds or something, they went ahead and went in for demolition of those properties.

So, that actually scared a lot of people and that department, the more such instances started happening, there was a kind of a fear or a negative impact in the public in Telangana. That, in fact, resulted in a little bit of a slowdown. Subsequently, in the last 3-4 months back or something, the government did make a statement that they will now not go for any further demolition. They will only identify such properties and put it to a separate department, maybe for regularization or for impact fee or whatever and do that, but they will at least not go ahead with demolition.

Since then, at least some stability has come, some improvement is happening, but this entire activity of identifying the areas which are the illegal or properties, not illegal because eventually they were approved by the previous government, but which are constructed on government land or things, that is still going on. So, area by area they are taking up and completing this activity. So, if an area is completed, then at least the knowledge is there that these are the properties, or these are the areas not to be touched.

Other than that, if new construction is coming up, we can go ahead. So, at least that kind of a thing is happening, but till this entire activity doesn't go throughout, we are not doing much and this is happening more in the city area right now. So, we don't know what will happen in the deeper geographies of panchayats and all those things.

So, we are now only focusing in the corporation limits and approvals by the district. So, panchayat approvals we have now stopped as a precaution because tomorrow there are more chances that it would be because the panchayats are technically also not so qualified. They don't have qualified departments to oversee the approvals and all those things.

So, the chances of issues happening there is more. So, we have decided to only focus on corporation approved properties. So, therefore, you know, one is that there is that slight sentiment issue because of which the business has come down.

Second is we have also, you know, pulled back from the panchayat areas and only focusing on this. That is basically the reason why it has happened. So, we were doing approximately last year close to INR150 crores per month.

We had done INR1,720 odd crores. This year we are doing somewhere in the range of INR100 crores. So, we have almost 30%-35% is the negative growth we are having in Telangana this year.

But we believe this is the kind of rock bottom and from here, in fact, things should at least start looking up a little bit because whatever we do, it cannot go below 100. So, even if 105, 110, there will be a positive next year. Although we are not intending to go back to the old levels, because this issue will take, I believe, some more time. It will take at least a year or so for things to settle down, because still many areas are yet to be covered under this -- by this Hydra department.

Vijay Singh Gour: Yes. Our senior Binod Modi sir has joined us. He is a fund manager and manages more than INR700 crores AUM.

Binod Modi: So, sir, my next question is here. How do you see -- what are our growth plans overall? Just that's a Karnataka issue and Telangana issue. Now, what are our growth plans with geographies and what kind of the branches opening we are looking for over the next two to three years?

Suresh Iyer: Okay. See, as a part of our business strategy or the Vision 2028 that the Board has drawn up, we intend to have about 300 branches by FY28. Okay. So, that means every year we should be adding about 15 to 20 branches net every year. And that's the plan. Therefore, in FY24, we added 14 branches. FY25, we are adding net 15 branches.

We will be opening 15 in this quarter. They are getting open. So, in fact, by the end of -- when we announce March results, it will be 234 branches for us. Next year also, we will continue to have 15-20 branches for the next three years so that we are able to reach that number of 300 branches by FY28.

Now, along with this branch expansion, which we had stopped because of COVID and all those things, we have started back, and we are on track. But the second thing is that we also want to have a slightly diversified portfolio breakup. Currently, we -- at the beginning of FY24, we had more than 70%, 72% to 73% of the business coming from the five southern states.

So, we wanted to at least incrementally have a shift in that AUM and the incremental disbursements and have somewhere around 60-40, as close to 60-40 as possible because that will give a little more diversified. Otherwise, this concentration risk, which we experience now,

both in two of our major states of Karnataka and Telangana, we can slightly buffer that if we have a more diversified approach.

So, 60-40 is the second thing that we are doing. Therefore, keeping that in mind, a lot of the branches that we are opening -- in fact, most of the branches we are opening are in the North and the West zones also. We have very few branches in the South zone that we are opening. There are also some in the East, in UP and all those places. In fact, UP also we have opened quite a few. So, North and West is the zone where we are opening maximum number of branches so that these branches, when they start to contribute, we will also slightly help in improving our diversification.

