



“Can Fin Homes Limited Conference Call”

February 18, 2025



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

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Questioner: This fund is about 600 million, I think we recently launched another diversified fund in which, which is very small right now, where we have a small position in [inaudible 0:00:16]. But the bigger fund has not held any position in [inaudible 0:00:20]. So the idea is to more, to grow this fund for the public service in India?

Suresh Iyer: So you have a fair idea about the company I guess?

Questioner: Well, not as good as you, but, so I understand the broad point. But I think one thing is consistent about [inaudible 0:00:43] is the asset quality -- of cycles and profitability-wise, ROEs also have been very consistent.

Very few companies have seen that consistent. The only thing that we have is, the growth. You mentioned some, one of the things in Karnataka, in Telangana. So yeah, I mean my, most of my questions will be around growth. Sure. And then maybe a few questions on profit. And also after your join, have you been surprised with anything negatively or positively?

Suresh Iyer: Sure. Well, I, when I joined, actually I was fairly aware about the company because, we had a fairly similar kind of a history set up almost at the same time. Both had a strong promoter, conservative background.

And, in terms of the business and all, there was stability of the business. There was a stability in the team. So there were, in those aspects, there were definitely a lot of similarities. So that was one of the, key or important factors why, I was. So Gruh was more entrepreneurial, right? Yes, yes.

That is true. That is the difference I am coming to. When it comes to the segment, when it comes to, the products, definitely there was a difference because Gruh was set up purely with the intention of having an affordable arm and HDFC had given a lot of freedom.

It was purely in a professional stand up set up where, completely there was no, it was a completely fair, freely run kind of thing with a lot of delegation of powers and all to all the people. The company also, Gruh Finance went about with a larger focus on the self-employed segment and in the pure affordable category because our average ticket size used to be INR11 lakhs. So in that sense, it was more of a salaried segment.

It was almost 73% when I joined and same way even the, focus was more on the slightly higher ticket because the branches were, unlike Gruh, the branches in Kanpur are more in the, larger cities, Tier 1 towns or metros like we have a fairly large branch network in Bengaluru, in Hyderabad, in, even in Bombay what we used to have is more in the cities rather than in the newer, new part of the city but not in the Jaipur, Delhi.

So, it was still, ticket size was little higher and also the segment was little different because, it was more of salaried segment. So, that was, that was one thing. What surprised me was that, while the, Kanpur also had a large, almost 30% in self-employed and the discussion with the

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board at the initial interaction before I was made the offer, the discussion was that they want to also explore in the self-employed and all. So, that discussion was already there.

But what, I mean, if you tell me, surprised me was that, at least that, the team was completely, and still is, to a large extent, purely on the salaried segment and even in the self-employed segment it was with IT returns only, with income tax returns only. So, only those people, even in the self-employed segment, it is not with, there is not a single product, there is no surrogate income product, which was one of the key, areas in the Gruh finance. So, this was one, one small thing.

The second, of course, was that while there was independent, the board was also very open to, looking at changes and in May '23 itself when we, we had the vision 2028 document, when we sat down with the board, a lot of things were quite clearly defined and discussed. So, that way the board was very open to it and fair charge is also there, independence in terms of operations. Although there is a much higher oversight from the parent bank, there is much higher oversight from the parent bank compared to what it was in HDFC.

Like, for example, HDFC, it will only be at the board level, everything was completely here. But here as part of the conglomerate and also because, Canara Bank is very highly monitored by the RBI because it is a PSU bank. So, there are other guidelines like, the group assurance functions also have to have an oversight on the subsidiaries and RRBs and associate companies.

So, therefore, we have like over and above the board presence, we also have the Group CFO, Group CRO, the Group Compliance Officer, Group Security Officer, even the Audit Department, they have quarterly visits to our office and they just have, an oversight. Group CFO is also present in the meeting of every quarterly results and there is a Group CFO is also present. RMCB, the Group CRO is also an inviting member.

So, those kind of in terms of oversight, it is a little more than what it was, but it is okay. I mean, nothing, I am just, since you mentioned, this was the difference. Other than that, the main part where the difference came in was in terms of the IT.

Okay, the IT was a, I mean, in Gruh it was fairly advanced because I would say very, very strong IT setup was there and that was one of the key drivers why Gruh could, did what it achieved. But in case of Campion, of course, it was the old system, it was set up in 2011. The vendor whom we had, whom we are using even today, was actually with whom we had tied up in 2011.

So, it is already a system where, we have spent a fair amount of time and it had its own limitations because over a period, the vendor had not grown and reached the same kind of a level as, the company has. So, obviously, in terms of the ability for them to invest and all, it was not as much. In terms of fraud, it was not captured?

Yes, there was also, I would say also to some extent the internal controls which is the second part I am coming to. But in terms of IT, yes, there were like API integrations were not there. The

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API integrations, so for any tie-up with the third-party vendor, if we had to, have a database or any information sharing, the API setup was not there. So that was the one major area and the second of course was that which even during my discussion the board was – there were certain need of much higher internal controls.

So, internal controls and processes need to be reviewed because, somewhere in between, the frequent changes that are happening, there was also some time in 2018 when the company was or the parent bank was looking at offloading its stake in the company in 2018 and all. So, somewhere during that time, the focus kind of shifted and, the processes review and all those things, somewhere kind of slightly but took a back seat.

Questioner: Because they thought it is going to go away anyway.

Suresh Iyer: And the focus was more on that. So, somewhere in the, couple of changes in terms of the management and -- Mr. [inaudible 0:08:13] left. He was there only for three years and unfortunately that time also there was COVID also during his period. So, there also the kind of control that would have, one would have liked was kind of slowly had changed.

So, these are the two major areas where, there was some kind of, I thought a need, there was a need to definitely strengthen these two areas and of course assurance functions. Because, regulation, assurance functions, compliance, risk, internal audit. So, these are, this was another area where some more strengthening was, compared to Gruh, much more...

Questioner: So, internal audit was missed?

Suresh Iyer: No, it was not missed. It was all there. But, internal audit, in between, Canara had also carried out its own audit for the entire year and all. So, in that sense, there was a little bit of, gap. There was a backlog in terms of audit.

