



“Can Fin Homes Limited Conference Call”

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

Nihal Shah: Hello sir, am I audible?

Suresh Iyer: Yes, yes, you are audible. Yes, good afternoon. Are we, are we audible?

Nihal Shah: Yes, yes, you are sir.

Suresh Iyer: Yes, somebody is joining?

Nihal Shah: Yes, I have my colleague with me and if all the people from your side have also joined then we can start then.

Suresh Iyer: Yes, yes, we can start. With me, Mr. Vikram Saha is the DMD is there, and Nilesh Jain is our Company Secretary, yes.

Nihal Shah: Yes, so getting right into it, so we all know that the Karnataka e-Khata problems persisted in Q3, so how is Q4 looking? We also said that there are some developments there and the starting of the opening of accounts has happened but till now how does Q4 look like?

Suresh Iyer: See, actually January, February, I mean Q3 we were doing about, we came down from INR275 crores per month disbursement in Q2, we came down to INR150 crores in Q3 per month disbursement. Jan and Feb we have already crossed INR200 crores, both months we were able to cross INR200 crores because you know this corporation limits, the e-Khata issuances has opened up a little bit and they have come a little fast.

So, we were able to cross INR200 crores both in January as well as February and in March we are, the way it is looking it should cross INR250 crores, but still you know it has not come back to normal, it has not come back to the olden, just like olden times because you know the urban development authority and you know this panchayat areas, the e-Khatas are still not happening. So, only when those two areas also start then we will be back to normal because a lot of our, majority of our business happens in the urban development authority and panchayat areas.

Nihal Shah: Right, so like 30% of the business comes from Karnataka, so how are we looking to reduce the weightage of that state?

Suresh Iyer: See, we have already started branch expansion last year, so we opened 14 branches last year, we are planning 15 or we are almost on the verge of opening 15 branches this year, in this month they are all scheduled. So, all, most of these branches are in the north and the west, so basically we want to bring down this reliance of more than 70% was from the five southern states, it was 72% or something, 72%, 73%, we want to bring it down eventually towards 60%, 40%. So, we are opening with branches in the north and the west and all and so that slowly you know the business over there picks up and that will help, so that is what we are doing.

Nihal Shah: So, there as well are we looking for urban markets or we are going a bit more rural in those north and western regions?

Suresh Iyer: Most of the offices we have opened are in Tier 2 towns, like you know if you see Bikaner, Pali, Mathura, then Saharanpur, Hapur, then we are opening in Ludhiana, then we are looking at one more office in Chandigarh, then we are looking at Ujjain, Ratlam, of course Indore also we have

one additional branch we are adding and so on, so basically we are looking at mostly Tier 2 towns.

Nihal Shah: Okay, so how will that affect our other expenses moving ahead because a lot of branch expansion is happening, so I guess for the next year if they get operational in this last quarter, so that should go up a bit in the coming year or we are looking at growing in pace with our net interest income?

Suresh Iyer: No, no, in terms of the brand new branches, first of all it is not a kind of ownership premises that we are looking at, we only look at lease premises, so there is a lease expenses, salary expenses of the additional staff and one-time expenses in terms of the refurbishing the office, interiors and all those things which is roughly you know on a 1000 square feet office, if you see it is about INR7 lakh that we have to spend.

So expense wise it is not a major this thing, but in terms of the business, it takes about 18 to 24 months for the branches to stabilize, get in line with the rest of the branches, like we opened 14 branches mostly in third and fourth quarter of last year, in Q3 of this year that is October to December, they were able to you know contribute about 30, little more than INR30 crores, so that comes to approximately INR75 lakhs per month per branch

Normally a branch of that size with three people, three member staff should be at least doing you know kind of INR2 crores, so they are kind of midway in FY '26, those branches, 14 branches will almost reach the level that they are expected to, but these 15 branches which we are opening this year, will next year be reaching around a range of about INR75 lakh business.

Nihal Shah: Okay, and like we also talked about Telangana slowdown being there, and you talked being more of a concern than Karnataka, you are expecting Karnataka to come back, that in the numbers that we have seen, but Telangana, so what is the current situation now, how is it shaping up?

Suresh Iyer: No, Karnataka or Telangana, Karnataka will come back and it is just a matter of time by which, because the government is also losing revenue, they will definitely start and we should be able to be, I mean max another couple of months or something and they should open up for business, BDA and for this also.

