



**“Can Fin Homes Limited
Conference Call”
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Shreya Khandelwal: For the current session, we have with us the management of Can Fin Homes, represented by Mr. Suresh Iyer, who is the MD, Mr. Apurav Agarwal, who is the CFO, and Mr. Vikram Saha, who is the Deputy MD. We welcome you, sir, and it is a pleasure to host you in our conference. To commence the session, I would request you to give an overview of the industry as well as the business environment that we're in. And post that, we will open the session for Q&A. So over to you, sir, for the introductory remarks.

Suresh Iyer: Yes, good morning, everyone. And thank you for inviting us to this session. This is Suresh here. First of all, my apologies. I've kept my video off because I'm just unfortunately caught in the infamous Bangalore traffic. So I'm speaking from my car.

So I'm keeping my video off. Please apologies for the same. Just to start, first of all, in terms of the industry, we are seeing actually an overall in terms of the demand and everything. We are seeing quite a robust demand. We are not seeing any issues in the demand, particularly not in the segment that we are dealing with. Of course, there is a little bit of slowdown in the affordable segment, which is the sub 15 lakh segment, particularly because of this shortage of supply or because of the supply issues.

Because post CLSS closure, not many new launches or not many builders are getting into this segment. So whatever is the inertia that has carried forward has been going on. But new projects, we are not seeing as many as in the past.

In terms of the mid segment, that is the 15 lakh to 50 to 75 lakh that we mainly operate in. By and large, except for the state of Telangana, where the demand is a little slow, we have been seeing a very decent demand. And in fact, for us, I will come to our performance in the various geographies a little later.

But other than Telangana, by and large, the demand has been quite strong. In Telangana, of course, there are issues which throughout the year we've been facing, mainly because of the change in the government stand as regards the construction. Post the change of government, there has been this new department called Hydra, which was set up in Telangana, wherein they reviewed all the approvals given by the previous government and many projects they went around demolishing as well in the beginning, because those projects were approved in land which was either in government owned land or in lake beds.

This has resulted in a little bit of a kind of fear in the minds of the developers as well as the customers. And so there is a general slowdown in demand in Telangana, which is very strongly felt by us. We have a fairly large presence we have in Telangana because it's the second largest state for us in terms of our AUM exposure and in terms of our incremental business also.

So, we are seeing almost a 30% kind of negative growth in Telangana in the current year as compared to previous year. Other than that, in terms of Karnataka, presently since October, we have been seeing an issue of e-khatas, but that is more of an operational problem and probably the government could not or did not anticipate the kind of demand or the kind of requirement

that would come for e-khatas and was not prepared for issuance of this so many e-khatas. But basically, it's a temporary problem we feel and is not affecting the demand as much.

But presently, the business is a little slow because e-khatas are not getting issued to the extent to which the applications are coming forward. But slowly, we have seen that in the last one month, there have been some modifications, some changes, whereby at least in the corporation limits, that is the BBMP limits, we are seeing that some traction is seen in terms of the issuance of e-khatas. So, that has slightly helped us in terms of our business in January, although we have still not reached the level of business that we have seen or witnessed in the second quarter.

This is also mainly because the municipal corporation limits, the e-khatas have started getting issued. But 40% of our business still comes from the panchayat areas or from the periphery areas. And there, in fact, the e-khatas are yet to commence.

You know, the issuances are yet to commence. So, these are basically the reasons. But otherwise, in terms of the business, as I was mentioning, we have a fairly good amount of demand and we are witnessing.

In terms of the geographies, we have presence in 21 states, which are broken into six zones. So, out of those six zones, if I have to share, we have the North Zone and Tamil Nadu, which is basically Tamil Nadu plus Kerala, and the North Zone, which covers entire Delhi, NCR, Punjab, Haryana, UP, Uttarakhand and all. So, in North and Tamil Nadu, in fact, we have consistently seen a good demand throughout the year.

And both these zones have actually already crossed the previous year disbursement performance in the month of January itself. So, basically, we are already, done in 10 months what we did in 12 months last year. The next is the West Zone, which is basically Rajasthan, Gujarat, Maharashtra and MP for us.

