



“Can Fin Homes Limited Conference Call”

March 18, 2025



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

Suresh Iyer: Good morning.

Rahul Mehta: Good morning, how are you?

Suresh Iyer: We are good, are we audible?

Rahul Mehta: Yes.

Management: Good morning.

Rahul Mehta: Good morning. So, we are truly using technology, all of us at three different locations. Well, thanks for doing the call. Let me kick off. I have known Sudheen for maybe 10 years, 10-12 years. And we obviously knew of Can Fin, I have tracked it for 10-12 years, but he obviously told, speaks very highly of you. So, thank you for taking this call.

Suresh Iyer: Thank you. I think we have also met before, if I recollect. Because at Gruh, we would have definitely met.

Rahul Mehta: Yes. Yes, we actually met Sudheen a couple of times, what is it, Ahmedabad. And then you and I may have met at a conference.

Suresh Iyer: Yes, we met at a conference.

Rahul Mehta: But you have, I can't, I am not able to see so close to you as you get to me.

Suresh Iyer: Yes.

Rahul Mehta: But we, just by way of background, I ran money for a guy called George Kaiser for 10 years. George owned Bank of Oklahoma in the US. It's kind of like a city union bank. And then started Beas Capital five years ago. Beas does a lot of financials, a lot of consumer, a lot of IT services, tech kind of stuff. Actually, financially, we feel like we sort of understand, given my time with George, as well as when I was a banker in New York.

So right now in our portfolio, we hold City Union Bank, which we bought maybe a year ago. ICICI, which we held from the start. ICRA, SPFC, I don't know if you know it, Small Business Finance. I've seen Gruh, that's one of our larger positions in our portfolio. Correct, correct. HDFC Life. And we also just about exited 361. That's all. And then Catholic City Bank. That's the portfolio. We don't have anything in housing finance, not because we don't like the sector. We actually do not like microfinance.

We're not understood it. And we stayed away from some of the smaller RBI kind of banks because we don't understand the business model. We have tracked Can Fin quite closely, and we've always been intrigued. We like the liability side, obviously. And I never understood the change in the CEOs or what regulation could or could not do to you. And then didn't understand where you got a yield enhancer from, given your lending fairly large ticket sizes and competing with the banks.

We talked quite a bit to Surendra Jain, who's an Investor with you. So he also speaks very highly with you. Surendra and I was an investor in Surendra's company, and now we are working on building out Ashoka and Plaksha together. So I see him in that yardstick, but I was talking to him about you also. So obviously, what I'd love to do is in person, but nothing like the present. So would love to hear from you. We've read the last two, three transcripts. So to the extent, no, we have a few questions. I would love to hear from you.

Suresh Iyer:

Sure. So I joined here in March '23. I'll start from there because, that is also coincided with the strategy document that we presented to the board. So basically, right now, we're in the middle of our '23-'28 vision document or strategy document. And some of the things. So I thought I'll take you through that first, so that you get a fair idea of what we are working on and what are the kind of medium-term strategy that we are looking at.

So first thing is, a couple of things on the segment and the product side, where the Board is fairly confident with the current scheme of things in terms of the segment that we are catering to, in terms of the products that we are offering. So by and large, we would like to stick to both these things. So right now, we have about, you know, as of March 23, we had about 72% in salaried and about 28% is self-employed.

But we do feel that is a little bit of a kind of a low-hanging fruit and a little bit of focus on self-employed can help in improving the yield. And that also now that, assessment of self-employed has become much simpler with the returns that are being filed, plus the GST returns, plus, you know, a lot of money coming into the UPI and all those things. So self-employed, slightly we are a little positive.

So from this 70 to 28, by FY '28, we are open to taking it to about 65-35. So that is one thing we are slightly moving. And in that direction, in the last two years, we've been able to shift it from 72% to 70%. So as of now, we stand at around 70%-30%. That's one part of it. The second part is in terms of the housing.

Our focus has always been on the first-time home buyers or the people who are basically looking at housing, the dream of owning their own house. So in that regard, we are presently, or at least when we started in FY '24, is we had about 89% of our loans are purely for home, residential finance, including the CRE part of it. So it's almost like, 10%-11% was CRE, the remaining was pure housing.

And only 11% or 12% was basically the non-housing segment, which included LAP, which included our top-up loans and also plot financing. Okay. So there also we feel that we would like to stick to this focus. So roughly we are okay to go up to around 80%. We can go down, including CRE, but not below that. So 80-20 is something we are comfortable with.

So right now from that 87%-89%, we are okay to bring it down to 80%, where non-housing, which is including LAP and top-ups, we can do a little more. So in that regard, our LAP is about 5%. We have slightly been able to increase it to 6%.

But by and large, we are open to going up to, taking it up to around 8% by FY '28 in terms of the LAP. Because earlier, we didn't have a LAP as a separate product. It was only offered to

existing customers where they would come for. So there was practically no difference between a top-up or a LAP actually.

Now slowly we have also looked at LAP as a separate product. And there we are charging 0.5 percentage point higher than the normal rate of interest. So that is the second focus area that we are looking at. Then two major shifts that the board felt that are required is, one, we have only one source of, one channel for sourcing, which is the DSA channel. And practically, 85% of the business was coming from the DSA channel.

So in Q4 of FY '23, we had 85% of the sourcing was done through the DSA channel only. So long run, we want to develop our, additional channels for sourcing. So in that regard, the plan is that in the next five years, that is FY '28, we want to develop our own sales team, internal sales team, which we want to take it up to about 20% of the business coming from the internal sales team.