Telangana is more of a permanent, it is longer term issue, I would say not permanent, but longer term issue, because there is a sentiment which has been impacted, because of this hydra and a lot of demolitions which happened in the beginning, after the new government took over, so those things have actually had a impact on the overall sentiment and all those things.

And additionally we have also become a little more cautious in Telangana, where we are not doing the panchayat business, all the business that now we are doing are only in the RERA approved or in the corporation limit areas and we are not doing gram panchayat areas over there, because you know the risk of you know construction happening in government land or things like that is a little high and we do not want to take that risk, unless this whole issue gets sorted out and that will take probably a year or so, at least I believe.

Because even now what is happening is you know area by area the government is picking up and identifying whether it is on government land, what are the number of approvals given,

whether it is on, so entire city also has not been covered, by the time all this thing happens at least 6 to 12 months will happen, so till that time we will also not be clear how much is the damage or how much is the, and once that happens or if the government comes up with some proper formula or some mechanism to ensure that these things are not repeated, then only we will want to once again start pushing business in Telangana.

Till that time we are okay with a slower pace, we have now come down from about INR150 crores per month disbursement in Telangana to about INR100 crores disbursement in Telangana, so from here we will continue a little bit of growth, we will continue, but we will take, we will not want to go back to INR150 crores and INR170 crores, at least not in the immediate future.

Nihal Shah: Right, so like these, I guess this e-Khata also came after the change in regime in the Karnataka government, so do these political factors affect a lot of our businesses or is it because just that our weightage in the southern states and these two major states is such that we faced a bigger problem than other people?

Suresh Iyer: No, see actually Karnataka it is not that it happened immediately after the change of government, the change of government happened much earlier, it happened actually I think in '23 or something. But thereafter you know the state did not implement it immediately, they first implemented this e-Khata thing in one of the smaller corporations, Davanagere or place, one or two places like that and then they implemented it here in Bangalore and entire Karnataka.

So, what has happened is when a smaller geography, much smaller base, less complicated geography, it was implemented and probably it did well, and it never came to the limelight also. Now, when they are implementing, probably they did not anticipate the kind of volume that it would be there and the kind of complication in terms of the complexities in terms of the types or nature of properties and all those kind of things. So, they are probably grappling with it.

As for this political and all those things do matter, like for example whenever there is an election, you know before that disbursements do get affected a little bit. It is a new change of government, the guidelines change. The builders have to again get aligned with the new government. So, all those things happen.

But as you rightly pointed out, what happens is if in some place it is happening, some other place has already settled and moved ahead, so it normally happens in that way. But in our case, particularly both geographies that is Karnataka and Telangana, which together contribute about 50% of the business have simultaneously been hit at the same time. So, the geographical concentration risk has definitely hurt us there.

Nihal Shah: Right. And so, another thing that we saw in our Q3 numbers and that we have been seeing since many quarters that our weightage on salaried customers has reduced, so our AUM is now about 70% that we wish to bring down to around 60% I guess in a couple of years.

Suresh Iyer: So, housing we want to -- so there are 2-3 lines on which we are working or strategies that have been drawn up. One is the property type, that is housing versus non-housing. So, we had 85%-87% was housing and just about 12%-13% was non-housing, including CRE. If we exclude

CRE, then also it was 75%-77% was pure housing, another 10%-12% was CRE and the balance was non-housing.

So that we are feeling we should bring down to minimum 70% pure housing which means about 80% will be including CRE. So up to 20% we are okay to go with non-housing category, which includes LAP, top up loans and personal loans. The second strategy that we are looking at is what is the customer segmentation? So, we had -- 72% of our customers were in the beginning of Q3 -- 72% was salaried and 28% was SENP.

There we are okay to go down to 65% of salaried and 35% SENP overall. So that is why incrementally, we are doing more SENP, it is almost close to 40% or something is SENP happening, that is why from that 70 to 28, by now we have already reached 70-30. Going forward, we are okay to go up to 65-35. So that is the second thing.

The third thing that we are looking at in terms of strategy is we want to reduce our reliance on DSAs. So, in Q4 of FY23, we had 85% of business coming through DSA channel. So, from there we have brought it down to 80 and now in last quarter was about 76, so roughly it is between 75 and 80 is what you can say.

But going forward, we want to bring it down to up to 60%. So that will take a little longer, because you can't just stop. And for that you will have to create an alternate channel and all. So that is the third line that we are looking at product, second is segment and third is the sourcing channel. These three things are there.