And the continued growth, if you look at it in terms of absolute numbers, we have at least -- we would like to grow at an AUM of 15% AUM growth rate. So, this year, of course, because of the Telangana issue and all those things, we have had a setback. But otherwise, in the long run, we would like to have a consistent 15% at least growth rate. Or technically speaking, about 1 or 2 percentage points higher than the rate at which the industry is growing.

Today, it is growing at 12% to 14%. So, we would like to grow at 15%. Obviously, tomorrow, if it starts to grow at 18%, we will not stick to 15%. We will up our rate also. But as of now, considering the present rate, we feel 12% to 14% is the industry growth rate. So, we should be growing at 15%.

Rahul Malani:

Hi, sir. Good morning. Thanks for joining us.

Suresh Iyer:

Thank you, Rahul.

Rahul:

My question is, have you factored in the guidance of 20% growth for FY26?? Because there is a partial -- still there is a partial slowdown in Karnataka as well as Telangana has not revived. So, have we factored both in giving the guidance of 20% disbursement growth for FY26?

Suresh Iyer:

See, actually I'll tell you, as I just mentioned, we have six -- our geography, based on six zones. North zone and Tamil Nadu, these are two. North zone includes Punjab, Haryana, Uttaranchal, our Delhi NCR and UP. There it is already in the month of January; we had crossed the previous year figure of disbursement. So, in February and March, we will be doing -- whatever disbursement we are doing is a growth for us. So, North will be growing at 20% plus.

Same way, Tamil Nadu had also crossed its 12-month figure of last year in January end. Therefore, in February-March, Tamil Nadu, which includes Tamil Nadu, Pondicherry and Kerala will also be growing at more than 20%. West zone, we have crossed -- we were slightly short in the month of January, but in February we have crossed that also. So, entire March business of West zone is also going to be positive. So, we will end 15% plus.

In terms of Karnataka, which constitutes about close to 30% of our business, we were growing at 20% already in the first half of the year. So, last year we had done about INR2,640 crores approximately, INR2,637 crores or something. So, basically it was like INR220 crores per month is what the run rate we were doing last year. This year, April to September, we were doing close to INR275 crores approximately per month, which was already 20% growth.

Had this in fact issue of e-Khata not happened in Q3 and continued in Q4, we would have continued the 20% growth in that geography as well. And this year again because of this problem, we are back to around -- we will end marginally positive. So, again we will be around INR2,650 crores to INR2,700 crores, which means again we will be back to INR220 crores. So, even if we achieve our 275, which we are already doing in H1, we should be back to 20% growth in Karnataka also.

As I said, East is also growing. So, although we are now at, you know, Telangana has been very negative for us, we have factored in the fact that from here, such a low base effect will also come into the picture. So, from 100, even if you do 110, 115 per month, we will have a growth in Telangana also in FY26. So, keeping that in mind, we have projected that 20% will be there because the momentum in North, in West, in Karnataka and in our Tamil Nadu and all is already there.

Telangana, even if it does from INR100 crores to INR120 crores, it will be a growth there also. And even otherwise, the INR20 crores covering up in other areas is not going to be a major issue. So, that's why we are projecting 20% growth in the disbursements for FY26. And as I said, in Karnataka also, our BBMP issue has been solved and state government, in fact, the Chief Minister has said...

Rahul Malani:

Please go on, sir.

Suresh Iyer:

Yes. So, even in Karnataka, the Chief Minister has said that even for BDA, that is the Urban Development Authority and panchayat also, some resolution will come very shortly. So, at least in Q1 -- anytime in Q1, if not in March, we are expecting that will also get resolved and we should be back to INR275 crores or something.

Vijay Singh Gour:

Sir, which segments we are targeting more and where we are facing a competition where we can see some pressure of margins or...?

Suresh Iyer:

See, actually, we are already quite, you know, consistently been doing business in the salaried segment. We have slightly improved our business and opened up a little more in our self-employed and our LAP books also. Because if you see, our LAP is only about 5%, which marginally has gone up to 6% now. And we have said that by FY28, we are open to take it up to around 8% also.

So, LAP, we have slightly opened up. SENP also we have opened up because incrementally, while our opening book of LAP was only 28% in terms of AUM, but now it has gone up to 30%. And in terms of the incremental business, if you see, it is closer to 40%. So, we are now slightly increasing our S&P, which is also helping our yield plus at the same time also -- that was one segment which we felt could have been pushed a little more. So, that is what basically we are looking at.