The second thing is we also want to start digital because we didn't have any digital onboarding, digital tie-ups or anything for sourcing. So the second thing that in terms of sourcing we want to as a channel start is our own digital channel, digital sourcing. And by FY '28, we want to bring it to around 60% from DSA channel, 20% from direct sourcing our own sales team, 10% from digital and another 10% from existing walk-in customers, repeat customers and stuff like that.

So what we've done so far is we have in, we tried last year, but we didn't get much of a success. It was more of a pilot that we tried. And based on some of the learnings from that, we have now implemented it this year.

So as we speak in the Q3, we had about three to three and a quarter percent of the incremental business coming from the sales team. And we just have about 35 people right now who have been carved out from our existing team or people who have left. We have replaced them with people, lateral hiring with marketing skills, sales skills.

So that team of 30, 35 people are now giving about three to three and a quarter percent of the incremental business. To that extent from 85% our direct, so our DSA sourcing has come down to below 80% also. And we are moving in that direction.

So that is the other thing we are doing. For digital sourcing, basically we need to have our own ITs already. So the RFP that we have floated where IBM has been selected as a partner for us as the system integrator.

There, you know, once they implemented by end of FY25, there we will be able to then start our digital onboarding also. Right now it is purely, we have started the first part of it, which is our own team. So this is another area which the board has identified.

And the last area which the board has identified is that, you know, other than this sales team and DSA sourcing. We branch expansion, we had stopped. We want to start our branch expansion also. So last year we opened 14 branches. Those branches are now contributing almost about, INR30 crores they contributed in Q3 business. INR30 crores business was contributed by these 14 branches, which roughly works out about INR75 lakh business per branch per month.

And that is almost midway into their, you know, break-even period. Roughly, you know, those branches which are mostly open in Tier 2 towns, they should be doing about INR2 crores business per month. So they are already at 75 and they, in the next year, by next year end, they will, these 14 branches will reach the level of INR2 crores per month per branch.

We are additionally opening 15 branches in Q4 of this year. They also will start contributing a little bit and probably by end of next year, they will start contributing about the 75 lakh per month per branch. So that way, the branch expansion will also start, which will also add up to our contribution to the top line.

Now these branches that we have opened also, we want to open more in the North and the West because the other point which the Board identified was that we have a very high reliance only on the five southern states. And although we had a fair amount of distribution in the North as well as other geographies, but in terms of the business, maximum business was coming only from the Southern geography. So that also we want to slowly shift.

So the new branches that we are opening are more in the West and the North where we want to kind of slowly take it. It's about 70%, 73% of the business was coming for the five Southern states. Eventually, by FY28, we want to make it a 60-40 mix.

Because the geographical concentration is hurting us also because now that two of the critical states that is Karnataka and Telangana, which are contributing about 45% to 50% of the business, both are affected because of different, different reasons. So that is affecting our growth also this year. So this concentration risk also we want to slightly minimize or reduce by shifting our opening branches in the North and West.

So these branches mostly, 14 last year and 15 this year, mostly are in the North and West, so UP, Punjab, Delhi side, Rajasthan, MP, Maharashtra. So these are the areas where we are opening the branches also. Very few branches are in the Southern geography. So these are the broadly the, you know, the path or the journey that we have embarked upon. So the next five years, this is what we wish to kind of achieve.

So once we do this, one, the IT implementation that we have done will give us some improvement in our productivity, will release some people or staff and everything. Whereby, you know, without adding much additional cost, we will be able to deploy these people for internal marketing and all those things and thereby improve our top line. Second thing is, this slightly a shift to the SENP and non-housing category will also help us into improving our yield a little bit. That is the other thing.

So basically, these are all help -- will further help us strengthen the balance sheet. Already last year, we have added about March '23, we did INR17 crores and September '23, again, we added another INR17 crores. So now we are already carrying a good INR34 crores plus in terms of management overlay. So in terms of provisioning and everything, we are again strengthened our balance sheet. And in terms of all these things, it's a journey in the making. That's in a nutshell what I can share.

Rahul Mehta: Congratulations on a great plan, and obviously you executed a bit on it. But if you do sum up, where do you see the ROA trending after all these successes? So 2.3, 2.4 or what do you see?

Suresh Iyer: See, ROA, we are at -- if you see slightly from 2.1, we have been able to take it about 2.25 and roughly in that range. So I guess we should be able to, you know, with a little bit of improvement in yield and everything and NIMs, we might be able to slightly -- but we have been giving a guidance of 2.1 only. But internally, we would like to keep it about 2.25.

Rahul Mehta: I mean, when I do some of the changes, you introduce the LAP, you increased the direct sales. I presume all these things are because they will have high yield or less NPA. Otherwise, you should just stay with DSA, right? So I presume they all improve. And if you're housing finance, I mean, if you look at some of the other guys running at 3% kind of thing. So obviously, you have the benefit of leverage, but then there's no point in being an NBFC. What's your view?

Suresh Iyer: So, that's definitely there. I mean, if you can do a little more of non-housing, if you can do a little more of this, definitely the spread and NIMs can improve. No doubt. So NBFC is like -- there are quite a few of them who are doing it very, very high NIMs and spreads also. So 5% plus spread and 8% plus NIM also that are doing. So I agree that for an NBFC, that is one thing.