Nihal Shah: Right. So, when we take the first two factors that you said into consideration, so how would that impact our spreads and NIMs moving ahead that should lead us to a higher NIM and a higher spread, so how much positive impact can it have?

Suresh Iyer: See, we have had a little bit of -- couple of basis points impact already in the 2, 3 quarters that we have seen. But actually speaking, the other reason why we also wanted to do it was that we are also looking at APF as a marketing, as a sourcing cwhere we will be approved projects will be there and advanced processing facility we will have projects approved as legal and technical cleared for those projects, and from there we will be sourcing.

Now, these APF we want to do with a CAT B kind of builders, CAT A, CAT B kind of builders whereby the ticket sizes will be slightly higher. And if we have to slightly do that segment, because the other thing we want to do is we want to slightly also look at moving up in terms of the ticket size from about 22 to 27, we are already kind of 24, 25. So up to 27, 28, we would like to take the ticket size also. And that will come from this APF.

And once we do this slightly higher ticket size business, there we may also have some little more competitive rates we may have to offer which we will offset through this SENP and through this non-housing category. So, overall, at least it is more of a diversification at the same time in terms of protecting our spread. But so far the impact has been positive, so 2.52 and we are right now at 2.6 plus.

Nihal Shah: Right. So, we have guided I guess for 2.5% plus spreads for the medium term.

Suresh Iyer: 2.5 and 3.5 NIM, correct.

Nihal Shah: Right. And also talking about the higher ticket size, so we have seen that the 10 lakhs to 20 lakhs that proportion has shrink down by 2% and the 30 plus has gone up by 2%. So, we continue our efforts in that motion only.

Suresh Iyer: Yes, so the same -- as I said, these are the basic things we are looking at and these are strategic moves which we will have -- will cannot be done overnight, we will take a little -- it is a gradual path we will have to take. So, this is on course only, we are on course.

Nihal Shah: Right. And we also talked about this mid segment growing in like 14%, 15% kind of a range and the super premium growing at a much faster pace. So, do we intend to go to that higher amount of ticket size as well in the near future?

Suresh Iyer: See, you are talking about the premium and super premium segment, not really. We are still okay that our sweet spot is 15 lakhs to around 75 lakhs, more so for like 20 lakhs to 75 lakhs.

Nihal Shah: Okay. So, if we are moving up the ladder, like 30 lakh plus, so how is the asset quality like in that portion?

Suresh Iyer: No, actually as we move up the ladder, actually the delinquency comes down, that has been -- across the board if you see all the big players, higher ticket size loans are having less delinquency and less default. That is a proven thing across the industry today. So, it is the affordable segment where the fluctuation of income, the availability of documentation as income proof and all, that is lacking where there is more risk, and the delinquencies are higher. So actually, if you move up the ticket size in terms of ticket size, then obviously the quality will also improve.

Nihal Shah: Right. So, our GNPs are very mild right now, but when can we go back to the levels that were there in FY16, '17, '18 or do we see that being very difficult in this situation?

Suresh Iyer: No, I guess it was 0.91 before the COVID and now also we are in the range of 0.9 only and I think that is even with that 0.9, I think we are among the best in the industry because considering the fact that we don't have any kind of write-offs for us are minimal, we are not selling loans either, okay. So, both things put together that we have not -- our NPA is not after sale of portfolio to our sales and stuff like that. It is everything that is there is already in the book.

Even the write-offs if you look at it, many of the companies are having a proper write-off policy and therefore they are taking a hit in the books every year, but at the end, but showing a very low GNP. In our case, there is minimal, minimal write-off, most of the write-off that is there also is basically, the shortfall in the proceeds after sale of acquired property under SARFAESI Act. So, in fact that also is a bigger write-off, otherwise it is a very, very small amount of write-off that we have.

Nihal Shah: Right, and like you also touched upon the fact that we are reducing our weightage of loans given by DSAs. So, we are expanding our internal team to do that and what are the other steps that we are taking?