Salaried segment, anyway, we are not in the very high-end, we are not in the, you know, grade 1 or level 1 category staff or in the very big companies or corporates. We are more in the mid-segment corporates or mostly in the private sector employment companies where salary is definitely coming in the bank, credit to the bank. But then it is not a very high-end kind of a

company which are the green channel for other big banks and other companies. So, that is something which is a bread and butter, we will continue.

Vijay Singh Gour:

So, one more question here, just which segments, it's like, affordable up to 20 or 20 to 30 and where is the more competition like above 30 lakhs? So, just I wanted to understand a bit more color on this.

Suresh Iyer:

See, actually in the below 15 lakh segment, it is the pure affordable segment. Now, there most of the business that is happening is the appraised income or the surrogate income where documented income proofs are not available. We are not much in that segment, although we have a 10% to 12% of the business coming in the less than 10, 15 lakh ticket size. But still, that is some segment which we are not aggressively doing.

Now, there business is happening, we don't make, even if we want to aggressively do something over there, it will not be much of a competition because our rates are very, very attractive. Because most of the players who are operating in the sub below INR15 lakh segment are operating in the 12% plus rate of interest. Whereas our rate of interest is below that definitely.

So, that is not area, but we are focusing more on the 20 lakh to 50 lakh segment, which is our main focus area. Above 50 lakh, definitely we face a lot of rate of interest competition because big banks are all focusing in that segment. If you look at SBI, HDFC, they all have an average ticket size closer to 50 or more than 50 also.

So, we are not very competitive or I would say we are not very keen on that segment. Although we have been doing some amount of business, but still, I don't think we are very competitive, or we face a lot of competition mainly in the 50 lakh plus segment. 20 to 50 is something where our competition mainly comes from PNBHFL and in terms of rate, in terms of this thing, we are quite competitive.

We might be in fact slightly better priced than PNBHFL. LIC is another major competition. There, in fact, they might slightly have a better pricing also, but in terms of service, in fact, their entire business is through DSA channel. So, sometimes, those kind of advantages we have, but otherwise it is even Stevens with LICHL.

Bajaj is aggressive sometimes, but it is on and off. We had a very high, very tough competition from Bajaj. A lot of takeovers were happening by Bajaj of our portfolio. But in between, there was a slowdown and probably now in March, they will again come back with an aggressive rate of interest war or something. But mainly it was a takeover plus top up. So, basically, they were taking up our loans in the 20 to 25 offering very high top ups, which we felt was not justifiable and within our policy. So, that we will see.

So, these basically are the three major competitions in the 20 to 50 lakh segment. But above 50, definitely all the banks also come in. The private sector players also come in. So, that is a slightly tougher segment for us.

Vijay Singh Gour:

Sir, we had some pressure on names in Q3. So, overall, how do you see a name and do we have more fundings from NHB?

Suresh Iyer:

We did borrow from NHB in November, and we borrowed INR1,600 crores from NHB in November and we borrowed INR400 crores from NHB in January. Basically, we had a INR2,000 crores sanction from NHB of which we borrowed in two tranches, INR1,600 crores and INR400 crores. So, now at least we don't have any unavailable sanction from NHB.

Next year again, when they open up for fresh applications, we will be putting up our application for fresh sanction. That will take its own time. And normally that happens roughly November when we actually got the money. We got the approval only in October. So, that is the normal time frame when they operate. They open up after June, then we make an application, then their committee sits and approves and all those things.

So, normally by the time we get the sanction, it is normally, September, October only. So, NIMS, as I said, as you were asking, there was a little this thing in 3.7 plus, we were around 3.6 plus in Q3. But anyway, we have guided for 3.5% plus only and we will be at least ensuring that 3.5 percent plus is maintained, and we should be above that only.

Rahul Malani:

Yes, sir. I wanted to ask how are the assets are priced? Because in the last quarter, you had mentioned that 35% of the borrowings, bank borrowings is linked to repo rate. And currently we are in the rate cut cycle. So, I believe in coming quarters, the impact on the favorable impact would be seen in the cost of borrowings. How are the assets priced? At what interval does the asset book get repriced?

