



“Can Fin Homes Limited Conference Call”

March 19, 2025



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

Management:

I'll just take you through the journey, in the last two years that you've done and what are the things. So incidentally, I joined in March '23 and that coincided with our strategy, normal strategy review that happens every 3 to 5 years. So at that time we also took the strategy for the 5-year period from '23 to '28.

So there are some points which the board, the discussion that happened and the kind of few key aspects that we have drawn up for the part. And before that, I'll also just share what are the, you know, challenges that we faced or the some of the observations which where we felt we need to work on it.

So in terms of the segment that we are operating in terms of the products that we are managing, that is a thing. I think the board is also very comfortable and continuity has remained in terms of the focus area of core housing and higher focus on the salaried segment. So the board is very comfortable because that has helped us ensure very steady credit risk profile and everything.

So, you know, in terms of the segment, that is the salaried segment, in terms of the product which is focused more on housing, the board was by and large very comfortable. Of course, a little tweaking is what we did suggest and the board has accepted. But by and large, the focus will remain the same and that has helped us in ensuring a very good quality of say, our credit costs have been less.

We've ensured that in the last 10 years. I think we've not, even once we have crossed the 1% gross NP figure. So that's the kind of thing. But the challenges that we are faced, one was that, the IT system was a very outdated kind of a system. It had, in fact, long, it was long, it had lived way beyond its life, okay. Because this particular package was implemented in 2011 and since then the same package was going, not much of upgrade, not much of a change.

It was a monolithic package where LOS, LMS was there and no other things like, you know, DMS was not there, CRM was not there. In fact, the system was not even supporting API integration. Therefore, third-party vendor, solutions and third-party applications also was not compatible or working with this. So that IT was a major, major challenge.

The second challenge or some of the points that were discussed in the strategy were that one is, we were purely dependent on one source which is DSA for sourcing. So we didn't have an alternate or we didn't have a, so it was purely a, so there was no sales approach to the whole business.

So that was one thing where, you know, in the strategy we decided that we will, have our own, slowly build our own internal sales team and that sales team should eventually, at least by FY28, contribute about 20% of the business. Today 85, so Q4 FY23, 85% of the business was sourced only through DSAs.

So not that we want to hear against DSAs or we want to reduce or cut the DSAs, but at least while that grows in a normal fashion, this own channel should be able to bring in a good amount of delta to the business. So that was one thing.

So we said we will have our own sales team and well most, even in '23, most players had already started doing digital and Bajaj, in fact, completely was through a digital sourcing only, but still we didn't have a digital channel. So for that, we need to also upgrade our systems to support the digital onboarding and then we needed to start having.

So as part of the strategy, we said that we will have, by FY28, 60% should be from DSA channel, 20% should be contributed by our own sales team, 10% from digital and the balance 10% can be through walk-ins and stuff like that. So that was one key area that we discussed.

The second area that we discussed was that, we have a huge geographical concentration in the south. So five states alone were contributing almost 73% to 75% of the business. Although in terms of the branches, it was a 60%, 40% or that kind of a mix, but in terms of the business, almost 73% to 75% was only five, seven states.

So we wanted to expand and have a more, so unfortunately, we had identified this, we started work on it, but before that, we got hit by both Telangana and Karnataka getting affected. Anyway, the idea is that we want to have more penetration in the other states. So what we said was, we will start the branch expansion, we will have more focus on the North and the West, which we identified, because east and northeast and all, it's still not a very, very penetrated area and demand and all is there, but you know, the segment and everything, it may take time.

So we said we'll focus first on these things. We already had a good amount of branches in the north and the west, our branches in Bombay, our branches in Jaipur, Delhi and all. We were having very senior staff also in those places, who had grown from within the organization. So we said we will focus on these areas.

So one more thing along with that was that we had stopped the branch expansion during the COVID period and all. So now we said we'll restart the branch expansion and every year we'll have 15, 15, 20, 15, 20 branches, so that by FY28, from 204 branches, we will take it up to 205 branches, we'll take it up to 300 branches. So that was the plan. So branch expansion we started and we said we'll focus more on North and the West.

So last year we opened 14 branches, mostly in the north and west. This year also we are opening 15 branches. So they are mostly spread in the North and West. Of course, there are a few in the south also, but by and large it is in the north and the west only. So that is the thing. So that geographical concentration we want to diversify.