- Suresh Iyer:** Yes, see one is of course our internal team, we have about 30-35 people right now under our sales team and they have now -- we started that in June '24 and slowly and the team has, the contribution from the team has been increasing. In Q3 they were able to contribute about 3% to 3.25% of this that has been sourced, this direct team.
- So, one, what the direct team does is they source direct business from the market or from the leads that are generated on our website or from the lead aggregators that we acquired the leads. The second thing that they do is they are also approving APF files. So APF files now, we have close to you know 60 plus APF files and we hope to end the year with another, with around 70 to 75 APF approved files. And next year we want to take it up to 250.
- So basically, that is the second thing that they are doing. So, the DSA channel will come down one from this direct sourcing that our team will be doing. The second thing which right now we have not yet started is the digital onboarding and digital sourcing. For that, once the IT transformation project is completed, then we will be embarking on that as well.
- So once the 80% should come down to 60% and 20% should be from direct business, another 10% from the digital sourcing.
- Nihal Shah:** Okay, so 10% from direct and 10% from digital?
- Suresh Iyer:** 20% from direct and 10% from digital, so 60, 20, 10 and 10.
- Nihal Shah:** So, what would that be right now, that number over 75% odd came from DSAs in the incremental and as you said that 3% from the internal channel, so the remaining 20% would be from?
- Suresh Iyer:** It is our existing customers, top up or people who are direct walk-ins and all those things.
- Nihal Shah:** Okay, so that should also have a positive impact on the NIMS that to be on moving ahead.
- Suresh Iyer:** Not, not exactly because right now NIMS it will not have an impact in the NIMS, our opex may have a little bit of impact because our DSA payouts which are about 0.43 probably can be a little less if it is direct sourcing but that is provided our team eventually reaches the kind of ideal sourcing level that we expect from them.
- Because right now it is more of the salary expenses are there, they are all fixed costs but the amount of business that they are sourcing is still on the upward curve, so they have still not reached their breakeven kind of a situation.
- Once they cross the breakeven of almost 1, 1.5 crores of sourcing per staff per month then probably we can say that we are positive, or it will positively impact our opex.
- Nihal Shah:** And so, was it a call that we took because of the increase in competition when we talk about DSAs because there I guess a lot of people are going aggressive giving out a lot higher amount of payout, so was it one of those reasons?
- Suresh Iyer:** No, no, no it is not that. To some extent you can say there is a risk of BT outs because DSAs do change their portfolio from one end to the other and so on because that is their earning but more

so it is mainly because we want to diversify the sourcing channel. We cannot have a reliance only on one sourcing channel.

So, the need for a direct sourcing and for digital sourcing is one because of the need of the customer and secondly and more importantly because we want to diversify the sourcing channel.

Nihal Shah: Right, and so in like geographies like West where we have around 17% of our branches but only 11% of our loan portfolio comes from the west. So, what are our strategies there because I guess there the amount of loan per person that you said the matrix that you gave us that would be a lot lower in the west. So, how do you see that geography moving ahead?

Suresh Iyer: No, I would put it more as a function of stability of the staff in the West and the North, which was probably one of the reasons why we have not reached that level. The churn probably is a little higher in those geographies as compared to the South for us, earlier I mean in the past. That is why, the portfolio build up has not been to the same level but I guess that will slowly come in and stabilize that should kind of happen.

Nihal Shah: Yes, because we are I guess getting more and more confident in the geography of Rajasthan. So, what gives us that confidence?

Suresh Iyer: Not only Rajasthan in fact, just to give you an idea our north zone consists of Punjab, Haryana, Delhi, NCR, UP, Uttarakhand and all. There in fact in this year, in 10 months in January itself we had crossed the previous year's 12 month disbursement figure. In West, which is basically our Rajasthan, Gujarat, MP and Maharashtra we were a little short in the month of January.

In February we were able to cross the previous year 12 month disbursement. So, yes Rajasthan of course it is also because we have a very large branch, it is a very old branch also there. In fact, it was one of the older it is one of the older branches and we already have a larger presence in Rajasthan compared to MP or in Gujarat.

Nihal Shah: Right, so we gave a guidance of 15% increase in the disbursement for the coming financial year FY26. So, where do we see the majority of the growth coming from because I guess that should be a kind of a safer number that we are giving because we saw a lot of headwinds of Karnataka, also in this financial year. So, why only 15% that is the growth of the market as well and because Karnataka is getting better as you said should not it be like more than 19%-20%?

Suresh Iyer: No, we are looking at a 20% disbursement growth AUM growth will be in the 13%-15% next year. See currently as I said you know our Tamil Nadu and north both the geographies have actually crossed the 12-month figure of last year in 10 months this year in, by January itself they crossed the figure. So, 2 months of is purely growth, so that is more than 20 -- they will be ending with more than 20% growth over last year. West zone which is 4 states they crossed in February, and they should end the year with about 15% plus growth.