Suresh Iyer:

See, January 2024, we changed our policy from annual reset to quarterly reset. So, now every customer's rate of interest gets also reset every quarter. And obviously, RBI, NHB, all of them are also monitoring the transmission, whether it is happening or not. So, their objective is that, the transmission should happen as quickly as possible to the end customer.

So, there is no way that we will also, we will be able to hold back and not pass on. So, whatever we experience on the liability side, we will be passing on to our customers. But thankfully, we are -- unlike banks, we are not on the external benchmark link pricing. So, we don't have a EBLR compulsion. So, we can, we have our own PLR.

So, we will be able impacting our PLR only when we experience the rate. So, there was a 25 bps rate cut announced by RBI in February. But then the impact of that 25 bps is going to be experienced mostly by the end of March only. Because most of the term loans that we were talking about, bank term loans, which are linked to repo rate, they are all linked in such a way that the repricing will happen at the time of the next quarterly interest payment or things like that.

So, most of the interest payments happen in March. So, that is when the interest will get reset. And Q4 also being a slightly tight liquidity position, though the repo rate has come down, the CP rates have gone up by about 20-30 bps. Same with the NCDs also because of a tight liquidity, whatever we raise NCDs in Q4, they are also slightly higher, although they are linked normally to the market rate.

So, effectively, net-net, we should get somewhere around 5-7 bps of rate benefit in Q4. Now, that will not impact much in terms of our cost of borrowing for the entire year because it is

absolutely back-ended. It is mostly going to be in the last week of March only. So, we will not get an impact in the P&L in the current financial year.

But in the opening weighted cost of borrowing for April 1, we will definitely get a 5-7 bps. So, right now we are at 7.52 or 7.53 as the cost of borrowing. That should come down to around 7.45-7.46 as the cost of borrowing as of the 1st of April. And that we will try to pass on to our customers. However, on the asset side, our customer is date specific. Like for example, if a customer has availed a housing loan in the month of February 25, then the next reset will happen in May 25.

So, although we have reduced our PLR on 1st of April, then also our rate impact to the customer will happen in the month of May when it is due only. Same way for those taken in March will happen in June and so on and so forth. The second thing is that although we changed our reset policy in January 2024, all incremental loans are linked to quarterly reset.

But for the old loans, the customers have to come forward and execute the documentation to move from an annual reset to a quarterly reset. So far, the customers did not take any interest in spite of our repeated SMSs and messages and letters. So now I believe more and more customers will come forward because the rates are going down.

So, they will benefit if they move from annual to a quarterly reset. So, I expect that to go up from 25% to quickly go up to almost 100% very soon.

Binod Modi:

Sure, sir. Okay. Hi sir, this is Binod Modi sir from this side. I have couple of questions. So, is this 4 billion sort of this disbursement loss previous quarter right, and that is mostly on account of e-Khata issue that is in Bangalore. And of course Telangana issues that there but you also had guided that I mean to an extent e-Khata issue is getting subsided as of now right. So, is this 4 billion sort of losses is still be there in this quarter for so far or it has improved a lot?

Suresh Iyer:

No, as I was saying earlier, I think we discussed this point before you came in. So, we were doing about INR275 crores per month in Q1 and Q2. So, that was there. But in Q3 when this e-Khata issue was fully there and no registrations were happening without the e-Khata, there our business came down to over INR150 crores. That's why I was saying INR350 to INR400 crores of business loss we have had. Because had this e-Khata issue not happened, we would have continued at the same rate of INR275 crores or something.

Now, in this quarter Q4, marginally things have improved for BBMP, that is the Corporation Limit Areas, but not for the Urban Development Authority and the Panchayat Area. So, to that extent, our disbursements have improved from INR150 crores to INR200 crores and both in January as well as February we have crossed INR200 crores. So, we still have about INR75 crores at least of shortfall even in January and February.

And March probably again we will have the same. So, around this quarter the shortfall may come down to around INR200 to INR250 crores would be the shortfall that we experience in this quarter.

Binod Modi:

And my second question is about Telangana, the issue in Telangana started in 2024 when the new government came and cancelled many approvals. But after it's been more than one year, how do you see things on the ground?

And if you can guide me, what was your overall disbursement or loan book contribution from Telangana in FY24 and what is it as of now? Because I believe if you are down 35% to 40% from Telangana state in terms of disbursement, it can have huge headroom for you to grow overall.