I think we are there. And in terms of risk and compliance, I felt, we could also do with a little more of technology in everything in terms of, some of the controls that we had in Gruh like self-assessment. We had, there could probably be improved a little more.

Questioner: But you don't even have a self-assessment here.

Suresh Iyer: No, we have started this RCSA. We have started RCSA. We have got our own, credit review monitoring CRM department which reviews every file that is sanctioned at the branches. So, all those things we have implemented.

Questioner: Okay. So, then talk about that.

Suresh Iyer: So, mainly these were the, other than the segment, other than the product and everything, the major key changes were IT, where compared to Gruh, I felt that there was a need.

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Second was, of course, it's not that I felt, it was also known to the board, to the management and it was clearly defined when we discussed in the first meeting. One was IT, second was internal controls and, of course, assurance function which was also, you could say, one of the reasons for the internal controls. So, these are the three major areas.

Questioner: Assurance, I didn't quite get assurance functions.

Suresh Iyer: Assurance functions are the risk, compliance, internal audit.

Questioner: That is not part of internal.

Suresh Iyer: I mean, that's what I said. So, assurance functions strengthening was one of the reasons why, which was required to have the internal controls and process.

Questioner: So, which is the third thing? So, one is IT, second is this?

Suresh Iyer: Internal controls. That is the assurance function.

Questioner: And what is the third?

Suresh Iyer: It's the third. So, internal controls. I'm saying these are separate. I mentioned both of them separately, but basically both point to the same thing, internal controls. These were the main things. So, initially itself, when we drew up the Vision 2028 document, we had listed down that we are going to focus on strengthening the assurance functions.

Questioner: Vision 2028.

Suresh Iyer: 2028, yes. So, there were basically a few things in the Vision 2028 document, in terms of the segment, in terms of all those things. The main thing was, we will strengthen the internal controls, we will strengthen the assurance functions. So, we went about, increasing the staffing in all the departments, introducing some new...

Questioner: Increasing the...

Suresh Iyer: Staffing? Staffing in all the departments. Compliance, risk and internal audit, getting some external support. So, we had a, a data content firm to support us in terms of data mining for the internal audit. Then we tied up with a retainer for a compliance function.

Same way for -- so, at that time, ICAP also came in. So, we strengthened them and we were the first in housing finance companies to set up the ICAP.

Questioner: What is the ICAP?

Suresh Iyer: ICAP is for the, capital requirement for the entire overall. We project the capital and see what are the various things. We have our own parameters based on which we evaluate what is the

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capital requirement in case of a stress situation, in case of all those things, so that we are not falling short in terms of the capital.

So, ICAP and all these guidelines came in. We were the first to implement that also. So, we did that. In terms of IT, of course, we had a RFP. So, the RFP was already going on and there were, quite a, it had already gone on for quite some time.

It was launched in August 22. So, when I joined also, it was already seven amendments had taken place and there were only two bidders who had approached. Thereafter, we had to scrap that finish the RFP and we went in for a new RFP and now we have finalized the bidder. We will be putting up in a week, in a couple of days because we have just circulated to the board.

Questioner: But I thought IT is already, no?

Suresh Iyer: Yes. So, I will come to that. So, RFP is one of the things where we now have a, for a big bang, big IT transformation project which our vendor is going to...

Questioner: I thought you were already doing it...

Suresh Iyer: No. So, that was one. Internally, we have already upgraded our IT. So, we did two things. In the short term, we felt, this RFP is going to take a longer term. So, in the short term, from 2008, our system had not been upgraded. So, we have got in touch with our existing vendor – and we went for new IT and upgraded it to the latest version, now API is, it is API enabled.

Then we strengthened in terms of our, security aspects. We had a DCDR, active-active DCDR. We introduced all those things. There were, certain BAPT and all those things, observation, whatever was there. We closed all those observations and strengthened the security aspect also when we upgraded it. So, that we implemented from January 2024. We initiated that activity and we are now live on that. It is completely set up. So, that we have already completed. But this was also there.

The big bang, big thing where, the entire IT, we were going to overhaul. So, that we refloated the RFP. Now, we have closed that. We had six, bidders for it. IBM, Accenture, Deloitte, KPMG, TCS and Kindle. All, very strong players and they came up with their own solution stack.

Finally, we have closed on it. We are just going to announce in a week's time. It is already, the revised everything. We will be executing in a couple of, in a week or so. We will be putting up on the Stock Exchange also this announcement because it is an important announcement. So, in terms of the cost implication, in terms of the pricing for the entire, project cost and all.

We will be putting up in a week's time. So, the IT was something which we corrected. We went about, reviewing all the processes. So, in that, in between this Ambala also happened immediately after I joined in a matter of three months. So, we centralized the entire disbursement activity. We introduced this...

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Questioner: This was from Punjab.

Suresh Iyer: No, this was in, yes, Ambala in Haryana.

Questioner: Haryana, sorry, Haryana.

Suresh Iyer: Haryana. So, we completely, centralized our disbursement activity.

Questioner: After that.

Suresh Iyer: After that. So, now all disbursements are, sent to, approved at the branches. But then they are reviewed. Once again, approved at head office. We also review at that point in time all the set of documents that are supporting that are there for that. And then only we approve the disbursement.

And then after the branches collect the DDs from the Canara Bank. So, now getting a check, the delegation of powers for, keeping a cheque book in the branch, everything has been withdrawn. Because even expenses, everything which are there on the debit side for which they would require a cheque, cheque book, that also has been centralized.

So, we went about doing that. Second thing was we introduced for – we strengthen our CRM Department. We have just launched the CRM Department. So, now every sanction that is done at the branch is reviewed by the CRM Department.

So, that way, whether the policy has been followed, the process is correct, whether the correct customer selection is there, KYC.

Questioner: Every loan sanction.

Suresh Iyer: Every loan sanction.

Questioner: Is reviewed by them.

Suresh Iyer: By the CRM Department.

Questioner: CRM is also central.

Suresh Iyer: Correct.

Questioner: So, how is it different from what you are doing right now?

Suresh Iyer: No, no, that is the centralization of disbursement. This is of sanction. Centralized disbursement is only when the sanction is done. While the disbursement is every time they check whether the progress of work has happened, whether payment is directly in the right product selection.

Questioner: So, after disbursement you check...