And in this zone also, we are almost close to previous year figure. So, in February, that also will be crossing. So, we are positive there also. We have been seeing a good demand in these zones also, particularly Rajasthan and Gujarat have been doing quite well for us. Maharashtra particular, these four, branches that we have in Mumbai city, we witnessed a little bit of, this thing, particularly during the election period and all. But otherwise, overall, as a zone, it is still positive.

And in February itself, we will already be crossing the -- in February, we will be crossing the previous year disbursement mark. The other two zones, basically Karnataka is still positive.

But as of December, we were 8% positive compared to the previous year YTD figures in three quarters. But in terms of the full year business performance, we will probably be, crossing that as well. Even though we are having these issues of e-khata and we don't expect the business to be the same levels as last year, but still we are quite confident that Karnataka also will be positive.

And if all of you recollect, we had in Q1 also indicated that the Telangana, the problems that were there is also reflected in Andhra Pradesh, because the capital was the same. Hyderabad was

the capital for both. But post the change in government, the capital also from July has now shifted and the new government has been quite positive.

So, the momentum is also now positive for us. And that also will by March become positive for us. So, basically, in terms of demand, we are seeing a fairly good amount of demand and barring Telangana, which is about 30% negative for us, by and large, we should be positive across all other geographies.

In terms of delinquencies for the market, we've not had many issues and it's been a very steady kind of delinquency performance. Of course, due to some regulatory changes, we had a slight increase in SMA-0, which we had explained is mainly because of the charges which get debited. And since we are not allowed to maintain any one EMI advance or as we used to have earlier, that is slightly affecting.

But otherwise, by and large, it's not much of a problem. However, post this microfinance and personal loan, regulatory changes which have come about, there has been some, I understand in terms of the, since you mentioned about the overall industry, there has been a little bit of a rub off for particularly the affordable housing companies where there could be some overlap between the MFI customers and also affordable housing customers. So, there, SMA-0s have slightly witnessed a little bit of a, you know, jump, but still nothing too much to worry about.

So, basically, in terms of the overall industry, this is by and large the issue. With the rate cut now coming about, housing finance companies at least are not compelled or required or mandated to have EBL or link pricing. So, most housing finance companies would generally tend to pass on the rate benefit that is experienced only when they experienced it on their liability side.

Similarly, for us also, we will be passing on the rate cut transmission will happen from our side also only when on the liability side we experience the benefit. In terms of our portfolio particularly, we have about 56% of our borrowing coming from banks and all our bank term loans are either linked to repo or linked to EBL. Therefore, we should experience at least within a quarter or so, the entire 56% of our liability side witnessing some reduction in our rates.

So, in about a quarter's time, we also expect to pass on about 10 bps to 15 bps on to our customers. Presently, we have a quarterly reset policy, but that also we modified from 1st of January 2024. So, as of today, we have only about 20% of our assets which asset base which is on a quarterly reset basis.

The remaining 80% continues to be on an annual reset. So, even if we pass on 10 bps to 15 bps, there would be a lag in transmission to the customers, because only when they come for a reset, either on an annual basis or quarterly basis, the customers would get the benefit of the rate cut. So, therefore, we feel that in over the 10 basis points, 15 basis points rate cut, the transmission will be slightly delayed.

So, there could be some benefit even to us in terms of the overall spread and NIM because of the delay in transmission on the asset side. So, that's it in terms of our overall performance as

regards the rate cut. So, this is in short what I take from the thing. We can have the question answers. Thank you.

Seshagiri Ranganathan: Thanks a lot, sir, for the interesting insights. Let us open the session for Q&A. Participants, if you have any query, kindly make use of raise hand function in Zoom facility or comment directly introducing yourself with company name, please. We have a query from Mr. Kishore Agarwal of Bajaj. Please go ahead, sir.

Kishore Agarwal: Thank you, sir. Thank you for the opportunity. This is Kishore from Bajaj AMC. Hi, Suresh, so thank you for your time. So, just quickly couple of questions from my side. So, one is on your disbursement number.