But otherwise, if you look at it -- the other way to look at it is that by not doing too aggressive of those things, at least in the last 10 years, you will see that our credit cost have been probably among the lowest in the industry because we have never breached the 1% gross NPA mark. And unlike some of the other lenders who have been offloading their portfolio or their delinquent portfolio to our sale and all those kind of things, we have not done that also.

So without doing anything of those things, we have been able to -- while we have not had such a high spread or a NIM, but at least we've been able to keep the credit cost low. And productivity also has been quite high. We are probably among the highest in terms of productivity of the staff because we are doing almost five cases per staff per month. That's the kind of productivity levels we are doing.

So, definitely, we have been -- while some have gone for a higher NIM, but along with the higher opex and a higher credit cost, in our case, we have at least managed the credit cost and opex and credit cost low. And to that extent, ensure that the quality is maintained even if it is with a lower this thing.

Rahul Mehta: Yeah, no, I completely agree with you. But how do people like Aptus do what they do, given they are doing housing and what can we learn from them?

Suresh Iyer: See, it's a very niche segment to be very frank. What Aptus is doing, 8% kind of a spread or this thing is very, very difficult and on a very small base, it is -- it is acceptable and I'm sure they can grow. But somewhere once they reach a kind of a critical volume, I'm sure from there they will definitely find they are going difficult because on that kind of a thing, there will be very few people to take it.

Even LAP for that matter, if you are looking at it, LAP is very much in flavor. But if you see the kind of rates that are now being offered in LAP, because now the bigger players are also coming

into it, and obviously that brings the lending rates down for LAP. So even LAP today is going at just about 0.5 percentage to 75 bps higher than the regular housing loan. So considering the kind of risk that is being taken, I mean, it doesn't make -- it is not rewarding enough. So that is one point. So on a higher volume, once you have to do it, it becomes a little difficult to maintain 8% and 5% and all those things.

Rahul Mehta:

Understand. And how do you compete with the banks given that if you have a lower yield and a more prime customer, then you compete with the banks. So are you -- do you think that in the next sort of 5 to 7 years, you will replace HDFC kind of thing? Is there space there to become the next HDFC? What is your dream?

Suresh Iyer:

Not really, because HDFC was offering almost like SBI, what SBI was offering. And even today, if you look at it, you have the cream which goes to SBI, HDFC Bank, ICICI and Axis, because they are offering the finest rates and maybe to some of the public sector banks because they are governed under the EBLR guidelines.

But other than that, if you look at it, we are slightly one level lower than that in terms of the ticket size. Their average ticket size would be 35 lakhs to 40 lakhs. We are normally in the 25 lakhs, roughly around 25 lakhs is the ticket size that we are operating in. So we are slightly below the radar of the big banks. Therefore, we are able to charge about 50 to 60 bps higher than what the banks are charging.

Today, they are offering about 8.4 or even 8.2, because now that the repo rate has come down, a couple of banks have even reduced it to 8.2. Probably, it's a Q4 March quarter special rate. But otherwise, even if you consider 8.4, we start with 8.95. So we have about 50 bps higher than what they are charging. We are able to do that because one, we are slightly below the radar in terms of the ticket size. And two, we are operating in the periphery of the bigger cities, whereas most of the big banks are operating more in the municipal corporation limits only.

Rahul Mehta:

I understand. What's your view on the RBI circular that banks should not have lending subsidiaries?

Suresh Iyer:

See, actually, there are a couple of points within that circular which are a little, I would say, not contradictory, but a little ambiguous. Like, for example, in one place they are saying that banks for certain activities can continue to have a subsidiary. And one of the things they have mentioned is housing. In another place, they are saying, however, two verticals or subsidiary of the bank cannot be in the same line of business. So that is one point which is there.

Second thing is, even in terms of the actions that the RBI has taken, there is a little bit of ambiguity. Like, for example, they have said that when Warburg Pincus wanted to invest in Shriram, they said that they have to exit from HFFC where they were holding more than 20%. But at the same time, some other investor like multiples has now got a holding in four different companies, three different HFCs. They have got in Vastu, they were holding. They have got in, I think, Ummeed. And they also were given the permission to invest in Shubham Housing. So, it's not clear as to what exactly is the case.

Also, the fact that the present governor, RBI governor seems to be a little, having a slightly different view. So, this circular also came during the regime of the previous RBI governor. This governor probably has a slightly different view. So, I think he also made a statement that when we only have given the approval once, then how can we now be completely asking them to exit.

So, let's see. I mean, what I understand is that the banks have been asked to give the feedback. And, most of the banks have asked for time or asked not to push for this. So, let's see how it goes. As of now, at least, there seems to be less of a pressure for this.

Rahul Mehta:

I understand. I understand.

Suresh Iyer:

But in any case, you know, even if it comes in the form of regulation, then Canara will have to exit. That is quite clear. And the chairman of, I mean, the Can Fin chairman who is the MD, CEO of Canara Bank has also gone on record to say that this is the only subsidiary where there is some conflict where similar lines of business is being undertaken.

Otherwise, it is always none of the other subsidiaries are there. So, but at the same time, he said that we still see quite a bit of an upside on this. So, we would like to work on improving the valuations of the company.

Rahul Mehta:

Yes, no, I think, it has come up for sale a few times over the last 15 years. Bankers have come to us and we have actually evaluated, but it never happens. So, but when you weigh the positives and negatives, do you think it would be better for it to be independent or obviously cost of funding will be slightly higher, but there will be more flexibility in the business?