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Suresh Iyer: CRM Department reviews all the sanction. And the disbursement is the subsequent obviously after sanction only the disbursement is done. So disbursement is also centralized, before that post sanction the CRM also is there which reviews all the sanctions. Then what we have done is...

Questioner: But who does the sanction? That is also central.

Suresh Iyer: No. Sanction is done locally. We have delegation of powers so that is there. We earlier had a branches and we had the head office. It was only two-tier structure.

Questioner: So, there, now they sanction, disburse CRM, disburse centrally.

Suresh Iyer: Disburse centrally. Now, another thing is, we have the two-tier structure, branches and we have the head office. So, we introduce the, in between layer also, the zonal structure, the zonal layer.

Questioner: Why?

Suresh Iyer: There is also directly from head office monitoring 200 branches. So, introduce the zonal layer. So, there is additional control. So, totally now we have six zones. So, each zone has about 30-40 geographical location and the number of branches and everything.

We have set up. So, we have one for Tamil Nadu, one for Karnataka, one for Telangana because these are three large states and a large presence we have. Then, one for east, one for west and one for north. So, that way we have six zones.

Questioner: I see. So, now you have more oversight.

Suresh Iyer: We have more oversight. So, and the zonal office, obviously, we have strengthened also with a proper team. They have a person who is for, sales and marketing. There is one for collections and recovery. There is one for credit and operations. So, we have strengthened and provided the sufficient amount of staffing at the zonal level also.

So, there is the oversight of that. So, it is not the head office has to deal with the branches for every small thing. The zonal office also has a responsibility to on oversight and ensuring that there is more functioning and control and everything is there.

And they will also be visiting all the branches more often from the, rather than from head office also. They will also be visiting branches. So, that additional control also we introduced.

Questioner: So, there is income assessment.

Suresh Iyer: No, we, income assessment and this assessed income product, we have just got a product now. We have just started. We have just started. But we have to build it very slowly because see, as I mentioned, the entire team is only attuned to doing salary segment and assessing based on the ITR.

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Questioner: And the ticket size will be smaller?

Suresh Iyer: Ticket size will be smaller.

Questioner: And we need more people?

Suresh Iyer: It will be a little more, but then obviously, the yield will also be better and.

Questioner: No, but you will need more -- in this kind of area?

Suresh Iyer: We will have to slowly maybe do a pilot and start it that way, maybe smaller market and then experiment and then slowly build it.

Questioner: So, have you started?

Suresh Iyer: Not yet. We are just, we got a project, a product approved. We will look at it. In fact, we got the product approved and immediately we had this RBI coming up with this guideline for, MFIs and personal loans. So, we thought this is not the right time to launch it when everybody is pulling out of it.

Questioner: But this is different, right? This is not MFI.

Suresh Iyer: MFI.

Questioner: MFI is unsecured.

Suresh Iyer: Yes.

Questioner: So, why will RBI object to this?

Suresh Iyer: No, no, RBI will not object to it, but now when all these things will happen, the same customers would want to come and look at it. So, it is not the time when everybody is moving out. So, they will want to look at other avenues.

So, the same segment will come. So, we said we will hold back for a little while and launch it. So, but other than that, as part of the IT upgrade, we also tied up with third party because as I said, we have now API enabled software.

So, now we have tied up with a third-party vendor for our KYC verification and income assessment. Like, for example, this Karza buy-up, we can directly pull the Aadhaar details from the UIDA as soon as we scan the Aadhaar. So, that level of verification happens.

So, that is same way PAN when we scan, we are able to verify from the, income tax department portal as to whether the PAN details are accurate and it is not a, customer identity becomes very secure in that. We also, along with this Karza type, we are also able to pull the income tax return filed by the customer on the portal. So, even if somebody is giving old income tax returns or

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those things, we will be able to catch because we directly download it from the portal based on a OTP verification by the customer.

So, in terms of all those also, we have strengthened the IT and, controls are strengthened. Same way we have tied up with a vendor for our valuation. So, this third-party solution is a, also provides a mobile app which is given to our staff as well as to our valuers.

So, now all the valuers have to upload the data over there. It comes with geotagging with photograph of the property and all the fields, uniform things are there plus, velocity itself is a, is a tie up with other, multiple other lenders. So, once the report is submitted by the valuer, the velocity itself gives an input as to, okay, this is the valuation given and these are the last five valuations in that particular pin code by other lenders without naming the lenders of course.

So, we get a fair idea as to whether there is some, similar range or things like that. So, in terms of valuation also, we have strengthened. In terms of customer onboarding KYC and income as well, we have, we have strengthened.

So, these all have, has been possible so that IP upgrade that I mentioned about, they are all now in place. The only thing is we will have to move to a better LOS, LMS vendor, a better this thing or whatever. That is, that is something which the new, SI, whoever we have identified will bring in.

But at least in terms of the current system, I think in terms of IT, all these upgrades that we have done, the only thing I think we are not, probably some of the other lenders might be having which we do not have is the e-sign where the customer can sign digitally. That is the only thing we do not have which others are having, some of them. Otherwise, in terms of comparability, I think we are comparable in terms of our IT software and features compared to what other players are having.

Questioner: The growth, build a very basic model for your company. And it seems you are targeting INR12,000 crores of disbursement.

Suresh Iyer: 20%-25%, yes, 20%-25% growth over current year.

Questioner: So, in FY '25, over FY '24, how much growth are you...

Suresh Iyer: See, this quarter, we have already reached about INR6,100 plus crores in the, by the end of the third quarter -- INR6,100 crores is something we have done in three quarters.

Questioner: INR7,000 crores.

Suresh Iyer: These are of AUM, correct, correct.

Questioner: Yes.

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Suresh Iyer: So, I am saying in terms of the disbursement for the year, we have done about INR6,100 crores and in the current quarter, because Karnataka is still lagging behind and, there are systemic issues in Telangana. So, we are targeting the same disbursement or at least flat, if not, you see, at least that much we will achieve compared to what we did in Q4 of last year, which was around INR2,400 crores.

Questioner: So, disbursement this year would be on INR6,100.

Suresh Iyer: INR6,100.

Questioner: And on another INR2,000.