So, what is your disbursement guidance currently post the Telangana and the Karnataka trouble? And given that you briefly mentioned a giant e-khata issuances have started, do you have any backlogs there so that you can ramp up growth in the Q4 or Q1 of FY '26? And what kind of a run rate do you expect for FY '26?

Suresh Iyer: Yes. In terms of the disbursement for Q4, see, I will just brief you that in January itself, as I mentioned, we have witnessed some improvement in terms of the e-khata issuances. So, in January, in Q2, we used to do about INR275 crores per month disbursement in Karnataka, which came down to approximately about INR150-odd crores in Q3, which is in October, November, December.

Whereas now with some relaxation or some issuances happening in e-khata, we have started, we have just about touched INR200 crores in Karnataka in the month of January. So, we are witnessing some positive change. So, with that, we are expecting that though we may not reach the same old levels of INR300 crores that we were expecting in Karnataka every month, but at least by March, we should touch about INR250 crores.

So, we are looking at somewhere in the range of about the same disbursement as we did in Q4 last year, which is about 2400 is what we did last year in Q4. So, similar kind of disbursement, we are hopeful that we will be able to do in this quarter, that is Q4, which should take us to an annual disbursement somewhere in the range of INR8,500 crores to INR9,000 crores. So, with that kind of a number, we should be somewhere in the range of INR38,000 crores to INR38,500 crores in terms of AUM closure for the year.

That is the kind of figures that we are looking at as of the moment. In terms of January, per se, the disbursement for January, as I indicated, is a little better because things have started to improve in Karnataka. So, our January disbursement is better than our December '24, as well as our January '24, both disbursements.

So, January '25, we have done a little better than previous January as well as previous month also. Now, going forward for FY '26, as I said, all other geographies have started to improve. And Telangana also, this year, even with this kind of a thing, we have come to a kind of a bottom, which is almost like we are doing INR100 crores only per month.

Last year, compared to about INR150 crores-INR170 crores that we have touched last year in Telangana, this year, with this kind of a position, we have reached about INR100 crores per month. So, we are likely to touch about INR1,200 crores only by the end of the year in Telangana. So, from that point of view, I believe next year, even maintaining it or doing it or improving it a little better, even INR120 crores would give us a good amount of growth in Telangana.

So, keeping that in mind and the momentum that we are witnessing in other geographies, including Karnataka, so definitely next year, we are looking at a positive growth right from Q1 itself. So, about 20% kind of a growth over current year disbursement numbers is what we are expecting for FY '26.

Kishore Agarwal:

Okay, sir. Thank you for that. And also on your SMA-0 number, I think you have kind of clarified that in your call also that this is more of a check bouncing charges and all. So, why don't you take step in order to reduce that number if it's a small amount, just creates a hangover on the SMA-0. So, what are the steps that you're taking to reduce that? That will be helpful.

Suresh Iyer:

See, actually, this is a recent change, which has come about where this one-month EMI or a little bit of excess EMIs that customers are paying, we had to pass it on to our customers. So, now, we are -- we've already initiated efforts to first educate our customers. So, what we do is, before we -- as soon as a check bounce happens, we are calling up the customers, we have increased our calling and informing them to pay along with charges.

Because earlier, what happens when the check bounces happen or NACH bounces happen, the customers only tend to pay the same EMI back and we always used to have some charges. Similarly, we have annual inspection charges that is a property valuation charges or such as some something. Then in that case, we are before debiting the charges also, we are informing customers, additional SMSs and all have started going.

So, that kind of education or creating an awareness kind of efforts we've already initiated. So, we are quite hopeful that in this quarter itself, we should start witnessing some benefits. Some similarly in case of ECS, where the amount is fixed, and we cannot increase the amount that we are leveling to the customers.

So, say, for example, the EMI is INR12,000, which the customer has accepted, then we cannot even present it for INR12,001. Whereas in case of NACH, there is an enabling provision where we can charge a little higher. So, we are converting our ECS customers also, and taking fresh mandates from them for NACH.