Suresh Iyer:

Definitely, there will be an impact on the cost of borrowing because, you know, rating agencies will definitely look at it as one of the, because so far they have given a AAA only to those institutions which are backed by a strong parent. So, in the NBFC space, they have not actually given a AAA otherwise. So, definitely one notch lower we can expect if the parent moves out, in which case the cost of borrowing will go up at about 20 to 25 bps, you can expect.

So, we will have to cover it up by moving or changing the segment by looking at higher yielding assets and things like that. Because in terms of the opex or in terms of the credit cost, I do not think we can go any further down. So, we will have to obviously improve the yield, we will have to look at more higher yielding loans and we will have to do a shift in our segmentation.

That definitely will have to happen and that will have some transition time will be there to impact that. So, there could be something, but otherwise, yes, flexibility could, you can say there will be a more, some of the things would be done differently. But right now, it is almost, we have, there is a lot of hangover of the parent bank also or the banking norms also which are there. In terms of the, this thing, it will be a little more like an NBFC, a little more flexibility would be there. Yes.

Rahul Mehta:

Understood, understood. But that is probably one of those things that will happen at some point, we do not even know if it will happen.

Suresh Iyer:

True, true, true.

Rahul Mehta: And in terms of your term here, you said you came in a year and a half ago, right?

Suresh Iyer: No, I just completed 2 years. So, I joined here in March '23. So, March '25, it is 2 years. My contract is actually 3 years extendable by another 2 years. So, it will come for renewal in March 26 and at that time again, the board as well as the shareholders will have to, it will have to go back to the board as well as to the shareholders and then extended by another 2 years.

Rahul Mehta: Understood, understood. So, there is a maximum of, I guess, 1 extension of 2 and another extension of 2.

Suresh Iyer: 1 year left and 1 extension of 2 is what is there to the contract.

Rahul Mehta: 3 and then you can get another 2, but you cannot get more than that.

Suresh Iyer: So, yes, there will be 2 extensions, yes, correct.

Rahul Mehta: But when you contrasted Griha, which I guess I looked at your LinkedIn and you were there for 17 years. So, quite a long time.

Suresh Iyer: More than that actually, I joined in '97 and the merger happened in 2019. So, that was actually 22 years, almost 22 years and then 3 years in Bandhan because that was also basically GRU only.

Rahul Mehta: Yes. So, tell us like obviously you built out Griha very successfully, went into UP very early. I remember talking to Sudheen about that because UP now everyone goes into. So, what are some of the lessons that you learnt there that you are implementing here? How do you contrast the two institutions?

Suresh Iyer: So, actually if you look at it there is a huge kind of a deja vu moment here because, you know, frankly speaking in 2001 in Griha also we were present only in two states and at that time we had the 2001 Gujarat earthquake and the entire same thing happened that, one of the major states where we were present had a complete stop on business because no plans were approved and all those things for us.

So, it was a pretty long period of 2 to 3 years in Gujarat. So, we had our business top line impacted at that time also and the same is here because now the same geographical concentration in five southern states is very, very high particularly two states of Karnataka and Telangana is contributing 45% to 50% and the same thing has happened now where both the states are simultaneously affected. So, the same risk is coming in here.

The second impact of course is that at that point also, regulation was -- there was a big change in, you know, a lot of changes were coming up in regulation which is also happening now. There also in fact it was a need or to change the focus and we moved from, at that time GRU was also mainly into purely salaried and all those things and 2003 first time we forwarded into self-employed and came out with a product called Griha Suvidha and eventually we took it up from 0 to almost 50% because we had a 50% self-employed segment. Before that up to 2003 we were mostly in the salaried segment only just like what Can Fin here right now and from there...

- Rahul Mehta:** Tell me something, when you, is self-employed, do they have a high yield?
- Suresh Iyer:** Yes, in fact at that point in time when we started in 2003 we were charging almost 1.5% higher for the self-employed segment compared to the salaried segment. Whereas now of course with so many players even the bigger banks now looking at self-employed segment, this delta has come down to almost half a percentage point or actually in some of the cases just quarter percentage point. Even we are charging just half a percentage higher for self-employed as compared to the salaried segment.
- Rahul Mehta:** Do you think that makes sense? If you look at the NPA data or the provisioning data? Is it a small premium?
- Suresh Iyer:** I know because compared to the salaried segment where our gross NPA is 0.6% our self-employed NPA is around 1.6 or 1.65. So definitely it is 2.5 times that or at least 1 to 1.5 percentage point higher in some of the cases. So definitely the NPA is higher for self-employed to that extent yes the premium is less but as I said the same is happening now for LAP also.
- Everybody went in, LAP was a very niche segment but with the bigger boys coming in to LAP also in a big way there also the delta or the difference has come down to just half a percentage point.
- Rahul Mehta:** Given your 22 plus 5, 27 years do you think it's a bubble or you think it's a cycle?
- Suresh Iyer:** No over the period actually the appraisal credit appraisal norms, the rating norms, the risk pricing and everything has also kind of factored has been has improved quite a bit. Because you know when we started the self-employed segment we came in with a individual credit scoring model which had 23 parameters.
- Now on 23 parameters each customer was rated and there was a price band and which was almost 2 percentage wide. That was the kind of band that we used to offer for customers. So somebody who is on those 23 parameters could fall anywhere on the 2 percentage band. So that is how it started.
- Now of course you know with Sibyls and all those models being there, data being available much more freely. Plus you know onboarding risks also reducing because we can directly check with KYC, with the Aadhaar, we can check with the UIDAI, PAN verification, portal verification for ITRs and all those things.
- We have tools available to assess the bank statement and read the bank statement and analyze that. So definitely you know credit appraisal has also improved quite a bit. So the only thing risk I would say today now the NHB and the regulator is talking more about the valuation risk rather than the credit risk.
- The forecast now also if you see regulators are talking a lot about valuation. Because the bubble or whatever you can say is more on the sense that loan is given today at certain LTV. After 6 months the same customer shows a higher valuation and takes a top up loan.