Karnataka was growing at 20% in H1 but because of this e-Khaata issue it has come down and probably we are confident it will end in positive only, but it will be a very marginal positive. So, from whatever they did it will be about 50 crores-70 crores may be more than what they did last year. So, but then they have already demonstrated that a 20% growth is possible.

So, once this e-Khata issue is resolved we should be back to 20% growth in Karnataka also because we have already demonstrated that in the first 6 months we were doing INR275 crores but because of the second and the third and fourth quarter it has come down back to a zero growth situation. So even if you are back to INR275 crores disbursement next year in FY26 we should be again back to 20% growth.

So, we are saying that you know these all geographies are already at 20% only Telangana is a little less but there also even if they are able from INR100 crores which is I believe the bottom even if they do a little growth it will be 10%-15% of growth can easily happen.

Nihal Shah: Right. So, when I look at this slide where purpose wise AUM is given so their construction flat resale. So, like can you explain us what those 3 bifurcations mean like where does construction stand for what are the purpose?

Suresh Iyer: Which slide did you say? Sorry.

Nihal Shah: Slide number 20 in the Q3 numbers?

Suresh Iyer: So, construction is basically when it is either you buy a plot and do your own construction or you basic pure construction on your land which is already owned. So, it is a normally a construction where it is a land P plus C kind of a unit is there flat of course is an apartment which is there. Resale is where we it is a direct purchase a second sale category it could be anything resale is flat even it could be flat apartment which is coming for a resale or a ready built plot plus construction case which is coming for a resale.

So, everything is considered as a resale and then the rest are renovation, and which is purely and the rest is I think understood. So basically, this construction is that 64% is the one where we have a land and a constructed unit. So contained unit basically.

Nihal Shah: So, in this as well. So, what is housing CRE? I am sorry, but 10% that housing CRE that we are saying. So, is it to the builders to make that?

Suresh Iyer: No. No. So, what happens is we do not give to builders, but this housing CRE is basically you know classification that up to 2 units if it is there then it is considered under housing, but if it is for a third unit or there are 3 units in the property then in that case or 3 kitchens basically or the third house that a person is buying then it cannot be considered under pure housing.

It has to be considered as a either for investment or something like that. So, that is classified it is still housing it is for a residential housing only, but it is not classified, and the risk weightages are different. So, we are also classifying differently.

Nihal Shah: Okay. Right. So, our return on assets have been like fantastic they are more than 2.2%. So, how do we see that number as well moving ahead because of us being aggressive in the coming couple of years I guess. So how do we see that number moving ahead?

Suresh Iyer: No, I mean I think 2.1 we should be able to easily continue for atleast another few years I do not see a problem in maintaining that even if there is a little bit of this increase in opex or things like that I think we will be able to still manage at 2.1. We are already the guidance also we have

given is for 2.1. I think we should be able to manage 2.1 in the next ROA for the next few years and ROE 17, which I think will also hover around that should not.

If the growth picks up obviously, it will get impacted, but I think otherwise it is okay, because it is very clear that we want to maintain a spread of 2.5 and a NIM of 3.5.

Nihal Shah: So, like now moving from the business part to the acquisition part. So, our weightage of funding from bank has reduced. So, any major reason for that?

Suresh Iyer: So not really actually we get this NHB refinance every year and last year we had not taken NHB refinance because you know the rate at which.

Nihal Shah: Sorry, can you please explain NHB refinancing stuff that is there?

Suresh Iyer: So, we have I will just explain there are 4 or 4 basic broad areas from where we are raising resources one of course, is the bank term loans. The second is that NHB refinance is the NHB which is a regulator which was the regulator and now is the acting as for the supervisory agency. They also provide refinance on against the loans that we give for onward lending to our customers. So it is also another kind of a term loan only, but it is not coming from bank, but it is coming from the regulator or the refinancing agency.

So just like NABARD is there for agriculture SIDBI is there for small industry same way for housing there is a this thing called NHB. So, they also provide funding to us and for that also they provide long term funding and there are some concessional rate schemes also which come under the government budgetary support and all which are routed through the NHB.

So, we avail refinance from NHB and that refinance normally we have to put up a claim every year we have to get a sanction and there are various parameters on how much they will be able to give to us and all.

So previous year, that is FY 24 we had got a sanction of INR1,500 crores from NHB, but we did not avail that fund because the cost was on the higher side we were able to get cheaper funds from banks and everything. So, we did not avail it. This year we got a INR2,000 crores sanction and that was at a rate of blended rate for the refinance that we were getting was lower because they adjusted some parameters.