So that if there are some charges, then when we represent it, we can always put it with a higher, including those charges as well. So, those kind of changes we have already initiated. And awareness also, as I mentioned, SMSs have started going. So, this quarter itself, we should expect some improvement in the SMA-0 numbers.

Kishore Agarwal:

Okay, sir. Thank you. I'll get back in the queue.

Suresh Iyer:

Yes, thank you.

Seshagiri Ranganathan: Thanks a lot, sir. Participants, if you have any query, kindly make use of raise hand function or comment directly introducing yourself with company name, please. As the question queue lines up, Shreya madam, you would like to comment with yours.

Shreya Khandelwal: Yes, sure. Thanks, Suresh, for the very detailed commentary at the start. So, I just had a question around NIMs. So, 3.5% is what you have guided for. And you guys have an annual reset as far as the spreads are concerned. So, how do I build in margins for FY '26 and onwards, like for the next two years?

Suresh Iyer: See, in terms of our guidance for spread and NIM, we have been very clear that we would not compromise on the spread or NIM. So, while we are having about 2.56, we have very clearly stated that in terms of spread, we will not go -- want to go below 2.5 and in terms of NIM below 3.5. Now, in case of our policy of reset that you mentioned, it is actually quarterly reset, we moved to a quarterly reset from 1st of January 2024. So, all incremental disbursements from 1st January 2024 are on quarterly reset.

But for the older customers who are on annual reset, they have to execute certain documentation and then give their concurrence to move to a quarterly reset. So, now that the entire year we did not have any rate revision happening, customers did not opt for that documentation. But now that the rates are going down, customers will certainly want to come forward and execute the documentation and take the advantage.

So, today, whatever 20% we are seeing on quarterly reset for us, it is mainly their portfolio which has been created in the last one year or 13 months. But going forward, this annual reset to quarterly reset changes should happen much faster and this percentage we expect to go up to around by another 20%-30% in this quarter itself because customers will want to move to the quarterly reset and take advantage of these rates.

Shreya Khandelwal: So, if they apply for it and then once you start the process, how long does it take?

Suresh Iyer: If they are executing the documents this month, so immediately from next month it will happen. But how it works is that now for existing customers who have already opted for quarterly reset or annual reset, if the quarterly reset customer had taken a disbursement in the month of say November 2024, then the next reset is likely to happen in the month of February 2025. And thereafter, the next one will happen in May 2025 and so on.

If it is annual reset customers and he has taken a loan in the month of November 2024, then the next reset is likely to -- I mean, obviously 2023, then the first reset would have happened in 2024. And the next reset would happen is like a normal course would happen in November 2025. But now, say, for example, that customer comes to us and executes a document in the month of February itself and we reduce or announce a reduction in our rate by 10 basis points, then in that case from the month of March 2025 itself, the customer will get the benefit of 10 basis points reduction.

And then if at all there is another reduction, the next reset will happen in June and thereafter. So, every quarterly reset will happen. So, it basically depends on the month in which the disbursement has happened, the first disbursement.