So at the end it is quite possible that a 20 lakh loan or some customer who is eligible for only 20 lakhs at point X, 2 years from hence becomes eligible for a 40 lakh loan on the same property.

Rahul Mehta: Yes.

Suresh Iyer: So that is the risk that the regulator is talking about more than credit risk now.

Rahul Mehta: But do you see businesses that have less higher cost of borrowing than you, lower parentage, higher risk right. Some of the higher ROA that we talked about earlier in our call. What's your view on that? Because you have seen these things that grew for so many years.

Suresh Iyer: True. See actually if you see the regulator in the last 2 years has come out with a lot of new guidelines and new restrictions. Like of course the landscape was also changed with earlier NHB was a regulator now it comes under RBI. So there is not much of a difference between or a regulatory arbitrage for a housing finance company vis-a-vis a bank or this thing. Yes. So the guidelines are almost merging very much.

So having said that now in the last 2 years so many new changes have come like for example this PBC criteria for one. Where you have to have minimum 60% of your business into long term housing, pure play housing. Now many of the players who have been doing this 5%, 8% yield and all those kind of things have gone very aggressively on LAP.

Now obviously this will have to slightly be toned down because they will have to now comply with the PBC criteria. That is for one. Second thing is you know.

Rahul Mehta: Guys like that came in because of PNB?

Suresh Iyer: Yes so they have almost they are very very close to 60 or probably if you exclude the construction finance probably they are even below 60. Bajaj for that matter. If I go through their presentation it looks like they have already crossed they are below 60 if you exclude the construction finance.

Yes. So that is one. Second thing is you know the regulator has come with a guideline for you know it has become very tough on this refinance. So construction properties a lot of these affordable housing finance companies are mostly doing refinance cases. Where customer has already built the property from own funds or from borrowing or whatever. Now they are giving the loans for a completely ready built house and classifying it as housing.

So that has come under scrutiny in a very big way by the regulator. So a lot. And because of that refinancing was happening it was they were able to charge higher. Now with stage based construction linked disbursement has to happen. Then obviously then the premium may not be as much that they will be able to charge. So that could also affect.

So that is another kind of regulation that has come. On the risk side there is a requirement for having everything automated. So there will be an implementation or a cost of technology will have to be implemented across board.

So some of the smaller players may find it difficult to implement that. Plus this LCR guidelines where you will have to have liquidity support and all those things. So all those guidelines when you look at it is going to definitely impact the profitability of some of the smaller players.

And people like us where you know we have been mostly driven by the bank has a lot of guidelines which are applicable for the bank have also been implemented. So today at least I would say we are in a much safer space because these guidelines have not impacted us because we were already at 75% of PBC in terms of PBC.

In terms of LCR and all those things ICAP and LCR and all those things were implemented in our some of our companies thanks to the parentage of the bank much earlier than what the regulator has now been stipulating.

And even in terms of this PBC is one refinance and all. So basically in terms of the regulatory changes we have not been impacted much. Some of the other players maybe smaller players will be are likely to get impacted quite a bit. So I think that is something which is in the next few years is going to pan out.

Rahul Mehta:

Understand and when you see yourself going into other states etc. You see a steady state cost to income once you build that out how long do you think that will take 3-4 years?

Suresh Iyer:

So cost to income may not impact so much for us because even we are doing in a very gradual manner 15 branches in a year is not going to impact our cost opex much. Anyway our branches that we are opening are all on lease basis. So our lease cost is just very small cost of which all on small premises 700 to 1000 square feet.

So one time cost of interiors and everything is just about 7 lakhs on an average for a new branch. So put together it is it is not a very large cost which is going to come to the P&L for the branch expansion that we are doing. But on the other side once these branches start contributing to the business about 1 or 2 percentage point can start coming in by way of you know top line growth from this new branches itself.

So that will kind of in 2 years time the breakeven will happen and once the cycle kind of starts then by the end of the third year will be on a cycle itself will take care of itself.

Rahul Mehta:

Do you have any strategy around non-fee income or fee income rather?

Suresh Iyer:

Non-interest income yes actually we are among the lowest so there is definitely scope to improve it and we are looking at it. Our two things can be done one is you know in terms of the charges. You know our there are lot of other areas where we have been a little more I would say customer friendly who can say or maybe you can say that we have not been living some of the charges that competition has been doing.

So that is definitely something we can look at and second is a definite area where we can do some work is on our insurance penetration. Today our insurance penetration is the lowest in the industry and we are trying to push that a little more. So at least we would like to take it to around 50% to 60% today we are at just 35%-37%.