So, we were able to get it at around 7.64 which was lower than the rate at which we are borrowing from banks. So, we have availed that INR2,000 crores from NHB this year. So, that is the reason of course, only 1,600 is there in the presentation because the remaining 400 we have raised in the month of January.

So INR1,600 crores we raised up to in the month of November which is reflected in the presentation and because of that is one reason and the second reason is that we also have raised NCDs also, but that NCD of course, we raised in the month of April the remaining I do not think has come in this presentation mainly it is the NHB refinance because of which it is slightly skewed.

Nihal Shah: So, we should see the cost of funds yield shifting after the rate cuts of RBI as well and if possibly in April I guess they may take a second rate cut as well. So how do we see our cost of funds and yields moving after these cuts?

Suresh Iyer: See in this quarter we may not expect much of a reduction because whatever is repo rate cut has happened the impact is going to come only in the last week of March. Most of the cases because the repo rate linked loans that we have availed from banks all of them are mostly linked to the interest repayment schedule. So, we will get the benefit only when we make the next interest payment which will be in the month of March, fag end of March.

So, this year we may not see much of impact and even whatever we see in this quarter a little bit of impact overall will get minimized or reduced because in the Q4 whatever CPs we have raised have come at a slightly higher cost. We have also done some NCD raising which have been at a higher cost for regulatory compliance requirements.

So, they have been at a higher cost. So overall some of it will get negated by the higher cost borrowing that we have done in CP and all those things. So net net impact whatever will come to our balance sheet on 1st of April the cost of borrowing will come down by about 5 to 7 bps.

But having said that when the same CPs come for repricing in April or May obviously the liquidity position will be much better. So, we expect that the rates we will be able to reprice them or shift them to a lower rate of interest to 7.25 or whatever is prevailing. So, we should get some benefit then. So, as of 1st of April we expect only about 5 bps to 7 bps reduction in our cost of borrowing. Currently it is 7.52 probably it could be around 7.45, 7.46 on 1st of April.

Nihal Shah: I guess you also talked about cost of borrowing being a bit higher in Q4. So, why would that be so?

Suresh Iyer: See Q4 what happens is the March advance payment and all those things in advance tax payment and all those things plus a lot of investments and I mean whatever it is normally more active quarter. So, fund requirement and liquidity becomes a little tight. So, it is not only a matter of repo rate that decides the interest rates. It is also a factor; a liquidity also is a major factor in deciding the rates. So, at least the NCDs that we raise in Q4 or the CPs that we come for repricing in Q4 the rates are a little higher. So, it is only because of that.

But again, when the same CPs get repriced in April or May they will be at the then prevailing rate which will be at a better lower rate hopefully.

Nihal Shah: Right. And so, what is the difference between NPAs and restructured NPAs, a major difference if you can tell us?

Suresh Iyer: No. So, both are NPAs actually. Only thing is we had a COVID restructuring scheme where we had about INR720 crores or something in portfolio was given a restructuring and a two-year moratorium under the COVID restructuring scheme announced by the Reserve Bank of India.

So, we are just classifying that how much of the NPA is because of the restructured portfolio. Because in the restructured portfolio obviously there was a two-year moratorium. Customers were not paying. Those were the customers who had been impacted by the COVID either a job

loss or a loss in business. Many of them have closed down their businesses. So, basically it was because of that that we were reflecting this separately.

But in our entire restructured portfolio came out of restructuring October 23, November 23. So, actually it is more than a year whatever account from there had to move to NPA has already happened and everything. I guess in March we may not be showing this separately as restructured separately because basically it is NPA. Now it is all those portfolios already have a more than one year repayment history post coming out of restructuring. So, I think that is just.

Nihal Shah: Okay. And in slide number 32 we have talked about management overlay in our provision. So, what would that be, Slide number 32?

Suresh Iyer: Yes. So, that is just excess provision that we are carrying for a kind of a contingency or anything that comes about because we follow the ECL model for NPA provisioning. So, as per the ECL model we have - we arrive at the provision that is required on the based on the performance of the accounts of the last 5 years based on that the probability of default and LGD loss given default we arrive at the ECL.

But additionally, we are providing a little more just as a backup or as a contingency. It is not linked to any particular account it is not linked to anybody, it is a extra provision that we are carrying. It is basically strengthening the having a slightly strengthening the balance sheet or for a rainy day whatever.