- Shreya Khandelwal:** Okay. So, okay, now like the older customers, it'll probably take around four months for them to move to a quarterly reset. That's what you're saying. If say I apply today.
- Suresh Iyer:** Correct
- Shreya Khandelwal:** Got it. Understood. And again, from a competition perspective, also you have guys like LICHF, you have guys like PNB all entering the space now and these are large players, right? How are you looking at competition now? Is it like how and related to that, how are you looking at growth for the next year because the industry itself is becoming very competitive?
- Suresh Iyer:** No, I mean, if you look at the players that you mentioned, all of them have been in present for all this all these years as well. And they've been just as competitive in the past also. So, there is no major policy change or aggression, which is coming from their side, which is kind of an increased aggression or something or an increased, you know, takeover bid or takeover policies, which are favorable for them, which they have announced, which might affect us.
- So, as of now, it is a status quo. If you look at our presentation for the last three years also that we have shared, the portfolio rundown also is, is in a very, very, range bound manner between 3.25% to around 4.15%, that kind of a range only. And for the entire year, it is roughly around between 15% and 16%. And that has been quite stable. Now, this includes the amortization bid as well. So, including the amortization part, this is about 15% to 16%. There is no major shift in that or any prepayment pressure that is getting reflected or anything.
- The second thing is in terms of the pricing also, okay, we've not seen any major aggression shown from any of the players. The roughly the rates in the market, if you look at the bigger banks, they started around, they are offering around 8.5%, whereas our best customer who comes for a housing loan would be offered around 8.95%. So, roughly, we are quite competitive for about, for about 25 basis points, customer may not shift as much.
- And the customers who go to the bigger banks of like SBI, HDFC, ICICI, or Axis, they generally are a little higher end customers and more of a premium prime customers who would be going there. So, anyway that will continue. So, in our segment, the players who are there, there is not no any major change in terms of their stance as regards pricing or in terms of their BT in strategy.
- Shreya Khandelwal:** And what would be your BT out rates?
- Suresh Iyer:** As I mentioned, today, we have about 15% of the total excluding our amortization, we have approximately about INR350 crores, which is the total prepayments, as well as BT outs. So, it is either prepayments, part prepayment, full closure or BT outs, all three put together is roughly about INR350 crores per month. And out of that also, if you look at the BT out, probably it will be about INR100 crores, INR80 crores to INR100 crores per month, which would be our actual BT out.
- The remaining is where customers make excess payment, they have some sale of property, that's their -- which they are making a payment and closing the loan or it is a -- some incentive that they are doing and just to reduce the liability or things like that. So, part prepayment and loan

closures from own funds excluded, the actual BT out is about INR80 crores to INR100 crores per month.

Shreya Khandelwal: Okay. All right. Got it. Thanks.

Seshagiri Ranganathan: Thanks a lot, sir. We have next query from Mr. Ketan Shah of Sriram AMC. Please go ahead, sir.

Suresh Iyer: You are on mute; I suppose we're not able to hear you.

Seshagiri Ranganathan: Mr. Ketan, can you unmute yourself, please? Mr. Ketan, you are able to hear? I think there is some technical issue. We are following up with him, sir. In the meantime, participants, if you have any query, kindly make use of raise hand function or come in directly introducing yourself with company name, please.

Kishore Agarwal: Okay, I'll go ahead for a follow up. So, just on the credit cost front, right? So you have you seen any significant deterioration in your SMA-0 other than the charges that you spoke about that to make you any concern on your credit cost for Q4 or next year?

And my second question is on your ROE. So what we have seen is that because of your growth slowdown, your ROEs have come down from about 19% to 17.5% this year, and might even fall next year if you do not increase growth. So what's your -- how do you see steady state ROEs for you? Where do you target that number to be?

Suresh Iyer: See, to your first, this thing about SMA-0, in fact, we are not seeing any major changes either in terms of our check bounces or in terms of our customer issues. It's not a major change, whatever is there is just a cyclical issue or and in terms of quite range bound within what we have experienced in the past many years also. So that's not other than this change in regulatory requirement where we cannot now have advanced EMI.

That is no major change which is impacting this shift in SMA-0. So that is -- that is one thing. Because as I mentioned last December, when we announced the Q3 results, we had about INR2,493 crores, which was in SMA-0. Out of that INR770 crores is particularly the cases where it is mainly less than INR850 outstanding, which is the check bounce charges or some other charges which are there. So if you exclude that, then that figure comes to somewhere around INR1,700 crores only, which is which is in line with what is was the percentage for our SMA-0 earlier also not very, very different from that. So that is not much of a worry for us.

So credit costs, we don't expect. However, what has impacted is because of this, the sudden increase and changes in SMA-0 obviously will have an impact in our PD calculation because it is a scientific calculation based on the trend that we see over the last five years. So PD makes an impact. That is why, our provisions have slightly been there, but there is no major change. Again, in this quarter, if it comes on again, that positive impact will also be reflected in the PD calculation because it is a quarter-on-quarter calculation which is done on the basis of the movement of portfolio.

The second point was as regards our ROEs. I think 17% is some is a kind of ROEs which will not have a problem. I think the only difference was because of our increased dividend payout. It's only because we have been increasing our dividend payout. Earlier it was I think our dividend payout ratio was in the range of about 6% to 7%. And the last two years we have been increasing our dividend payout. Today, I mean for FY '24, it was around 11%.