So one was the channel mix, second was the diversification geographically. In terms of the product and all, we felt we are comfortable with housing, which was almost 89%. We said we will bring it down to 80%, including CRE. So 20% can be non-housing, including lab, including top-up loans, including broad funding and all those things.

So that is what we will do. This will give us a little, you know, support in terms of the NIMS also, spreads also. So and up to 80%. So our focus will still remain on housing. Same way, our focus will remain mainly on salaried segment. We were about 78% plus was salaried, 72%, and 28% was SEMP.

Now we have brought it up to 70-30, but going forward we are okay to make it up to 65-35. So incrementally now our SENP segment is a little higher. So that has slightly helped us improve our spread. So during the year, if you see the three quarters, every quarter we have added one or two bps to the spread. We have been able to improve mainly because of this.

And of course a little bit on the liability side, we have done some adjustments. So this was the strategy, a little geographical penetration, our sourcing mix, and a little bit of tweaking in terms of the product and the segment. These were the main thing. And as I said, IT was the main challenge. So we decided to do two things.

You know, while our entire IT transformation would have been a much longer journey and we had to take some immediate steps. So what we said, we will first review our existing module. So we upgraded that. So in January '24, we took the approval and we started embarked on a journey to completely upgrade our existing software.

So our existing vendor, we had already, come out with a microservices environment module. So we decided to upgrade to that. And that way, and that also had API capabilities, API, you know, the same. We also had some, they also had some other modules which were like CRM and all those things. So we said we will take that. So we have upgraded our existing software.

So today we have, thanks to our upgrade in our software, we have been able to, at least part of it is now in a microservices environment. We have also been -- because of that, we've been able to tie up with third-party vendors. So we have tied up with Karza. So Karza tie-up enables us to, you know, take Aadhaar verification straight from UIDAI portal, PAN verification from IT portal.

We are able to now directly pull the IT returns which are filed in the IT portal through a OTP which goes to the customer. Once that is there, we are able to now pull reports. So we don't have to depend on the third party. I mean, we don't have to depend on the customer giving the IT returns which can be fabricated also. So that has also been eliminated.

We've also now, CIBIL was being pulled manually by the staff and it was coming in a different format which could again be modified. So we have now done a CIBIL integration where it directly comes in PDF format. It cannot be changed. It directly comes into our system. So that way it does that.

Then we have done for our valuation, we have brought in a third-party vendor where they give a mobile app to all our valuers. So now all the valuers are using that platform. So every valuation report comes in a uniform format. We've added or improved the quality of the valuation reports plus the platform itself is able to give us some inputs.

Like, for example, what -- because they have a tie-up with other vendors also, other companies also, HFCs also. So they are able to give that other -- without naming the company, they are able to tell us that the last, in the same pin code, the last five transactions by other competitors has been at this range. So, if our valuer gives a range of INR2,000 per square feet and the competition has given only INR1,600, then we know there is some overvaluation. We'll be able to catch that.

So about 5% variation, acceptable. But beyond that, we can question. So we have done that tie-up with Velocity.

Then we have implemented our -- for collections, we have done cash management now. We've done a BBPS for our customers can like, utility bill payers and everything. Through BBPS, they are able to make the payments. Now that volume, almost on a daily basis, we are doing somewhere close to 20 lakhs-25 lakhs collection is happening through BBPS. So that we have been able to migrate.

Then, we have been able to onboard a vendor for reconciliation. So, basically, now that reconciliation is automated, all the manual reconciliation that was happening at the branches can be eliminated. So, directly, the productivity will also improve, plus controls are also inbuilt. So that also, even vendor management, we have now centralized all the vendor payments. So branches don't have to worry about it.

All the checkbook controls which are there in the branches have been removed. So there are no checkbooks. Only for petty cash, they have to use the checkbook which is there. That also, after the vendor management tool, we are giving them a card. They just have to use that card. So no check writing, nothing at the branches. So all these things have been possible because we were able to migrate our IT system.

Now what we are doing is, we are also completely doing a transformation. So we had a floated RFP. So we have got -- IBM has been, actually got IBM, Accenture, PCS, Kindle, KBMG, and Deloitte. Six vendors participated, all good partners, and eventually IBM won the contract. So we have started that work. The contracting is done.