Nihal Shah: Okay. And so, we still like hold our guidance of around 0.9% to 1% of GNPA?

Suresh Iyer: Correct, absolutely.

Nihal Shah: Okay. So, even after us being aggressive in the next couple of years we should be able to maintain that?

Suresh Iyer: We should be able to maintain that because our whatever additional loans we are going to book under the SENP category or LAP or whatever, we have actually done some additional guardrails we have put even before we launched it, even before we started it. So, last year itself if you see we had done this additional department of credit review monitoring. So, that is happening plus now we have a tie up with [inaudible 36:00] where all the even ITR returns are being verified with the portal IT portal.

So, all those things are additional guardrails have already been put. So, we believe that you know it should not impact our quality of the book much.

Nihal Shah: Okay. Right. And we also saw that in our financial year 25 number. So, because of Q3 yes the disbursements were a bit slow, but the quality was maintained. So, like you said that 0.9% for that we are going a bit slow in this financial year because I guess the demand would be there, but is it the quality or the rate that is being a problem?

Suresh Iyer: No, disbursement in Q3 was a little less mainly because we lost that INR350 crores to INR400 crores of business in Karnataka because of e-Khata. We were doing INR275 crores per month in Q2 of this year but post this e-Khata which came in the last week of September, October,

November, December was quite subdued, and we were only able to do out over INR150 crores. So, almost INR350 crores to INR400 crores of business we lost in Q3. Had that happened we would have been closer to the same number of 2300 or something. We would have been able to book in Q3 also.

Nihal Shah: And so, can we give any kind of a guidance for a cost-to-income ratio in the coming years?

Suresh Iyer: FY26 I guess we would not have much of a change. We can still work around 17, 17.5, but in FY27 we are expecting a slight increase in the cost because our IT expenses will start coming in and that implementation is expected in November 25 and so effectively all the costs will be capitalized this year in FY26, but the impact will start coming in from FY27. So, there about INR40 odd crores extra in terms of the net extra cost will get added. So, that should impact by about 1% in terms of the cost-to-income ratio.

Nihal Shah: Okay. So, what would be the main reason for that IT expense that we are coming up with?

Suresh Iyer: We are going for a complete IT transformation where we are completely changing our LOS, LMS. We are bringing in a new DMS package, HRMS package. So, it is a complete IT transformation including security and infrastructure of IT infrastructure. So, that is a project which has been approved, and we have quoted the RFP. IBM has won the contract, and the total cost of the project is INR297 crores and that once it is a 7-year period.

So, 12-month implementation, 3 months to 6 months of handholding and then the 5 years and 6 months to 9 months of actual project run. So, there in a 5 to 6 years' period we will be actually apportioning the entire cost. So, that is the reason why it will come. The entire 300 crores you can say will be split into 5 or 6 years. So, approximately INR60 crores per year will come.

Nihal Shah: Right. So, should that reduce the dependence on manpower moving ahead?

Suresh Iyer: Manpower will keep adding, but yes efficiency and productivity should definitely improve post the implementation of this thing. So, yes, the rate at which we may have to add staff can come down and some of the existing staff we can utilize for a year or so instead of adding new staff.

Nihal Shah: Okay. So, there are lot of private housing finance companies that say that will grow more than 20% or 25%, but why do we and I have seen that in other government companies as well so that they give a bit lower expectation of growth. So, why would that be so?

Suresh Iyer: It is not a question of lower expectation of growth, but I think it is a more I would say, when the industry is growing at 12% to 14% I think a 15% is a realistic and a more achievable or a more regular rate of growth that one can expect.

Obviously 20%, 30% on a lower base it is possible or if you are suddenly having a very aggressive strategy it can happen, but if such kind of fast growth or very fast growth sometimes can lead to mishaps. So, generally as a prudent organization we would not like to just have a top-line growth for the sake of it.

Nihal Shah: Right. So, from this INR32,000 crores of AUM that we had sorry INR35,000 crores of AUM that we had by the end of FY '24. So, when do we see that reaching a stage where we can say that now we will grow in the pace with the industry only because we have become very big now?

Suresh Iyer: No, I guess already we are at a stage where we can say that, we will grow at the same rate as the industry. Okay. Because you know normally if you see about a INR20,000 crores book size is a INR15 crores to INR20,000 crores book size if you have crossed then I think, you your ratios and all fall in line, fall in line with what is the general industry practice.