- Rahul Mehta:** Why is that so which are the companies that you are looking to partner with and you know?
- Suresh Iyer:** We already have a tie up for life insurance with Canara HSBC life and there in fact we have already been talking to a couple of other players also. Second in terms of non-life because property insurance only is mandatory for us. That is why we did not insist much on life partnerships but non-life that is a property insurance is mandatory there we have a tie up with three partners.
- So we have Bajaj General Insurance we have Reliance and we have Tata. So we already have three tie-ups for that. For life also we have since it was not mandatory for us we have not been pushing much but that also we will look at some partners. And people have been approaching us.
- Rahul Mehta:** So where do you see insurance sales could be sort of 60%?
- Suresh Iyer:** Yes 50%-60% I think definitely we would 60% even in fact our parent bank is also having a much higher penetration for life. In fact they also have close to 50% so we would definitely like to make it 50%-60%.
- Rahul Mehta:** I think if you have an HDFC life kind of player or even Bajaj partner that will help a lot?
- Suresh Iyer:** Yes so we have been talking to them as I said there are a lot of players even names you took plus a few others have also approached us.
- Rahul Mehta:** The City Union Bank also had a problem and now they have embellished some other players and they are actually getting a lot of traction over there. What worries you?
- Suresh Iyer:** One thing is we are actually quite behind in the IT space for which we have just embarked on this IT transformation project. So that is one thing which is somewhere in the third quarter of this financial year FY26 we will be implementing it. So there would be one small area where that would come in that is one small hiccup we will have to.
- Rahul Mehta:** Who are you using for your IT?
- Suresh Iyer:** Right now we have a LoS, LMS partner called Uncia which is providing us which is earlier called Theme Pro Technologies Private Limited. They are providing us they are also present at they have implemented the solution at ICICI home finance and Chola which is for non-housing. These are two vendors where they are doing it and of course they would be having other partners but these are the two large ones where they have implemented. But we have had this software.
- Rahul Mehta:** Who do you use for your cloud?
- Suresh Iyer:** Right now it is on Azure and it is basically with the vendor themselves are taking care of it. Uncia itself is taking care of the cloud and they are also on Azure and we are also on Azure. But what partner we have?
- Rahul Mehta:** You should use an Indian company?

Suresh Iyer: Sorry?

Rahul Mehta: You should use an Indian company to host your cloud?

Suresh Iyer: So right now yes I mean they are mailing solutions anyway we come and they have already have a tie up with Azure. But I think now with IBM is going to come, but there also it is not it is purely on Amazon AWS.

Rahul Mehta: We introduce you to L&T as a nice data center company we introduce you to. But when you are speaking about the technology and pardon my lack of knowledge I am not sure if this was in your time. I remember there were couple of small fraud issues that came out in Can Fin bank. Nothing crazy, but it worried me here and there. It may have been in your time, but I wanted to get your sense on if this technology will clean that up and what your view was?

Suresh Iyer: Yes, so actually these two things that we have already even with our existing vendor we have upgraded quite a bit. We upgraded so there was a credit as well as a non-credit both types of fraud were there. So along with our existing vendor itself we have upgraded and we have also in the last about one and a half years we have actually tied up with a lot of third party vendor solutions to also tighten all these things.

Like for this customer onboarding we have tied up with Karza, for our valuation we have tied up with Velocity, then we also have our internal we have introduced a reconciliation tool and vendor payment modules and all those things. We have centralized disbursement for which we have tied up with a parent bank for TD's demand draft facility and all. We have also done this BBPS for collections and this cash management solutions with SBI.

So we have all those kind of solutions we have already implemented in the last one and a half years to kind of block all these things. Of course with this upgradation we will have better solutions also and probably larger players with whom we will tie up, but at least in terms of with a current vendor also we have ensured that all these tie-ups are there so that we can block all these possible frauds.

Rahul Mehta: Dheep you had some questions?

Dheep George: Yes, sure I'll go ahead with them. So one thing Suresh that I wanted to ask you was we've seen with other HFC's as well that when there was a technological upgradation or a transition to another technological system, there were often operational issues that kept cropping up because of that transition. So right now we have a temporary issue where both of our states we're seeing a growth issue which we believe are temporary.

But post those issues clearing up with the technology implementation process along with us beefing up our sales and marketing team. Do you see any operational issues cropping up because of those changes?

Suresh Iyer: Yes, of course, we have that normally it has happened in most of the places there has been a disruption and technology has that ability to kind of bring in some amount of disruption, but in our case what we've done is unlike other players who came with a different vendor for LOS and

a different vendor for LMS. At least we stipulated that the LOS LMS has to be of the same vendor.

Therefore, what IBM is bringing is Pennant. Pennant has both its LOS and LMS application and it is already implemented with Bajaj and also at LIC. So, at least, the integration between the LOS LMS or the two solutions talking to each other will not be a problem because it's already from the same vendor. It's already integrated and it's already implemented and tested in a couple of other players.

So that is one kind of solution we have done or one kind of precaution that we have taken. The second thing that happens in any of these transformations projects that happens is a lot of what you call business process re-engineering and process changes are there. So that is something which is there. For that we have internally also have deployed a separate dedicated training department for it which will ensure that this entire training hand-holding and problem solving and all those things are taken care of.

And second thing, in fact, as part of our RFP also we have stipulated that the system integrator should bring in a proper support for training and we have evaluated that also. So IBM is bringing its own training and everything. They are going to provide a support. They are going to provide a team also to help us in the hand-holding and the transition phase. So that is the second area we are trying to minimize that kind of a problem.

The third issue which normally comes up is a lot of resistance to change and that is something which we will have to internally work because unlike other places where these IT transformations or changes keep happening every 3 years, 5 years. In our case unfortunately this particular vendor was implemented way back in 2011. So it's been almost 13 years that people have been used to this same software, the same kind of working and all those things.