That implementation, which they are coming with their own LOS, LMS, DMS, HRMS package, they are coming with their own treasuring module, they are coming with their own decision engine, middleware, everything. So, that is also going to happen in this. So once that happens, that will further improve. It will be an additional step.

So this vendor also, which is there, is a much smaller player. So we will get the advantage of much bigger players. Plus, all said and done, 11, 12-year old platform. So whatever improvements they have done also is more of a patchwork on the existing things. So it's a much heavier platform. Instead, we will be more -- we will be able to move to much more nimble LOS, LMS service application.

So these are the major things that we have done, where we are looking at it. So in the long run, if you're looking at it, how the story is going to evolve or how we are looking at this, is we are obviously going to look at a more aggressive sales, which was not there at all. So slowly the sales approach will start happening. So this will help us in bringing a much more stability to the growth. Our own teams will be able to bring that. And the reliance on DSAs at least will be there, but it will only reduce to 60%.

So what will happen is, the threat of a little bit of a BT out and all those things which happens with the DSA will also -- can also be controlled and right now, the DSAs are more of what they bring. So we don't have a choice of this customer selection. But once we have our own team, we

will be able to drive the customer selection of the segment we want to target, the kind of projects we want to do. And along with our sales team, while they are also doing direct sourcing, we are also starting our APF channel. So we are doing APF projects.

So this year, from June, we started. So by now we have about 70-odd project approvals, probably. We have already crossed 60. By the end of the year, we will be having some 670 project approvals. And next year, we want to increase it to 250, take it to 250, which means that we will have steady tie-ups with builders. So, we will be able to get some leads from there also. And as the builders also keep launching new projects, they will obviously, our tie-ups will continue. So that will also become a regular over a period stream of business that will keep coming to us. So that is also what our sales team will bring.

So we will have a slight change in the mix also because right now what is happening is, we are doing almost 70% - 75% of the business is coming through the urban development authorities and the panchayat areas, which is mostly on the outskirts. But now with this APF tie-ups, we will also be able to do a little more on major cities, within the cities' corporation limits. So that is one thing. So, one is the sales, like little bit of aggression is likely to happen.

Once this new IT system comes in, productivity improvement and efficiencies will come in. That will help us without -- at least will help us in a little more in terms of our opex ratios because we will be able to use the same team for other things like sales and all those things. Plus once this IT comes in, digital platforms will start. So digital onboarding and that one new channel will also get added.

Plus, we have also strengthened a lot in terms of our new platform that is there. We are moving our infrastructure as well as our security areas we have covered in the IBM tie-up that we are doing. So we are moving from our normal MPLS to an SD-WAN setup. We are also implementing much more availability zones in our servers and all those things. It's all going to be on cloud. So, in terms of this thing, we don't have to invest in our own hardware. So everything is going to be on cloud.

So even in case of, you know, we don't have to build in the redundancies. In case if month end, the pressure is more, the load is higher, then obviously we pay as we use kind of a model. So, those kind of redundancies will also get eliminated. We don't have to build for those redundancies. These are some of the things that are going to happen. So we will continue to remain in terms of our focus area. So without compromising on the quality of the business, we want to slightly bring in efficiencies and bring in a sales approach.

Questioner: What are the challenges you feel? Do you feel that there is any resistance from people's side or first of all, you want to go for the IT change? Are they ready for it or do you feel that...?

Management: The resistance will come, of course, because people have become too used to this for the 13-14 years. So that will be a little resistance to change. But I think by and large, people have -- one thing is that once we move from our existing vendor to a higher version, people have at least seen that there are a lot of opportunities or benefits to the new software.

And it was like people were not exposed to what was happening in the market outside. At least now people know that there are so many things that are happening, and we can definitely benefit from change. So I think that is not going to be a problem. But yes, resistance to change is going to be there. That is one thing where...

Questioner: A lot of things might be centralized. A lot of things might be on the system. So power of the people might go off. So they might feel that...

Management: Yes, that is going to be there. That we have already done and we have already -- people have accepted it like we centralized disbursement. So now that is there. Second, we centralized the - - we have a credit review monitoring department. So every branch -- so while the branch is sanctioning the cases, but the CRM department is reviewing every case, 100% of the cases.