Suresh Iyer: INR2,400. So, we will be anywhere between 8,500 to 9,000, which will be anywhere between you know up to 10% disbursement growth because last year we had done 8,100 and something.

Questioner: 8,500 or so and so.

Suresh Iyer: Total.

Questioner: And that will be.

Suresh Iyer: That will add, that will help us add about INR3,000 crores to INR3,400 crores of AUM to our book.

Questioner: So, your ending advances will be around 38,000.

Suresh Iyer: 38,000 to 38,500. It will range between that. We were already at 37,155 as on 31st of December. So, in Q4, INR400 crores of disbursement, we should be adding about INR1,200 crores, INR1,250 crores more. So, that should bring us about.

Questioner: Around 10% advance.

Suresh Iyer: Close to, somewhere close to 10% advance growth will be there. From 35,000 to 38,000, 38,500 is the growth that we are looking at. And next year, with about you know 20%-25% growth over this number of INR8,500 crores to INR9,000 crores, we are somewhere between INR11,000 crores and INR12,000 crores is the disbursement which will happen, which means.

Questioner: AUM will be what? How much?

Suresh Iyer: So, annual run down.

Questioner: And advances.

Suresh Iyer: That is what. So, advances, our run down in a month is about, run down as in.

Questioner: Your run down in a year is about 15%.

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- Suresh Iyer:** Is about 15%. So, it will be somewhere between INR5,200 crores to INR5,500 crores. So, if we do about INR11,000 crores also disbursement, we should be able to add about INR5,500 crores to the book. INR5,500 crores over INR38,500.
- Questioner:** INR43,000 or so.
- Suresh Iyer:** Yes. So, it will be 43,000 to 44,000 will be the closing book, which will be, which will mean it will be about 15% growth in AUM. I see.
- Questioner:** Good. But I have a question. So, the way I build the model is. So, I know that how much disbursement per branch is happening. Right? I know that FY24 and FY25 are bit subdued in terms of disbursement per branch. So, it is '26. The disbursement per branch will be in line with FY '23 at least or may be more also, I do not know. Because in FY23 it was.
- Suresh Iyer:** INR8,900 crores.
- Questioner:** Disbursement per branch.
- Suresh Iyer:** So, Disbursement per branch.
- Questioner:** Okay. Disbursement per branch in FY '23 is INR6 crores. Right? 46.4. So, right in FY '24 it became 39.5. FY '25 assumed around 39. FY '26 I have assumed back to 46. And then after that, 5% every year disbursement per branch. Is it a fair assumption?
- Suresh Iyer:** That is a fair assumption. Because even ticket size growth if you look at it, I think that much will be the minimum ticket size growth. So, even with the same number of business, we should be able to achieve.
- Questioner:** So, if you go by this logic, you will have to open. How many branches did you open in FY '25?
- Suresh Iyer:** In FY '25, we are going to open 15 branches.
- Questioner:** That is exactly my target. So, based on that, you will have to open 18 more branches. And so, after FY '26, what kind of loan growth you are targeting? 15%?
- Suresh Iyer:** 15% is what we have to, we will be targeting for. In a good year, we can look at a better 15%.
- Questioner:** Let's say 15%.
- Suresh Iyer:** Yes.
- Questioner:** For 15%, you will have to open on an average for 4 years. 25%? Is it a fair thing to say?
- Suresh Iyer:** See, it is only a matter of, if you are looking at only a matter of branches, that is not the only, lever that we have. So, there are basically in our business, there are three levers. One is, average

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ticket size. Today, if you are doing about 25, we were able to put it a little better from this. So, that is one lever, but.

Questioner: Because that is for new loans, right?

Suresh Iyer: New loans, that is correct.

Questioner: So, that is already taken to care of the disbursement per branch.

Suresh Iyer: Correct.

Questioner: Because the 5% growth.

Suresh Iyer: Correct. That is one thing. The second thing is like every branch that we open, it takes about 18 to 24 months for it to break even. Okay. Like I will just explain the branch. We opened 14 branches last year, which mostly were opening.

Questioner: So, these are new. They are. But the existing ones will be doing faster. So, net-net your disbursement.

Suresh Iyer: Fair enough. Fair enough. So, that is the second one. And so, this is the one. This is the ticket size growth is one. Branch expansion is the second. And third, of course, will be, productivity. Like once we improve this IT, which will come, which is expected in November of 25. After that, obviously, the processes should be much. The tax should come down.

Questioner: So, what you are talking about, that is based on historical numbers. So, you are saying in going forward...

Suresh Iyer: There is a possibility to improve in terms of productivity because IT will also kick in.

Questioner: So, instead of 5%, you can do 6%?

Suresh Iyer: Yes. So, maybe we may not be required to open that many number of branches. Even with a little less number of branches, we will still be able to achieve the number that you are talking about. So, the whole purpose of IT is that, lot of, process. To be very frank, lot of processes which were manual have already become, system driven now. Yes, that we have done this IT upgrades and all those things. Going forward, this can further be improved. Further, we can, have processes which are system driven...

Questioner: So, 5% can be like 6 or 7 or 6 is good enough?

Suresh Iyer: I guess you can try to work with 6, I mean, that is all right.

Questioner: Then, still you have to do 20, 25. If I do 7...

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Suresh Iyer: 20 branches is okay. We have anyway targeted that we will be cutting 300 branches by FY '28. That is the target.

Questioner: FY '28. 300 branches?

Suresh Iyer: Yeah. That is the part of the vision document.

Questioner: FY '28?

Suresh Iyer: Yes.

Questioner: Then, 5% growth. So, that means you will be opening more than 20 branches...

Suresh Iyer: 15 to 20 branches. We will be opening more.

Questioner: Because 15 already opened.

Suresh Iyer: Yes.

Questioner: Then, that will take your number to -- already 222 by FY '25?

Suresh Iyer: No, we are 219 in FY '24. We are adding 15 branches. So, that will make it 234.

Questioner: I thought your number of branches are 207 by FY '24.

Suresh Iyer: No. We also had, see, there are branches, affordable housing centers and there are satellite offices. So, we also had about...

Questioner: I am talking about branches?

Suresh Iyer: So, satellite offices now we are converting into branches. So, we are considering them as branches only. Now, so basically we had 219 as of FY '24. We are adding 15. So, it will become 234 and then another 15, 20, 15, 20 every year. So, we will reach 300 by FY '28.