So the resistance to change is I expect to be a little higher at our place compared to other places because there is too much of a comfort which people have developed with this present software. That we will have to work and is something we are internally working on.

Dheep George:

So do you see that impacting productivity of your employees?

Suresh Iyer:

A little bit yes, but with more training and all those things we definitely expect to minimize or reduce that, but little bit of thing will definitely be there. What we are trying to also do is if it is possible then we want to kind of slightly bring it ahead. Right now the schedule that has been given or provided by IBM is that it will be implemented in November. So one thing we are doing is we, at least, some of the smaller modules like the HRMS and a few others. We are trying the treasury and this thing.

We are trying to bring it earlier where there is less of an integration required. We are trying to bring it a little ahead. So that, at least, the team is at least accustomed to some of the new changes, some of the way of doing things, some of the new technologies and everything doesn't come in the same month. So that is most likely to happen in July August. Another thing we are trying to do is we are talking to IBM whether from November it can be preponed a little bit even if it is first fortnight of October then the critical H2 is affected less.

Because if it is in October first fortnight then probably by mid-November or before Diwali we can move on with the implementation and at least December, Jan, Feb, March we can have the full months to us to push the business. So that also is something we are trying to do because you know H2 is more is a 55% business happens in H2. So the less it is impacted it is better for us.

Dheep George:

Understood. And in terms of just the next question was employee, the employee culture right. Obviously we are taking a lot of effort to change the culture within the firm and try to push employees to be more productive. So, if you could talk a little bit about how that entire strategy in terms of change the work culture, what kind of roles Can Fin is looking for when they are hiring employees, where they are hiring from and how we are trying to build that culture to either improve productivity rates, reduce attrition whatever the goal is?

Suresh Iyer:

One thing that we are looking at obviously productivity thing means it has to be obviously more of performance driven culture. So some kind of incentivization, of course, we have done. We have recently introduced, at least, for the top management the chief manager and above level we have first time introduced the ESOP plan also. So that is something which will kind of bring in a little more of ownership and a little more of performance driven culture will come.

And, obviously, these things have to come from the top. So once the top is incentivized to perform better it will inculcate and push down the ladder also because only pushing the teams at the bottom to drive more or bring more business is not there. It has to come from the top. So one is the ESOP we have done. Second for this we have done more of performance driven incentives and all those things we are looking at and we have just tried to review in terms of the - in terms of the succession planning, we are trying to do something so that at every level there is a proper team.

And we are trying to push a little more in terms of ownership and accountability by giving at every level some kind of more delegation of powers and things like that. And that's basically what it is. And of course some of the policies internally also we are changing, but that is anyway an ongoing process. I can't I don't think it's much to.

Dheep George:

And how has that experience been? Are you facing a lot of roadblocks from existing employees or is it a more smooth process? Do you think it will take more time?

Suresh Iyer:

Yes, some of the cases of course there is a resistance and it is just expected that there would be some. But I think there is complete support from the board from the parent bank also. So I think that is giving a lot of support. It's very clear from the board as well as the parent bank that we have to push through and we have to make it a little more in terms of performance driven kind of attitude has to come. So there is a bit of resistance from the team which is expected, but then I think it will sail through. I mean it will go through.

Dheep George:

And how do you see this? Is there a certain increase that you expect in terms of the employee benefit costs that we will be paying out because of the new incentive based payments to the employees maybe as a percentage of your net interest income or net total income. Do you see that inch upwards?

Suresh Iyer:

See in terms of the expenses there is a it may not be a very large impact, but yes there will be some increase in the employee cost. Because we are looking at, some kind of benchmarking and because, if we are not in line with the industry then obviously getting lateral talent or at the top or at the middle management would be difficult. It is difficult in fact.

So, some kind of benchmarking is something we are looking at and we may do some kind of adjustments or improvements or some kind of alignment with the industry. So but still I do not expect that to be a very large impact because today in terms of our total cost if you look at it our employee cost is about today not a very high percentage of the total.

This thing is just about INR120 crores about a year. So even if it is increasing the way we are looking at it, it may not have a very big a couple of basis points to the cost to income ratio it may have.

Dheep George:

I understand. And another question was, we also had mentioned that we are also getting into higher ticket sizes right now our ATS is 25 and we are trying to push in the 25 to 27 range. When inching up like Rahul had mentioned that you are going to see higher competition from BACs and in the past from what we have studied is that when there are rate cuts, usually HFCs especially prime HFCs see higher competitive pressure right?

Especially in the form of BT outs. So, is there a strategy there in terms of containing how much transfers are going out from our company to the banks or you know other HFCs?

Suresh Iyer:

So, right now we have not actually even though the rates have come down in February we have not seen much of the private sector or the mid-size HFCs or the, larger HFCs reducing or cutting the rates for incremental lending. A couple of PSU Banks yes have done their cut down their rates it could either be because of this pressure or it could be because of the Q4 incentive or special plan or offer for Q4 offer or something.

But otherwise players like you know Bajaj or LIC HFL or PNB HFL who are the main ones who are taking over our loans I don't they have not reduced as yet the lending rate and it is already quite late in March. So I don't expect them to reduce much even in the last 16 days or even if they do it's not going to impact us much in the next 15 days.

So, right now the pressure is not very high in terms of takeovers but another rate cut or couple of more rate cuts definitely the banks right now are like 8.2 whereas we start from 8.95. So if that further, goes down then yes therefore then the banks for us for the rate differential will be very high.