So what happens is, if there are some mistakes happening, somebody is running too fast, somebody is making too many deviations, somebody is taking some shortcuts, it will be caught and immediately we can take corrective action. Plus, of course, vendor management, reconciliation and all those things, so that, of course, is also there where we will be taking away the...

Questioner: So we are just hearing that there should not be any resistance to change. It might only delay the things. It might not basically change at the same time. See, basically what makes us look at this company [inaudible 0:17:52] of Canara Bank basically helps us to bring down the liability set cost. Cost of borrowing definitely [inaudible 0:17:58]. And the asset side, when you are there, we are not worried. Frankly, I am telling you, because we have seen your performance and we have seen what you have done. So that brings us basically to the thing that both the things match and if you are able to scale up.

So the idea is that housing finance basically has a thing. You are competing with the biggies. 80% of the business is with banks. 20% of the business is housing finance. If you see the overall picture, you know, you see that INR8.5 lakh crores disbursements are basically the housing industry. 40% is... 35% is BSE Bank, 35% is basically... 20% is your housing finance. Basically, you fall in the 1% category of INR8,000 crores on an annual basis.

So how do we see that share of market share? Definitely, your growth will be there. There is no doubt about it. Like you said, from a INR25 lakh ticket side, might be now you are moving to a more city area. Might be that you might improve over there. On the product side, which you are saying that, no, basically you already have it.

Questioner: Do you have builder loans more or do you feel that only trials will be there?

Management: Only trials will be there. We are not going to do builder loans.

Questioner: No builder loans? So basically 80% of that business are included in the CRU. That ratio will remain to the same extent or...

Management: Yes, so right now it is around...

- Questioner:** 70% and 10% is basically your housing. Top of 10% or 10-10% basically?
- Management:** Yes, yes. So it is about 5, just marginally increased to 6. We will take up to 8% or something by the end of this year. So there will be a slow growth only. We will do more of lab, but then in the overall scheme of things, the AUM growth contribution as a percentage of AUM will still rise, you know, on a slower...
- Questioner:** So, lab fairing of existing customers only as of now?
- Management:** Earlier it was like that. So, last year when we changed, I think December 23 or something, we changed the policy and we said we will also allow it for new customers. So that is where, we are slightly seeing a slight delta in our lab book also.
- Questioner:** As you said, the focus, you are definitely right. See, for a size of around 210 branches or whatever, 220 branches now, you have around INR38,000 crores loan book per branch. If you see, I don't know the numbers will be INR35 or INR40 crores per branch. So, are the volumes going up in the particular branch which are there or you are not seeing or basically the ticket size is going up?
- Like new branches, if you see, suppose if you are adding 15 branches per year, if you would have, on an average, I don't know the initial amount is INR30-INR40 crores, this goes for a month for total branches or INR15 crores if it reaches. So, you can add INR800 crores for the new branches from the total 15 branches. I don't know what the number or how much breakeven time it has taken. That means basically it takes 10% volume or value growth from the new branches?
- Management:** No. So, branches, we are adding 15 branches. So, that comes to around 7%-8% of the business that comes from branches. But these branches are all mostly in the Tier 2 towns that we are adding in the north and the west and it takes 2 years to reach the breakeven point. So going forward about 2% delta should come from the branches, the new branches that we are adding.
- Questioner:** So, 8%-10% growth will be there from new branches you can say or 7%-8% growth will be there from new branches?
- Management:** New branches, like for example, this time in Q3, the new branches, 14 branches we opened last year, those branches have contributed about INR30 crores in Q3.
- Questioner:** INR30 crores per month?
- Management:** No, no, INR30 crores totally in the Q3, which is about INR75 lakh per branch per month. Now, normally a Tier 2 branch which is there should do about 2 crores per month. So, in the next year when you look at it, next year the same branches in FY26 will end, in Q3 FY26, where you will see that they are contributing not 30 but they would have contributed 60-65 crores, they would have contributed closer to 2 crores per month per branch.
- Questioner:** Okay, 2. Now, what is the mature branch basically contribute like, if a branch becomes mature in the...

Management: See, we have actually, classified branches into 5 categories. There are branches based on the AUM basically. So, the staffing also is templated based on that only. So, a branch which is having more than INR500 crores business portfolio is an extra large branch for us and there we have 9 people.