Questioner: Including that. Okay.

Suresh Iyer: Yes. So, that is how we are projecting about. So, that will add about 15 to 20 branches every year we will be adding. That is anyway part of the plan.

Questioner: Okay. So, it is doable. Second question I had was. When is the issue, is this Karnataka issue is already going to be resolved because they have hired more people in the government?

Suresh Iyer: So there are like you have the corporation and the periphery areas which comes under the urban development authority and then the Panchayat and all. So, we right now at least in the municipal corporation limits they have started issuing e-Khata. That speed has picked up. So, that is already

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evident because in Q3 we were doing approximately about INR150 crores of disbursement per month.

In January, we were able to touch INR200 crores. Now, going forward with the, speed further improving and maybe slowly they will also open up for the urban development authorities and then Panchayat. So, it may take a couple of months, but then, if that happens, then we may be able to touch INR250 crores per month disbursement even in March. That is what is our, target.

Questioner: So, BMC is for the city and then what do you have for the periphery?

Suresh Iyer: We have the BDA, Development Authority or the Urban Development Authority and then you have the panchayat.

Questioner: That is only around Bangalore?

Suresh Iyer: Yes.

Questioner: How about the rest of Karnataka?

Suresh Iyer: Karnataka has it, our majority of the disbursement is happening around Bangalore only. We have out of 43 branches, almost 28, 29 branches are in Bangalore or periphery of Bangalore. Then, of course, we have some in Mysuru belt which is also similar almost.

Questioner: The reason they were not doing it before is because they did not have people...

Suresh Iyer: Actually, what happened was, this digitization in Karnataka they started. So, they did try a small experiment in some smaller corporation which is Davangere and all. But there the volume was not, like this and they probably did not anticipate that it will be so huge and the complexity will be so much. So, there it is in a small, much smaller corporation, much...

Questioner: So, they enforced the e-Khata without enough experience?

Suresh Iyer: Or rather they probably did not anticipate this kind of volume. They did not anticipate.

Questioner: So, they did not deploy enough people there?

Suresh Iyer: That is what is that, they did not deploy this kind of people. Plus, in terms of not only the, complexity of documentation is also much more here. So, with too many developers, there it is not so much of developers. It is mostly self-construction. Davangere is a much, much smaller corporation than this one.

Questioner: Telangana?

Suresh Iyer: Telangana is actually a systemic issue., I believe that, we have kind of reached the level where from here now growth will come, but then we will not want to rush it and bring it back to the levels which we have done. Like we used to have INR150 crores, INR170 crores per month.

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Last year we did about INR1757 crores in entire Telangana throughout the year. This year we are a little over INR1000 crores and by end of March it will be around INR1200 crores, which is about INR100 crores a month. So, I guess from here, it is like bottomed out even at this rate, but we would not want to rush too much in Telangana because, this problem has affected the sentiment itself.

When they started demolishing without giving a proper reason saying that, all valid documents were available, customers had, got the approvals from the corporation, but just because the government came, they came back and said. So, I think that has got the sentiment.

Questioner: Can I say one thing? Telangana is what?

Suresh Iyer: Telangana now is doing about, will do about INR1200 crores out of a total of INR8500 crores. So, that will be somewhere around 10% to 12%. 15%, sorry, INR1200 crores and INR1000 crores.

Questioner: So, 15% of our business will not grow?

Suresh Iyer: Will grow, not, will grow at a reasonable pace. We would not want to take it back to, like Karnataka, I would quickly want to take it back INR275 crores and INR300 crores. But I don't want, I mean, I am okay with Telangana doing from INR100 crores to INR120 crores. I don't want it to go back to INR170 crores what it did earlier, INR150 crores, INR170 crores.

Questioner: No, that's fine. I think it's 15% overall?

Suresh Iyer: Because INR100 crores to INR120 crores is not a big number. I mean, we are still far below the INR150 crores, INR170 crores which we used to do earlier. So, that's what I am saying. From here, it's like, you can say it's a bottomed out. So, from here, little growth also will reflect. That is the only zone, Telangana, which is currently in this year negative.

All other zones will be positive. In fact, two of the zones have already in January crossed the previous year number, North and Tamil Nadu. West is a little short. In February, they will also cross. And Karnataka, in spite of these problems, it was running 20% growth by the end of Q2. Now, it will probably come down to about 3% to 5% growth compared to previous year.

And Andhra also, after June, has started picking up. So, there also will be positive. So, end of the year, only Telangana will be negative. All other zones will be positive in terms of growth. So, the momentum is there. So, we just need to carry forward that momentum, which is what. And I think that is what gives us that little bit back.

Questioner: Some question on profitability. So, I see your NIMS have gone down. Leverage is also down for Q3. So, that part I do not understand. If spreads are up, leverage is down. So, the NIMS should expand, right?

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- Suresh Iyer:** No, NIMS is also a factor of how much is the, other than your main core business, because the spread is only on the core business. We are having a treasury book, we are also having investments for our SLR, LCR maintenance and all those things. So, when we look at all that is where the net interest margin comes in – 7.1%.
- So those incise investment part, we have stoical. Now we have in LCR guidelines we have to maintain, in December '24 the LCR requirement was 70%. Now the LCR, in a good manner it was increasing, 50% to 70% to 85%. And next year December it has become 100%.
- Questioner:** So your investment to net loan ratio used to be -- in FY '24? So going forward it will be higher?
- Suresh Iyer:** One more jump is excepted because now it is about 85% -- So we used to have LCR requirement of 60% it was included to 70% this 1st of January it has increased to 85%. And next January it will increase to 100%. So, LCR means we have to have liquid assets which are...
- Questioner:** So, all I am saying is, so when it's a liquid asset, is it part of investments or like balances with RBI and other bank?
- Suresh Iyer:** It is all investments as well as unutilized sanctions and all those things.
- Questioner:** Because I assume if I add all the cash balances and RBI, it was 1.3% of the net loan of advances. I assume the same number going forward. But for investments, your net worth side increases a little bit.
- Suresh Iyer:** You can as I said from 0.70% to 0.85% we have done and 0.88% to 1% so out from what if you consider 1.35% it may be about 1.05%...
- Questioner:** No, not 1.3%, 4.25 the investments.
- Suresh Iyer:** I think you know we are maintaining about 1005 plus LCR. So percentage wise I have not worked out what is the percentage. But you can, yeah, little more you can invest because it is required. It will be required on ongoing basis...
- Questioner:** In quantum it is like double, absolute?
- Suresh Iyer:** No, no, it is not double. I mean obviously in a little 15% because of the, I mean 10% because of book size also growing. And the disbursement also going, it will be required because one quarter of whatever we are supposed to maintain. We are supposed to maintain on a daily basis we are supposed to maintain a liquid assets as clearly that, equivalent...
- Questioner:** So, this was -- tell me the rules again, LCR rule?
- Suresh Iyer:** No, so whatever is our, you know maturity which is falling in the next one month or one quarter. We have to maintain high quality liquid assets. HQLM up to -- earlier it was 60, it was increased 70.