Suresh Iyer:

Correct. See, that also we discussed. Actually, FY24 we had done about INR1,720 odd crores in Telangana. That was approximately about INR150 crores. Close to INR150 crores per month is the disbursement we were doing in Telangana. As of January end, we had done about INR1,000 crores and now close to around INR1,100 crores is what we have done in the month of February end.

So, roughly it has come down to around INR100 crores. From INR150 crores it has come down to around INR100 crores per month. That's why 30% to 35% is the negative growth in Telangana. We were aware of this problem because the problem had started before the year began. So, we had not factored in our Telangana growth much. But yes, the problem has gone on for much longer than we expected.

And we further also expect that this problem will continue for another 6 to 8 months definitely because the sentiment coming back to the old norms is going to take time. But however, having said that, I believe this INR100 crores limit that we have reached, we have about 19 branches of which about 14 branches are in Hyderabad city and there are 5 branches which are outside Hyderabad city.

So, 19 branches doing INR100 crores a month is not at all difficult because even in this as the situation slightly also improves, from INR100 we can definitely do at least INR110, INR120, INR115 to INR120 crores. So, it may still take a while to reach back to the old levels and all, but we still can have a 15% to 20% growth in Telangana from what levels we are because I believe this is the kind of rock bottom.

Binod Modi:

Okay, got it sir. And certain green shoots which we are seeing at your level in a margin front because your contribution in SENP and LAP which are high yielding product which is increasing, at the same time you migrated or moved all of your borrowings to repo linked or treasury bill linked. So, I think these are the things which can give you an advantage in terms of maintaining your name and all.

So, point number 1 and point number 2, of course, FY26 you were seeing 15% to 20% kind of growth in the disbursement which will ultimately result in better other income growth for you. So, considering everything sir, what kind of margin do you expect because at least at your end also if RBI goes on and cut rates further you will have to cut rates right at your side. So just wanted to understand how do you see your current margin vis-a-vis which the rate cuts and the kind of benefit which you are getting from the other parts?

Suresh Iyer:

You are absolutely right in terms of the reading of how we have priced our loans. So going forward as I just mentioned this move from our PLR linked loans to our repo linked loans which we did in the last 2 to 3 quarters because that we have been pushing the banks that will help us in getting about 5 to 7 bps of a reduction in cost of borrowing as of 1st of April. So even when we pass the same benefit down to our customers there will be a little bit of a lag because it is quarterly.

So, only part of it will move in the month of April, only part will get benefited in May and some part will get benefited in June. So, there will be some benefit which will now be positive for us. So, going by that although we will pass on whatever we experience on our liability side, but we will still there is a scope to slightly protect our margins.

And we would not therefore I don't believe there will be any stress on our spreads, and we are very clear that we don't want to go and operate at a spread below 2.5%. So, 2.5% spread and 3.5% margin that guidance we have given for FY25, we would like to continue for FY26 also and I believe that in the reducing interest rate scenario I think we should be able to manage that quite well.

Now, in terms of the pricing for incremental customers as I mentioned our competition in the 20 to 50 lakh segment mainly comes from PNBHFL, LIC, Housing Finance and Bajaj Finance. So, while some of the PSU banks have reduced their interest rates for new customers, but most of the banks are operating in the high end of the market, which is not our main source. So, unless these three players reduce their rates, I mean we will not be compelled or there will not be much of a pressure on us to also reduce our rates for incremental lending.

So, we should be able to do it. So, while we may reduce 5 bps or something for our existing customers in terms of our transmission of interest rates, but for incremental customers we may continue the same rates that we are doing. So, this is the current thinking unless there is a change in the market by the three players. So, this is what we are looking at. So, having said that, therefore, we should be able to protect our spread and everything also that will also help that is one thing.

If at all the rates are reduced by the competition, yes we will have to look at it and how much they are able to reduce will determine how much we will also be compelled to reduce. But looking to the rates at which the deposit borrowing is happening, even recent news says that the credit growth has been higher than the rate at which the deposits are getting mobilized. So, with that kind of a pressure on deposit mobilization I expect the deposit rates to continue to remain high and in that scenario the ability of players to reduce their incremental lending rates will be constrained.