So, if you have crossed INR20,000 crores book size I think you can fairly say that your costs have kind of stabilized your book has also been run through various cycles and therefore, as it is a proven track record of your loans is there your strategy also mostly is finally, in place and your things are there.

There is a fair amount of expectation or stability in terms of the teams and everything. So, at about INR20,000 plus crores, you can say that you are in a place where the ratios are all in line and there is a then you can expect a kind of stability in terms of performance. Of course, there can be some ups and downs like, we had when we had this sudden issue because of Karnataka and this prior to that we had a small mishap in one of our branches and a fraud had come and we had to take a pause and correct our processes internal controls and everything.

So, one of instances can happen, but otherwise by and large, if you are INR20,000 crores plus you are strong enough to take the challenges and still continue your growth at a steady pace.

Nihal Shah: So, then after that amount of even that you said INR20,000 crores. So, then what sets us apart from other companies is it about the quality of book of like GNP of less than 1%, the cost to income ratio, the cost efficiency that we have then what sets us apart after that point because we will grow in tandem with the industry?

Suresh Iyer: No, no obviously you pointed out both the things one is our portfolio performance has been very, very stable in the last 10 years if you see I don't think we have crossed a GNP of 1%. So, that is there. Second thing in terms of irrespective of the people at the top in irrespective of the people who come and gone as the MD and CEO or whatever the strategy of the company has been very steady the product segment, the customer segmentation, the philosophy in terms of the conservative approach to lending all those things are absolutely stable.

So, the stability is one major plank on which I would say sets us apart, at the stability in terms of financial performance also is something which is very, very, I would say stable. We have been a consistently profitable company profit growing profit company dividends have been on the on a steady rise year-on-year and our ratios if you see in terms of our spread in terms of our name in terms of our ROA, ROE everything is better and of course, as you said credit cost and opex in those terms also we have been able to manage both these aspects in a very, very steady manner.

So, that is what is the thing the only thing that I would say probably which is obviously one major factor is that we need to also have a very steady growth, which in fact has been a little patchy for us, and that is where we need to have a proven that since everything else is there. So,

in terms of profitability it is not an issue, but in terms of performance or in the top line definitely it is something where we have to be much more consistent.

Nihal Shah: Right. And I guess the reason that you talked about as well the two reasons of Telangana and Karnataka that are just not in our hand that we can predict for or be prepared for but after all these things happening, I guess now is the time when everything is kind of priced in our stock as well and now the as you also mentioned some green shoots of the disbursements picking up in Karnataka. I guess now is the time when we will see a kind of a higher growth rate, because of softer base as well and because of our geography, key geography picking up the pace.

Suresh Iyer: True, true that is correct. So, now in fact as you rightly said there are all the parameters are in place, growth is the one focus area which is what we need to now completely focus on as a team and to some extent may be a short term major of our next 6 to 9 months is the IT implementation. Once that is also sales through thereafter it and that could be the only small hiccup otherwise in terms of growth that the growth is the only parameter which is now needs to be monitored and needs to be controlled in a steady manner.

Nihal Shah: And so, to grow a bit faster are we also ready to give a more competitive rate to our DSS though we want to reduce our dependence on DSS but till our team internal team reaches to that stage where we can contribute around 5%, 10% of our loan book. So, till that time are we ready to give a bit of a competitive price to the DSS to grow?

Suresh Iyer: I agree that would be a short term strategy, but actually a payout DSS payout is actually a reversible strategy. So, once you get into that lane it becomes very difficult to reverse it or to reduce it at a later stage. And it is not that we are not paying enough, it is just that we need to be a little more pushy in terms of the other channels.

And as I said when you are only dependent on one channel then these things can happen. But today also even with this existing payout, which I think is very fair and in line with the market the only thing is we can we still have a scope there as well where we can add more DSS.

Nihal Shah: So, when we say about adding more DSS I guess the exact opposite has happened in Q3. So, I guess quarter-on-quarter our DSS is reduced in Q3?

Suresh Iyer: That is what I am saying. So, that is one thing which can happen. So, rather than having increasing the DSS payout rate we can have had more DSS but the thing is as a strategy we are wanting to have a you know kind of a balancing in terms of our sourcing mix. So, we have not been very aggressive. So, these are all definite short term strategies which can be deployed if you want to push for growth definite strategies which are available.

Nihal Shah: Okay. Thank you very much Suresh sir. It was very insightful session that we had, and we are looking forward to initiate on Can Fin Homes in the near future.

Suresh Iyer: Yes. Thank you so much.