But having said that, on our liability side also we are expecting about 5 to 7 bps reduction in the current month once by end of March. So we have a little bit of a scope to pass on to our customers also. Same way if one more rate cut comes again we will have because, on the liability side 60% of our borrowing comes from term loans from banks and another 6% to 7% from CP. So about 65% of the borrowing is also linked to the market.

So we will experience some benefit on those borrowings also which we will be able to pass on. So the rate may not continue to be just widening. We will also have a scope to reduce our rate of interest for our customers.

And effective Jan 2024 we also have moved to a quarterly reset policy from annual reset. So every quarter we will also be able to reset and pass it on to our customers. So the time lag between the rate cut of the repo or what we pass on to our customers may not be very high. So to that extent that also will give us some benefit.

Dheep George:

And this strategy of pushing into higher ticket sizes right. So two things one is you are trying to increase your share of the self-employed segment and second is you are trying to do higher ticket size. So is that limited the idea of higher ticket size and self-employed is that going to be limited to your core south markets, or even in the new states where you are expanding into Gujarat you are trying to implement the same strategy?

Or in those new states you are going to initially start with mostly salaried employees is your original 25 lakh ticket size and then maybe push depending on how you think competition and then market responding?

Suresh Iyer:

No both strategies will be implementing simultaneously across all branches. There is no segregation that we will not do it in the south or we will do it more in the north. Because even in the north and the west actually we have had a fairly long presence. It's not that we have not it's just that the focus was less in terms of the sales in terms of the branch expansion and everything.

But otherwise if you look at it today even in the north and in the west we do have a fair amount of staff who have been with us for more than 5 years, 10 years and all. Like for example today our Zonal Manager who is sitting in Delhi and our national sales head who is, heading ours who is just initiating both of them have more than 10 to 15 years.

In fact our Zonal Head has more than 20 years of experience with Can Fin. He is basically from the north both of them. Same way our, people sitting in our Mumbai team. These are all more than 20 year old branches for us Lucknow, Kanpur, our Jaipur four branches in Jaipur our Indore, Bhopal, our four branches in Bombay, Pune and all those things. They are all fairly old branches.

So it's just that the focus was a little less or it was the growth was already coming well from the southern geography. So the focus was less in the northern and western geographies which now we are going to focus equally across the PAN India. So that is what will bring but the team is fairly there.

Yes we will have to get new people when we add branches, obviously that we'll have to get and we'll be doing that from you know through lateral hiring only. And so I guess, there is no good not going to be any separate strategy for south or for non-south zone geographies.

Dheep George:

Got it. Yes, those are the questions I had.

Rahul Mehta: Look, I think Suresh, one hour on zoom is very difficult to understand a company and to understand your experience forget about your teams. So it's an insult to do this actually. But thank you for a very good overview. A lot of energy, a lot of change you are bringing about. You also seem to be carrying the best of the past with you. It's always good right, because Can Bank is Can Bank.

One, what we really like to do and we, try and make it beneficial for you also by giving you feedback is we like to visit a few branches. And we can do that on our own also. But sometimes we get better tea if we go through your direction.

Suresh Iyer: Most welcome.

Rahul Mehta: So some CEOs don't like it. So then we go on our own. But some CEOs actually like SBFC, Aseem Dhru enjoys it. So we go we give him suggestions. We also go to other people. We, do our sort of we give him input. And, I think he knows most of the stuff. But you know he at least pretends to think you're valuable.

Suresh Iyer: It's definitely very helpful. It's not that even some of the things would be known. But definitely you know there are good valuable inputs that come. So, I mean, if you are if you can come down to Bangalore or something then we can definitely host you and we can take you around a couple of places or even if you are planning some other bigger job. But at least it will be better if you can start with maybe some of the places where we have a stable team because then somebody will be able to also explain the journey and all those things.

Rahul Mehta: What about Bombay or Delhi? How is your team there?

Suresh Iyer: Delhi yes definitely. Bombay actually our, Bombay comes under our west zone which actually our Zonal office is in Jaipur. So, if it is Delhi then yes our zonal team can also be there. And as I mentioned you can also meet our Zonal head who is been with the company for more than 20-25 years.

So you can we can take you through the entire journey also of the company. So Delhi is fine. Bombay may not be, you may not be able to get a senior member over there.

Rahul Mehta: Okay. So we will get back to you on ideas on that.

Suresh Iyer: Sure.

Rahul Mehta: And anything any questions you have for us anything we can help you with?

Suresh Iyer: No, I guess I mean we have covered most of it, but I think, once we interact maybe we can have more closer chat once you also have a closer look at our branches or something. We can definitely you know come back and otherwise also if you have any queries or anything we can we can discuss other time also.

Rahul Mehta: Yes. No I really appreciate your taking the time and we have a lot of respect for Ghru and we have a lot of respect for Can Fin also. But I think if you combine the two this can be something

really special right. If you can combine the strength of Can Fin with the things at Ghru that is that could be something very special.

And like I said, we talk to Surendra a lot who has been around for some time and we look forward to, I told you about some of the other financial services companies we have in our portfolio. We are very careful what you own because if it doesn't work in financial services then it can be very painful.

Suresh Iyer: True.

Rahul Mehta: So we do a lot of branches, so we will be back to you, but thank you so much.

Suresh Iyer: I really appreciate. Thank you so much. Nice talking to both of you.

Dheep George: Thank you.