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- Questioner:** It was say half of 60%.
- Suresh Iyer:** 60% of the maturity you have to maintain as high quality liquid assets it was increased to 70, from 1st January it is 85%. Next January it will become 100%. So whatever is the maturity which is there, going to fall due in the next...
- Questioner:** So, out of this all the investment, what...
- Suresh Iyer:** So, basically we did about I think close to INR200 crores something of investment we additional did in a government securities and some deposits and all those things to maintain our LCR at 100%. So another -- if you can see INR100, INR150 crores instead of 10% we started earning 7% for us.
- Questioner:** So, your investment in FY '24 was – INR1500 crores around give or take. So out of the INR1500 crores how much LCR?
- Suresh Iyer:** No, for LCR only mostly we are maintaining. Otherwise, we don't maintain any liquid assets other than for LCR.
- Questioner:** So, all this is for LCR?
- Suresh Iyer:** Only for our LCR and SLR.
- Questioner:** So, this INR150 crores will become like INR3,000 crores?
- Suresh Iyer:** We have increased another, no, we have increased about INR200 crores plus some INR200 crores maturities approximately, INR400 crores we invested in that.
- Questioner:** This year? And next year?
- Suresh Iyer:** Next year again we will have to invest, I guess, we will have to keep doing about INR200 crores every year, we will have to keep adding to it. Because, our size increases and our, volume...
- Questioner:** So, say, FY '25, it will be around INR1500 crores?
- Suresh Iyer:** I guess. I have not done the math, but yes. That's okay. We have guided at 3.5. We are still maintaining about 3.5 in terms of our NIM.
- Questioner:** Yes, one thing. I assume INR2000 crores and every year if you increase that, INR400 crores?
- Suresh Iyer:** At least INR200 crores, INR250 crores, at least we'll have to increase. It's a percentage basis, I mean, how much we are able to manage our, what we do. What he did.
- Questioner:** Now in my model it is INR1900 crores or so in FY '25. Then it's '22, then '25, '29 that's good enough that is the reason my name going by...

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- Suresh Iyer:** Little bit because obviously we have invested in put investment, which are obviously earning 7% and otherwise it would have gone into are business. One is that we have also improved our direct coaching team. We are putting our own team and they are also trying to push that also. Percentage has come down because of that but I think the volume wise it is not.
- It is in dive but you are through. Obviously because Telangana they had quite a large number and the number has come down. So if you see our Tamil Nadu our percentage of DSA sourcing is almost 80% or a little below that. That state is growing but Telangana we had 80% plus DSA has come down. Plus in Q3 we had a...
- Questioner:** So how much can it grow?
- Suresh Iyer:** See the DSA sourcing is not a problem. If you want it's a tap. How much you open and how much you want. But the thing is internally we have put a thing that we don't want to -- we only rely on the DSA channel. We want to have our broad-based sourcing channels also. That's why one is a DSA channel but we want to have our own strong internal sourcing channel also. And third, we also want to activate our digital sourcing.
- So we at least have a, we are not only dependent on one channel. So that was also one of the vision 2028 kind of guidelines. We are also going to, so this month, now that we have this IT set IT, we have also started in a small way, we are, from these lead aggregators, we are acquiring data and we are, approaching them through our marketing team, sales marketing team.
- Questioner:** Lead aggregator means like what?
- Suresh Iyer:** You know, all those portals which are getting the data like Paisa Bazaar or you know this 99acres.
- Questioner:** This will be cheaper for you?
- Suresh Iyer:** Yes, in a way that -- we have to try multiple courses. Normally...
- Questioner:** Is it just the diversification or is it also saving you anything?
- Suresh Iyer:** Obviously, if you are able to get the right like right now we are getting our average cost per lead is coming to somewhere around INR4,000. If we are able to get a INR30 lakh loan from this, otherwise you would have paid to the DSA.
- Questioner:** How much you pay to DSA?
- Suresh Iyer:** That's what I am saying. For a DSA we are paying what 0.4% to 0.45%
- Questioner:** Really?
- Suresh Iyer:** Yeah. 0.4% to 0.5%.

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- Questioner:** So 30 lakhs is almost?
- Suresh Iyer:** Like INR12,000 to INR14,000. If I am able to get a INR30 lakh loan through this channel then my average cost of sourcing roughly is coming to around INR4500.
- Questioner:** One third?
- Suresh Iyer:** One third.
- Questioner:** [Inaudible 46:18]
- Suresh Iyer:** 40 to 45 bps we are paying to the DSA because our DSA starts from 0.35% going up to 0.65%. So by and large a lot of them mostly come in the lowest bracket.
- Questioner:** So this is the lead vice, right? So that is what your direct team is doing?
- Suresh Iyer:** No, so this is also one of the things which are digitally we are sourcing. We are doing it. Now we are also doing some processing internally to see you know segregation of the leads and all those things. So digitally we are sourcing. We also have our online coming on our website. We also are digitally sourcing all these things.
- And plus my marketing team is also doing it. I build the tie-ups. They are also sourcing from the direct market. It's not that they're only reliant on this. They are having their own thing. But for this also we are using the team to channelize the leads to them. So as we build the team as we strengthen the team...
- Questioner:** So builders are another source for the...
- Suresh Iyer:** Builder tie-up, so it's not that we are funding the builders but we are getting leads from the builders.
- Questioner:** What else?
- Suresh Iyer:** So, Builder Tie-up is one. Direct sourcing through the sales team is there.
- Questioner:** What is through the sales? What do you mean?
- Suresh Iyer:** Means they are also directly approaching markets. We are participating in exhibitions. We are directly sourcing from the market, going to project sites, doing marketing, doing tie-up to government offices for leads. We are doing our internal marketing, we are doing pamphlet distribution, paper advertisements. So, all those things are also getting us leads.
- Questioner:** But that is not cheap, right?
- Suresh Iyer:** Of course, there is a cost to...