Then it is a slightly lower, below that we have the very large branch INR350 to INR500 crores, there it is 8 people and so on we have given it. So, smaller branches which are up to INR100 crores of AUM will be having, will be a small branch which will be having only 3 people. As the branch grows, we will keep adding people also because you need to, you know, provide the support, you need to provide the, you know.

So normally a branch which is like, for example, a large branch which is a more than INR500 crores branch, they do somewhere in the range of about 50 to 60 cases per month. 50 to 60 cases which will be around anywhere between close to INR12 to INR15 crores they are doing per month.

Questioner: But how many branches will be like INR500 crores roughly?

Management: About INR500 crores plus we have about 10 or 11 branches. 10 or 11 branches are more than INR500 crores and they are doing about INR15 crores per month. Okay.

Questioner: Do you see that other branches maturing?

Management: Yes, absolutely.

Questioner: Is the branch productivity can increase or you see that they are in saturation in the older ones?

Management: No, no, no. They can, they can increase. It is not only because of the ticket size but obviously we can add more people. If you see for the last many years, we have not, I think the DSA count has almost remained stagnant. Stagnant between 1300 to 1500. It is roughly arranged between that only.

So which means not we have a scope to increase our DSAs. Two, we have not added branches for 4-5 years. The branch expansion had stopped. Now we have restarted that. So that is one thing which is going to show results in the coming years. We have not looked at low-hanging fruit like a LAP.

We have not looked at low-hanging fruit like top-up loans, all those things. So that is something which presently was around 10%-11%. We are looking at increasing it to 20% which means there is a good amount of delta which can come from that also.

The other thing of course is the ticket size. Ticket size can also increase even if it increases from 25% to 27%, 10% growth has already come from that itself. Plus the productivity improvement that will come once we improve on the efficiency, once we improve on this technology can bring in all those efficiencies.

That will also help releasing some staff for fieldwork, releasing some staff for sourcing, builder tie-ups and all those kind of things.

Questioner: So the existing branch has the possibility, the opportunity is still there. In the areas which we are there, the opportunity is still there for them to grow. They have reached a stage where they cannot grow?

Management: No, no. Every quarter what we do is we see 2-3 branches who have migrated from one level to the next level. And now what has happened is we already have certain branches where we may have to create a new category more than the ELB also.

Because what has happened is there are some who are already more than INR800 crores. There are 4 or 5 out of those 10-11 branches who are now having a portfolio size of more than INR800 crores. So there we may have to do a different kind of categorization and we may have to give them maybe something more also.

Questioner: So this growth story, I think you are feeling that it can have a good scope because you are competing with the biggies so it becomes very difficult to have the spreads and do it because their spreads are lower than how the PSU and private bank competed. But the customer segment might be different. But what is happening is that they are also entering into smaller customer segments.

We have seen that. If you see from 2020 onwards, affordable as an overall percentage has come down from 50 to 35. I don't know what is the reason but builders are not incentivized. They are not going for that. Whatever the reason but the overall share of affordable housing has come down to a drastic amount. It was 50 in the overall scheme?

Management: True, true. There are basically two things. One is ticket sizes. As I have gone up earlier, we used to do today I don't see any company which is doing less than INR10 lakh business as a critical area. Everybody, even the so-called affordable companies are doing INR15 lakh loans. Because the cost of construction, I remember in 2003 when we started our first project we did in affordable for one of the Ahmedabad Railways builders, Bakery Constructions.

That project you will not believe, the cost was INR850 per square feet was the construction cost. That also he had said ground floor was 95,000 and as we go up it goes up. So it was INR950 for the ground floor and INR850 for the fourth floor. That is how the pricing was. And today, even land we are not able to complete.

Cost of construction per square feet itself everybody is talking about minimum INR1,500. So you don't get any project which is more less than INR2,000-INR2500 per square feet. Even in tier 2 towns. So that is one of the reasons whereas the definition of affordable has not changed. So that is one of the things. And second as you rightly said, the supply is always an issue.

Because after CLSS has been withdrawn, there is no incentive for builders to actually enter that segment and do. Because compared to a prime segment, affordable segment is a slow moving thing. So you have to provide that incentive to hasten that process otherwise builders for them, turnover is the main thing. The moment you have a project which you have to work on the project for 4 years to sell off the whole thing, automatically the builders lose interest.