And this year already in interim dividend, we have announced INR6, which is 300%. So with the final dividend also, which will be announced, I think it's basically because of that only it is impacted. Otherwise, it should not have a major impact.

Kishore Agarwal:

Okay, got it. So you aim to maintain steady state 17%, is it?

Suresh Iyer:

We would like to have 17%. But as I said, dividend payout, we have been increasing, because it was a very low dividend payout ratio. And our individual shareholders and a lot of other shareholders also, we felt that definitely they need to be rewarded a little better. So that is one issue which might slightly, because we have been increasing our dividend payouts a little more. Other than that, we are quite keen to continue this kind of a trend only.

Kishore Agarwal:

Okay, sir.

Seshagiri Ranganathan:

Thanks a lot, sir. That was Mr. Kishore Agarwal from Bajaj AMC. Shreya madam, you can continue with yours, please. In the meantime, as the question queue line...

Shreya Khandelwal:

Yes. So we have a question from Ketan, who I think was unable to connect to the audio. So he's asked about the asset quality challenge. If there is any segment wherein you're seeing asset quality considering you have a LAP portfolio as well, and any color that you could give, even from an industry perspective that you are witnessing?

Suresh Iyer:

See, broadly, as you all know, we have a slightly higher delinquency in the SENP portfolio, and also in the LAP book. In our case, the SENP was just about 28%. Now it is just about 30% of our overall book in terms of our SENP portfolio. For us, the gross NPA for the salaried segment is around 0.6% to 0.65%, whereas for the SENP is in the range of 1.6%. So same way in case of LAP is also roughly about the same, but we have a very small LAP book of about 5%-6% now.

Now, just to give this, we have slightly been improving or increasing our exposure on the SENP segment and in terms of our LAP book also, because as a strategy also, we had a very small listing and in terms of the yield point of view, we have clearly stated that we are open to increasing the SENP for which is presently about 30% to go up to about 35% in the next 3 to 5 years. So that is one. And overall LAP book also, we are about 5%. We've said we are open to take it up to 7 to 8%.

So both these put together could slightly have, because both these segments definitely have a slightly higher NPA compared to the salaried segment. But overall in the entire scheme of things, this 0.9% that we are looking at as the gross NPA would not change much. So even if at all, it will be a couple of basis points here and there.

We don't feel even with this increase in both these SENP or LAP book also, it is likely to cross 1% in terms of the gross NPA. So our 12 to 15 bps that we have been talking about a credit cost, I think that guidance or that kind of range would be maintained.

Shreya Khandelwal:

But like you said, your self-employed segment, the asset quality is around 1.6%. So is it something that you're seeing now or has this been the trend?

Suresh Iyer:

Generally also, that's the industry thing that the SENP portfolio definitely has a higher delinquency compared to the salaried segment. It's been a traditional thing across segment -- across industry players and across the years, the trend has been roughly the same. It could just be it is two times or it is two and a half times roughly that could be the way to look at it. But otherwise it is always SENP has been on the higher side. LAP also has been on the higher side. And that is justified in terms of the higher rates that are being charged for this product also.

Like we charge 0.5 percentage higher for a SENP compared to a salaried segment. And there also same way for a LAP also we charge 0.5% higher. So if it's a SENP category LAP, then it would be actually 1% higher than our normal rate. And within that also we have customers, we have grading -- customers are being graded in terms of S1, S2, S2 plus and S3 categories based on the risk categorization of the customer and the profile and everything. So there also, in fact, the cart rate starts from 0.5% higher, but many customers could be actually paying 75 bps higher also depending on their rating.

Shreya Khandelwal:

Okay, but then sir what gives you this confidence that your credit costs will be in the 10 to 15 bps sort of range and considering you are increasing your exposure to LAP as well as self-employed, right? So like also your credit cost should move up because that portion is increasing.