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- Questioner:** It's more cost than DSA, right?
- Suresh Iyer:** Depends on how much you are going to advertise. Because advertising, if you are taking the best News Papers, doing too much on media, it is costly. So that is a very small component for us. We have not yet done much on it. But pamphlet is much cheaper because you can just -- any new developing areas, anything, we can do. It's very cheap. Pamphlet distribution is much cheaper.
- Questioner:** Tell me one thing. Why market is penalizing you? Do you have any other cases or what?
- Suresh Iyer:** I don't know but what I hear some of the people say is mainly also a little bit of overhang of whether the parentage will continue or not continue. Although it is very clear that you know Canara Bank is gone on record to say that you know we are...
- Questioner:** But if they sell it to a private equity that is actually going to help the valuation because you're probably able to grow faster?
- Suresh Iyer:** See they have both benefits and everything...
- Questioner:** And of course the cost of...
- Suresh Iyer:** In terms of rating we may slightly you know there is a parentage which is helping in the rating also because the rating agencies always give some...
- Questioner:** So, is it still trying to buy or sell or not?
- Suresh Iyer:** No, I don't think. As of now, they are waiting that they see a good upside in the stock. They are looking at strengthening the thing. It is bringing a lot of -- I mean, they have set up the company. I mean, even in the time in 2018, although they were...
- Questioner:** So, why were they trying to sell?
- Suresh Iyer:** At that time, there was a lot of monetary pressure also because if you recollect that was the time when banks, there was a lot of capital requirement for banks. RBI at that time told all the students that wherever subsidiaries are there, you can buy only depend on the government to increase capital. If you can sell your subsidiaries and raise capital and put it back in the company, that will also strengthen the balance because the banks per se.
- Questioner:** But now, Canara Bank is good capital?
- Suresh Iyer:** Yes. All the banks in fact are now much stronger because post the capital inclusion with the government did, plus these mergers and all, and now banks are definitely in a much stronger position. In terms of the capital, I don't think there is a requirement as of now.

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Not only the bank, in fact all the bank and all the groups, group companies are, well capitalized. There is no requirement as such for capital. In fact, on the contrary, they have now said that they are already going to slightly dilute their stakes in Canara Robeco and Canara HSBC Life. So, that they have already got the permission from the RBI and they will probably over a period of time do it in the next 6 months to 12 months.

Questioner: Not for you?

Suresh Iyer: Not for Canara HSBC and this where they are holding 51%.

Questioner: So, the market is sinking they will do it?

Suresh Iyer: That could be one of the things and that keeps coming in every earnings call, every interview, you know, this question does come up to us also and to them also. So that is one, plus there is a little bit of an overhang in the sense that in between RBI had come out with draft circular on 4th of October saying that, banks cannot have multiple verticals or associated subsidiaries or multiple under different multiple this thing, they cannot do the same level kind of business. So bank per se is also doing housing, a subsidiary or a housing. So whether that will be required.

Questioner: When did the circular come?

Suresh Iyer: This was on 4th of October. It was a draft circular, not a final circular. It was a draft circular. But then nothing has happened since then. And even right now, I believe what I hear is that the banks have all given their feedback.

Questioner: So, what did RBI say in this?

Suresh Iyer: There was a draft, whether as a discussion paper or a draft taking feedback from all the banks. And the banks and all were asked to give their feedback by 21st of November. And all the banks will get affected because all the banks do have subsidiaries for some of the other line of business. Some of them are having...

Questioner: So the feedback was on whether to keep the same business under different verticals?

Suresh Iyer: Under multiple verticals, whether to do it or you have to liquidate and you have to dilute your stake and bring it below 10% without having management control. But I guess all of them have raised their objections or given suggestions on requested RBI not to go ahead with it.

So I am not sure that is happening as of the moment. I guess even market has fairly discounted because not much is being talked about. I guess that, coming back to your question as to why it is there. I guess growth is the concern.

Questioner: Growth?

Suresh Iyer: Growth is only concern because you know we had a growth.

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- Questioner:** But even before growth they were...
- Suresh Iyer:** Compared to the market yes I would say.
- Questioner:** But the growth comes back it was bad?
- Suresh Iyer:** And secondly some of the bank of obviously, you know, in terms of their spreads and all are at a much, much higher spread. Maybe that is one of the reasons and they are growing also at that kind of rate. So, obviously the comparison comes. Maybe that is one of the reasons. But, quite a few meetings, I think the main concern is that, if major states where we are operating, Karnataka and Telangana, are currently affected, so obviously it is hurting us in terms of growth.
- Questioner:** But you are opening many branches, so other branches will be able to make it over to you?
- Suresh Iyer:** But this is a transition process. If you are opening branches now, we are expanding in the north and the west, we obviously can't expect immediate results. This will be a journey we will have to take. We will have to wait for about 2 years for the branches to kind of become profitable. Then as and when we buy and buy, it becomes a kind of factored into the regular business. That is when the real results will come in.
- Questioner:** So then how are you assuming 15% growth after FY '25?
- Suresh Iyer:** See even right now if you look at it, the momentum is there in all the states except Telangana. And Telangana also as I would say has kind of raised the bottom. So from here the only way is up. So with that state also doing, today as I said we had last year done INR1,757 crores. This year we are likely to touch about INR1200 crores. So just imagine that 30% in a very large market is getting affected.
- So this population is also hurting us because two large states which are contributing about 45% of our incremental business have slowed down. If it recovers, it will definitely happen. And that is almost happening like, from here going forward, Telangana can't have to be further negative. And Karnataka is now, I mean it was already reflected at 20% growth in Q2. But for this issue, once this is resolved again, it will be back to the same number.
- Questioner:** You have the lowest price to book in 10 years. Even during COVID, this will not go that low.
- Suresh Iyer:** I understand.
- Questioner:** That's why I was surprised. What does the market know that I don't know?
- Suresh Iyer:** I guess, as of the moment, whenever we are talking to all the investors or whoever our mutual funds and all those people whom we interact with, the only thing is good, basically. And which is a fair, very, very fair lesson.
- Questioner:** Well I think in a financial service business growth should be the least important thing.