- Questioner:** So as I said, you don't see any worry because we also don't feel because since you are there, I don't think there is a compromise on quality. As we go for growth, as we go for other products, hopefully you don't think so.
- Management:** We have actually, as I told you one is this credit review monitoring. Second, we have also introduced this centralized disbursement. All these controls to see that customer quality is there. Plus we are slightly moving up the segments. Obviously, as we move up the ladder, quality does improve.
- Questioner:** But NIMS, do you think will get affected?
- Management:** NIMS, we are at least not. Because as I said, to some extent we may have to offer to that cream segment, slightly higher ticket size, some lower rate. Which we will offset by doing a little more of LAP, little more of self-employed and all those things. So in spite of this slight increase in ticket sizes if you see our NIMS slightly, I mean at least spreads we have been able to improve a little bit.
- Questioner:** Is there or you feel not much?
- Management:** See, traditionally the NPA levels are a little high compared to the salaried segment. Our salaried segment has a 0.6% GNPA, whereas self-employed is about closer to 1.6%, 1.65% GNPA. Because the percentage is more towards salaried segment, overall my GNP on the entire book is around 0.9%.
- Questioner:** What I mean is our credit cost has been in the range of 0.15 or 0.24 but it will remain in the same range?
- Management:** It will remain in the same range.
- Questioner:** So the credit cost will go up as we cut some of the exchanges?
- Management:** No, it will not. In fact, this also I am saying is basically the provision that we make. The provision also actually for us the PCR is on Stage 3 is around 47%-48%. Because we have been a little conservative even in that. Whereas if you see the competition, the PCR for the Stage 3 is just about 20% to 30%-35%. Nobody is having a PCR more than 35%.
- Questioner:** So on the leverage side, we are leveraging around 7x. Do you feel that we leverage more?
- Management:** See, right now what has happened is over the last 2-3 years, we have had a growth rate lower than the ROE. So therefore it's more accretive. Therefore, we have not actually our leverage has been coming down. But once the growth picks up, definitely our leverage can go up a little bit. In fact, rating agencies are comfortable up to 8. So definitely we may not touch 8, but at least 7.5, 7.6 or something, we can definitely go up to that.
- Questioner:** And capital adequacy wise, we are quite comfortable?
- Management:** We are very comfortable. Our capital adequacy is almost close to 24%.

Questioner: So you won't require to raise any capital?

Management: Not at least in the next couple of years, 2-3 years.

Questioner: Any major advantages from parent apart from the liability side?

Management: No, on the liability side also, just the parentage is there. So we are able to draw. But directly, as a direct benefit, we are not getting anything. Because Canara Bank also has both of us are listed. So we have to follow the related RBI monitoring.

Questioner: Any interference in the work? No.

Management: In fact, the advantage we get is that because Canara as a group comes under the conglomerate, so RBI also has a group for monitoring policies and all those things. So every quarter, all the assurance functions, they have an oversight on all the associated subsidiaries and RRBs. So therefore, Group CFO, Group CRO, Group Compliance Officer, Group IT Head, they all also make a visit and they have their own checklist and they are monitoring any new guidelines which is coming. They also see how the implementation is happening.

Questioner: First time they appointed somebody from outside?

Management: No, just before me also, the MD was from outside. Mr. Girish Kouski was the first MD whom they appointed. Previous to that, it was always MD was somebody from Canara Bank. So he was the first. He was there for 3 years from '19 to '22. And after him, I am the second.

Questioner: The disbursement jumped like in 2021?

Management: Yes, during that time it was there. Because that is also when the DSA percentage, because till 2018-19, our DSA percentage was only 50%. Direct business was 50%. So suddenly, entire thing went to DSA and the DSA percentage became high and all those things.

Questioner: Because we have seen in lending business, we have invested in the Sundaram Group, Sundaram Finance and all. In this business, basically the person who disburses loans and collects loans are the same. Then only the responsibility comes. Otherwise, the person disbursing loans is always looking for the targets and the person collecting is basically a different person. So the whole dynamic is the same. So that model basically to survive for a longer term, good quality of loan book.

If the person who is disbursing is responsible for collection, then it becomes a different person. Quality makes a lot of difference. In DSA, basically it gives you business but at the same time, if you compromise, then your whole thing is gone. Basically, it makes us interested because your gross income has been consistent over a period of time.