Suresh Iyer:

Okay, I'll just share that if you look at our ECL calculation, we are now -- all housing finance companies are required to now have the ECL calculation in days. Okay, so our coverage on our Stage 3 assets is about 47. It is range bound between 47% to 49%. Okay, that is because also of our conservative assumptions that we take for arriving at the ECL calculation. Basically it is all assumptions on what is the period in which your recoveries will happen, what is the probability, what is the finer bifurcation that you do of the segments.

Now, rest of the industry also, if you look at it, you will see that it is much lower. It is starting from 27% only and going up to about 35%-36%. So even in terms of our Stage 3 ECL calculation assumptions, we have been very conservative. Another thing that I would like to share is, today we are having about INR34 crores, which is a management overlay which we have been maintaining and given a good year in terms of profit, if there is an opportunity, we would, in fact, like to increase the management overlay not because of anything else that we foresee any issues in our collections or we see any particular risk that is increasing or anything, but mainly because we would like to kind of have a buffer in terms of our provisioning and in terms of our coverage. That's it.

So, it's from the conservative approach that we have been always taking, that is what I would like to say is the reason why we believe that our credit cost by and large will not change much. Because even now that we are taking extra exposure on SENP, we are obviously taking some

additional precautions and all those things are always there. And particularly what gives us the confidence is that now post, the last one year from October '23 onwards, in fact, we now have this credit review monitoring department.

Now, every case which is sanctioned from the branches is also reviewed by the credit review. So, we have an additional layer which is also reviewing each and every case that is done. So, that is -- these are the kind of some steps that will give us a confidence that although we are taking an exposure, it is more of a calculated risk that we are taking or a calculated decision we are taking.

Shreya Khandelwal: Okay, got it. Just one more follow up from my side. Any guidance on the PCR, because this is almost like double of where the industry is at. So, are you looking to reduce your PCR ratio over the next, say, two years?

Suresh Iyer: No, as I mentioned we do not - we will not be changing our conservative assumptions for ECL calculations. So, roughly it will be range bound in this kind of a thing. The only thing is in case some of our older, if you take a more like - that we have not been writing off our portfolio. Unlike many of the other players have been doing, they have been writing off their - they have stated right off policy also, we have not written off.

So, even the cases which are like more than three years, more than five years in NPA and even those cases where 100% provision is being carried, we are not writing off that book. So, maybe if those kind of things are done, then there could be some changes, but then also it will not be a very large kind of a change.

And we would always like to have some kind of a buffer either in the form of management overlay or in the form of a higher PCR. So, this definitely is not something we would like to reduce. On the contrary, as I mentioned if it is a good year, if it is possible, we would like to take a little more management overlay provision as a buffer.

Shreya Khandelwal: Understood. Okay. Thank you.

Seshagiri Ranganathan: Thanks a lot. Thanks a lot, sir. Participants, if you have any query, kindly make use of raise hand function or comment directly introducing yourself with company name, please. As the question queue lines up, madam, you would like to continue with yours?

Shreya Khandelwal: Yes. Sure. So, in the Q4, in the Q3 results, you mentioned that you will be opening around 11 new branches in Q4. So, any color on which states are you focusing like where would these branches be and any - what are your plans or expansion plans for FY '26 as well?

Suresh Iyer: Yes. In fact, we had mentioned that we are looking at 15 branches in Q4 and 11 branches are at an advanced stage where we had signed up the leave and license agreements also. The remaining four, we were under negotiation. So, those 11 branches, in fact, the interior work and all is also kind of commenced.

So, we are on course for that and the remaining four also will get done by the end of the quarter. So, we are on course for about 15 branches to be added in this financial year net, but as such we

have already opened 10 branches during the current year, but we also closed down some 10 branches or merged some branches. So, basically, the number count is still remaining at 219, but as at the end of the third quarter, but basically, 310 branches were merged or closed and 10 more branches were added. And we are going to add another 15 in Q4, taking it from 219 to 34.

Now, these branches that we are adding are all in the West, that is in our West which I mentioned was four states of Rajasthan, Gujarat, MP, Rajasthan or in the North which is basically the belt from Punjab, right going up to UP. So, these are the belts that we are looking at for expansion, because over the next two to three, four years, we would want to kind of shift our geographical mix from a 72-28 South to rest of India to about 60-40 South to rest of India.