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- Suresh Iyer:** In terms of profitability wise we have at least ensured. You know like for example.
- Questioner:** You know, I was talking to one bank yesterday and I told them, can you get 18% ROE only by Netflix? They said, yes. It's possible.
- Suresh Iyer:** We are doing it. In fact, in Dhruv also we had almost similar kind of...
- Questioner:** We had 30% ROE.
- Suresh Iyer:** So, obviously, we had a gearing also was much higher and we used to have that and it was also that business where we used to have almost 3% spread and 4% plus, 4.5% in.
- Questioner:** You know, I think that's all, anything else you want to let us know?
- Suresh Iyer:** No just that you know just in terms of the balance sheet. Since you've just raised -- we just touched upon it. So in terms of the balance sheet actually, you know -- which is a journey, we have ensured that on the liability side, we have moved liabilities to the, at least bank borrowings to the repo link. So, that way, when repo link...
- Questioner:** Yeah, what does that matter?
- Suresh Iyer:** See, now that the 25 bps cut has come in the repo that will quarterly get translated to us. Whereas in case of an MCLR, it is not mandatory. It may not even happen. The banks may not do it also. In fact, in the last six months to one year when we were...
- Questioner:** So your costs will go down immediately?
- Suresh Iyer:** Costs we will have an advantage. So in the next two months we expect the borrowing cost to come down by about 5 bps to 7 bps. Because of this repo rate impact. Because on the other borrowings at least we will not get an impact but at least on the bank borrowings.
- Questioner:** So who decides whether it will be repo or?
- Suresh Iyer:** We have chosen that we will only do with banks where there.
- Questioner:** And why did you choose MCLR repo?
- Suresh Iyer:** No, earlier it was MCLR because when the rates were going up and the repo was going up then...
- Questioner:** Then you wanted to be MCLR.
- Suresh Iyer:** As it was MCLR, there was more of a negotiation. But now when the rates had reached the peak then the repo had to come down. Whereas MCLR was going up. Even now it's going up because the banks are still raising deposits.
- Questioner:** So can you change it again?

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- Suresh Iyer:** Now it doesn't make sense to change it.
- Questioner:** Not now. Not now. Suppose the rates bottom out and you see it going up then will you switch to MCLR again?
- Suresh Iyer:** No, it's all about how we are able to negotiate with the banks and what is the kind of view we are taking on the interest rate, it's all an interest rate call. We took a call that you know the rates are going to go down, repo will be a little better for us because then the transmission will happen immediately. Whereas in case of...
- Questioner:** But transmission happens immediately is good for the interest rate and it is low in the cost. So that one thing when you reach close to bottom, we would like to switch back to MCLR.
- Suresh Iyer:** So that's how you manage your liabilities and how you take an interest rate call. And if you take the right calls, technically speaking, you haven't had any HFC going down because of asset issues. There have been NPAs of 2%, 5%. They may take a one-time hit, but it doesn't affect the bank. But interest rate calls can really hurt you very badly.
- Questioner:** Interest rate?
- Suresh Iyer:** Wrong interest rate calls can really hurt you very badly. In our case, at least we took a call and I think we were able to, in the last six to nine months, we were able to at least move all our MCLR linked loans to repo linked loans. Obviously, the banks also have a comfort and some external factors have also helped us. I am not -- obviously those have benefited. But at least now we will get the benefit in terms of that. So that is one strengthening we have done.
- Now we have only from a reliance, we have in terms of the balance sheet, two things we have done. One, we have reduced from the ALM point of view, we have reduced from 11% CP, we have brought it down to over 7%. So, in terms of, you know, our short-term borrowing, we have really reduced it from that. So, that, that, you know, improves our ALM position very, quite a bit. That is, that is one important thing. And second, leverage is also coming down. So, in terms of the rating agencies and all those things, it's a definite comfort for them.
- Questioner:** What is your rating now?
- Suresh Iyer:** We are AAA from ICRA. No, but when we were at a gearing of more than eight times, at that time the rating agencies were at double AA+.
- Questioner:** So you are currently best rated for those?
- Suresh Iyer:** Yeah. AAA is the best. So now, in fact, that is one of the things if we had a higher gearing, obviously that would have been a little discomfort for the rating agencies. Now, in fact, we have even brought it down to 7 times, 7.05 as of 31st of December.
- Questioner:** But that will lower your ROE.

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- Suresh Iyer:** Yes, but then that is also a buffer that we are able to get in terms of the rating.
- Questioner:** But your rating is already highest.
- Suresh Iyer:** It is the highest now. So, we have to maintain it.
- Questioner:** Then what more can you do?
- Suresh Iyer:** Yeah, so in terms of this, we are able to give the comfort...
- Questioner:** At 8, they have given you highest. So 7 also remains the same. Rating will not change but ROE will go down?
- Suresh Iyer:** ROE, but we have been maintaining that, you know, ROE at 17 plus and that's what is the rating that we will try to keep. I think the gearing also is a now a factor because in the last couple of years the growth has slightly been affected. Once the growth picks up, I think the gearing will come back to 8. So, I mean, that...
- Questioner:** So, you are trying to keep in that...
- Suresh Iyer:** So, we have a little buffer there. Even if we had been closer to 8 and growth had picked up, then we would have again...
- Questioner:** No, I thought your gearing has gone down because growth hasn't happened?
- Suresh Iyer:** Growth hasn't happened. That's precisely what I am saying. So, now, if the growth picks up again, we have a scope to increase from 7 to 8 and still not affect our rating.
- Questioner:** Yeah. I mean, if you grow your assets less than ROE, then...
- Suresh Iyer:** You can't get cash equity. True. I guess that's it. So...
- Questioner:** Thank you. Thank you so much for your time.
- Suresh Iyer:** Thank you so much.
- Questioner:** And pleasure meeting you.