Binod Modi:

Also, sir about your opex is going to increase significantly here because of technology transformation that you are embarking upon. So, just wanted to understand because of all these things. So this 18%, 18.5% cost-to-income ratio of course how long it will be there in your book and when do you see the improvement from their part and point number two if you can also guide us because of all these technology transformation, what kind of benefit you will be getting.

Of course, you will get benefit in terms of better underwriting ability that you might be getting whether it will also ensure you to make your loan processing things faster compared to others which can lead to higher business for you that is what I wanted to understand?

Suresh Iyer:

First of all, just wanted to clarify on this cost-to-income ratio. Previously we were guiding that in FY26, there will be a spike in our cost-to-income ratio and we may go up to 18% to 18.5% because currently our rates are in the 17 point something percent range that is our cost of borrowing, I mean, cost-to-income ratios are hovering around that range. But what has happened is we executed the contract with IBM in January and February.

And as per the RFP terms and as per what is the schedule that we have drawn up, we will have an implementation going up to December. In fact, November is what we are planning November 25 is when we are planning, but at least till December we are expecting that the entire implementation plan will go on and that is as per the RFP also where there is a 12 month period within which the implementation has to happen.

Post that, there is a 3 month to 6-month hand holding period, after which only the actual project will be considered as commenced and completely operational. So entire FY26 actually whatever expenses we are going to incur is actually going to be capitalized. So, the impact on the P&L is going to come from FY27. So, in FY26 our cost-to-income ratios will continue to be around 17% only. We don't expect a spike over there.

The second thing is the actual impact of the cost therefore will be that, in FY27 when these costs kick in and come into the P&L at that time our current cost on the existing package that we are paying, which is approximately around INR15 crores per year that will stop because once November or December when the new package is implemented, the old actually will have to be completely closed down.

So, therefore no cost of that will incur. So, the net impact in the P&L will be in the range of about INR40 crores. Now current our income levels are of around INR3,600 crores or something is the total income in the last year. So, in FY27 when we are talking about the total income it will be definitely more than INR4,000 crores the kind of income that we are talking about.

So that being the case our impact on our cost-to-income ratio are INR40 crores over INR4,000 crores will be about 1%. So, 17% or something will come to around 18 point something percent. Now as the book size grows and this cost because this is a fixed cost for the next 5 to 7 years because this project is a RFP is a 12 month implementation, 3 to 6 months of hand holding and then a 5 years and 9 months or something is the entire project duration.

So, for that 5 years and 9 months, this cost is going to remain fixed. Therefore, as the book increases, as the income - overall income on the annual income grows this 1% that we are talking about incremental will start coming down, that is one. Second thing is your - how do we expect the benefit to come into this. Obviously, as you said the operational efficiencies will be there, a lot of processes will have to be changed.

And some of the processes will get integrated, some of the processes process reengineering will happen. So that will also cut down some of the processes. So that way we are expecting some efficiency, and it should approximately I can't actually put a number to it, but definitely the efficiencies will improve. Second thing is we will be with the same amount of number of staff, we will be able to do much more business.

So, basically that is how the efficiencies will get factored into our P&L that's what we expect. At least about 10% efficiency in terms of the process or the TAT is what we expect from this entire transformation, not to mention the impact on the security and the IT infrastructure that is going to have because there is going to be a huge upgrade in terms of the infrastructure as well as in terms of the security aspect also. So, from that aspect the benefits are something which we cannot actually count.