Shreya Khandelwal: Got it. And any, like any sense on the competition or thing that you're seeing there because like which particularly which cities are you targeting and where in the - is it Tier 1, is it Tier 2, Tier 3?

Suresh Iyer: Yes, we are all looking at Tier 2 towns only. All the cities that we are opening are barring around Tier two towns, maybe barring in Indore, we are opening which is you could classify, but that also you can say is tiered. So, by and large the branches that we are opening or what we have opened are all in the Tier 2 kind of cities only like you have Pali, Bikaner, Hapur, Saharanpur, you have Mathura, you have Ujjain, you have looking at Ratlam. So, all these branches you look at it Mehsana, all of them are Tier 2 towns only.

Shreya Khandelwal: Okay. And just related to that how do I look at your opex over the next say 1.5 years, 2 years? I understand it's been a little high because of the IT spend that you've done in terms of cost to income. So, how are you looking at it because you're expanding as well? So, how should I build this number?

Suresh Iyer: See, actually last year that is 1st of January 24 we embarked on one, just an upgrade of our existing LOS LMS service provider. So that added to about approximately a crores of expenses per month. So, every quarter we used to have an additional INR33 crores, which was being spent.

And currently our spend is about INR15 crores per annum in terms of our IT spend after this upgrade to the new higher version of our LOS LMS. Going forward, we probably in the next two weeks' time, we should be putting up a note to the stock exchanges informing about this new RFP that has been finalized and for which we are just awaiting the board approval for the cost and everything. But we have finalized it with IBM, which is the vendor, which is the system integrator.

And there, we expect that from FY '27 onwards the opex would increase to about INR35 crores which means about additional INR20 crores will kick in from FY '27 onwards. And the reason why it is FY '27 is because we are expecting that October, November, December, that is a Q3 of the next financial year is when we will be implementing, we'll go for a big bank approach to implement the entire package.

And as per the terms, we have a six-month period where there will be handholding and things like that. So actual project commencement and everything will happen post March 2026. Therefore up to 26, whatever is the cost will be capitalized and there will be very minimal opex

which will come in. So with that numbers and all, we will be uploading in another two weeks from now, within two weeks.

As for the opex then going from FY '27 onwards, the current INR15 crores will increase to INR35 crores approximately, whatever number is approximately that range it will come to, which means another INR20 crores you can kind of factor in into the opex from FY '27 onwards.

Shreya Khandelwal: So this is basically in the Q3 call, you had said this, this would be around INR30 crores to INR35 crores each year. And this was going to be spread over the next seven years, if I'm not mistaken?

Suresh Iyer: Yes. It's a one, it's a totally seven-year contract. And we have one year, we have implementation and then we have the six years of project cost. So that's how it is.

Shreya Khandelwal: So now this has come down to INR20 crores is what you're saying?

Suresh Iyer: No, no, it is INR35 crores only, but obviously when the INR15 crores-- will not, obviously from March 26 onwards, the current LOS, LMS applications will be sunset. So once it is, closed down and then obviously that cost will, will reduce and it will only be the new INR35 crores it will be impacted from FY '27 onwards. So the net increase will be INR20 crores, but the cost per annum opex for this new project is about INR35 crores.

Shreya Khandelwal: Okay. Got it. And your CI ratio guidance would be around 18%, 18.5%, if I'm not wrong?

Suresh Iyer: Yes. FY '27, obviously on a higher base, it will still be around 18%, 18.5%.

Shreya Khandelwal: All right. Okay. Thanks.

Seshagiri Ranganathan: Yes. Thanks a lot. Final reminder to participants, if you have any query, kindly make use of raiser and function or come in directly introducing yourself with company name, please. As we do not seem to have any queries, over to you, madam, for concluding remarks, please.

Shreya Khandelwal: All right. Thank you so much, Suresh. Thank you, the team for Can Fin for your time and for your valuable insights. We thank all the clients for their participation as well. Thanks a lot from our side.

Suresh Iyer: Thank you very much.