- Binod Modi:** Got it. Thank you sir. That's all from my side.
- Vijay Singh Gour:** Sir some light on asset quality and credit cost your view for the credit cost?
- Suresh Iyer:** See actually we have 0.9% as a gross NPA. These I believe there could be some reduction in Q4 because that's one quarter where it comes down, but by and large when we look at the portfolio at least this 0.9% of the book has definitely displaced or demonstrated slight inability or difficulty in regularly repaying their loans. So definitely the 0.9% is something I would say should be the real NPA or the stage 3 assets.
- There could be some fluctuation up and down, but I think that much is already there in the books and we have to acknowledge that. As regards the you know Stage 1, Stage 2, yes there are possibilities where we can improve and the processes and all will definitely help us. In fact, even in terms of when the new system also comes in our reporting our monitoring our auto SMS's auto messages, WhatsApp messages, WhatsApp integration and all that we have envisaged in the new IT transformation project those will also help us in improving our recoveries.
- So, definitely, Stage 1, Stage 2 there is a scope to improve and Stage 1 definitely because, we had slight impact because of the change in the regulation regarding of not being able to carry an advance of the customers, EMI Advance. So that also once with the customer education creation, awareness creation, all those things we should be able to bring down.
- So, Stage 1 definitely there will be some improvement and we expect an improvement and going forward also once the new package I think Stage 1, Stage 2 should also see some better numbers. So overall this point of 15 % are, credit cost that we have been experiencing in the books, I think that will is what we should continue.
- Other than this 0.9 % Stage 3 NPA that we are, Stage 3 assets or NPA that we are looking at, I don't see much of a stress in terms of any major issues in the book because, in terms of our check bounce rates or in terms of our customer payment and the turnaround and all those things, and definitely there is not much of a difficulty.
- Rahul Malani:** Sir, your guidance on credit cost of 15 basis points. So, [inaudible 41:41] gradually increasing the share of self-employed segment as well as the lab. Should we see gradual uptake in the credit cost sustainably over a period of next 2, 3 years?
- Suresh Iyer:** See, actually when we are talking SENP, we still not talking about the appraised income or the surrogate income or the segment which is not having documented income proof. We are still our SENP still the segment where IT returns are being know filed. Additionally in that segment when we introduce and when we are slightly increasing our penetration we are adding it with certain ring fences.
- Basically, we first implemented our this kurza ITR or basically this arrangement wherein instead of the customers giving their ITRs we are now able to pull the ITR directly from the portal. So, in fact we have a more authentic proof of the income that is reported to us. Unlike -- what was definitely the ITR based income, but was given by the customer.
- Now we are in fact also verifying it with what is being filed in the portal. So, that way, we have introduced this slightly higher SENP penetration also with certain, protections and all those

things. So, I don't expect too much of an increase or spike in our default rate because of this. But yes, if it is there something it may be a very gradual or a very minor one. We will see as we go along.

As of now, at least we are not seeing any major blip in that. So, it is too early to talk about it. But I don't expect if at all is there we will come back and share that there is but as of now we don't expect that to happen, because one is this second is we have also introduced the CRM department. So these are the two additional checks we introduced before we started pushing our SENP slightly.

Rahul Malani: And one thing on the sourcing plan, when our major sales sourcing is from the DSA? So, what are the rejection trades there?

Suresh Iyer: Frankly, our DSAs actually are very old DSAs. Many of the DSAs, at least if I look at the top performing DSAs, most of them have been with us for a long time. Actually, they know our policies, they know what are the cases that will be cleared. So actually, when they bring the case to us, our rejection ratios are not much.

But yes, our rejection ratio in terms of the or at least the CRM that the sourcing that we are having and what our internal sales team that we have set up is doing there it is definitely on the higher than what the DSC is there otherwise, basically in terms of the DSA source business, it is not correct, because they know this case will not go through they will not even bring the case here they will probably put it up to some other affordable housing finance company or somewhere and the case will not even come to us will not even get logged in.

So, it will not be a correct assumption. Once our internal team is having a sizable database I think we should be able to tell you what is the rate, but I presume that, there is a roughly 20 % cases which are getting logged in and are not happening approximately that would be the range I am assuming.

Rahul Malani: Thank you sir. That's all from my side.

Vijay Singh Gour: Binod sir, any questions from your side?

Binod Modi: I'm done.

Vijay Singh Gour: Small question here sir. Any impact we are seeing on a return ratios once we know opex comes into the picture from FY '27?

Suresh Iyer: Sorry, I didn't get your question, sorry?

Vijay Singh Gour: Are we seeing any impact on return ratios like ROA, when they know opex when we the capitalized expenses will come into the picture from FY '27?

Suresh Iyer: Not major frankly, because we are guiding for 2.1%, we are already 2.2% plus. So at least we would not, the guidance will not be impacted. We have kept a little, at least on the ROA, ROE, I mean ROA, ROE and this spread and NIMS, we are generally guiding on a conservative way only. So, 2.1% we should be able to maintain.

Vijay Singh Gour:

That's it from my side. Thank you so much sir. Binod sir, thank you. Rahul sir, thank you. Thank you all we will see it, all the best for your targets.