Otherwise, it has become very like whatever we have seen grew. Almost like we are seeing over here for a long period of time. Only thing is that we have to just improve our marketing and see that penetration improves. Yes.

Management: So we hear that the challenge is one IT was there and second of course...

Questioner: How much you are spending on IT is about INR300 crores?

Management: INR300 crores, INR297 crores is the total project cost it is seven year project..

Questioner: How does it come out?

Management: The capex is INR100 crores and opex is INR197 crores. So capex and opex both will hit in FY '27 because till that time we have the project implementation period.

Questioner: FY '26 nothing much will come?

Management: FY '26 nothing much. Only some INR6 crores, INR7 crores and INR8 crores are there which will be basically some infrastructure.

Questioner: How many years?

Management: This is the 7-year project. So 1 year is the implementation plus 3 months of hand-holding. So 5 years and 9 months is the period in which we will be amortizing the whole thing. So INR300 crores over maybe 5 years also you can have INR60 crores. And currently we are already spending INR15 crores.

So that cost will once we sunset our existing vendor in December or latest by March so next year that 15 will be saved whereas the INR60 crores will come. So net-net about INR40 crores, INR42 crores is the impact which will be there which is about 1% of our total revenues.

Questioner: Basically compensated by productivity and other things?

Management: Correct.

Questioner: How is the prepayment happening? What is the ratio like currently?

Management: Currently our prepayment plus amortization plus part prepayment everything comes to around 15% to 16% for the year. And by and large it has been quite steady because we have been sharing the data also in our presentations. It is every quarter it comes to 3.5 give and take 15 bps-20 bps here and there. So by and large it has been very steady.

Questioner: What is the reason normally for interest rates to move up?

Management: Our BT out that was happening see there is one in fact here what we have seen is about you know out of this 15%-16%, 4% the 3.5%-4% is the amortization. The remaining 11.5% that is there 8% is the part prepayment where customers are making the payment more than their EMI or are coming and making payment. That is actually written on the higher side for us compared to other places.

It is good from the point of view not as a lender. The longer it stays with me it is better I earn more. But the point is from the customer's point of view it is yes it just shows that the tendency of the customer is that they do not have less of a liability.

That also is a factor of the customer selection. But at the same time so the prepayment that is there is about 3%-3.5% is the actual BT out. And there when we analyze the main reason why people go out is of course rate of interest is one of the things but the bigger reason is because they are offered a top up loan.

And which some of the players were aggressively doing. They were taking over our loans and giving INR15 lakh, INR20 lakhs top ups. Going forward I feel you know now the regulator is also been talking about this because they also see that you know there is a valuation bubble or not exactly bubble but there are concerns they are raising on valuation.

Because a customer who takes a loan and is eligible for a on the property say about INR20 lakhs the same customer after 2 years has drawn INR40 lakhs against the same property. If you see the property you know cost the growth in the property rates has not been to that extent. So then it means that you know there is a valuation increase which is probably not justified.

So they have been raising this concern over the last couple of quarters and I think in terms of the guidelines, also they are going to be little more tight on this. Yes so if you know the top ups are slightly capped or you know they are controlled this thing so then because what has happened was a lot of these players have been doing this top ups and which is classified as a LAP or a top up.

Now this PBC criteria which has been introduced you know Primary Business Criteria. So now a lot of companies are already hitting that limit. So they will have to slow down on their top ups. So that will probably help us.

Questioner: Talking about the parentage and all, of course, they help us on the liability side, but are just going through a credit rating report, actual loans from Canara bank are very little?

Management: Yes.

Questioner: Any reason for that?

Management: No, I mean it is the independence is there. So only as I said both of us are listed. It has to be a related party transaction, it has to be at arm's length and only for business. So we also go and raise from others and if they are able to match the rates they will give it, but if they are not that is as simple as that.

We do not have otherwise also any kind of linkage in the sense that their loans are given to us or customer base is shared with them or their customer base or their reject loans or their loans below ticket size come to us. Nothing of that sort. The fact that 80% of the business comes through DSAs means that it is purely sourced from the open market.

Questioner: Do you plan to bring down the DSAs to 60%?

Management: With our own team doing more business I think this will grow at its natural pace at 5% to 7% growth.

Questioner: So you will be pushing your sales team to which way?

Management: Sales team has to do more.

Questioner: You feel that there are high chances?

Management: Yes. So right now what we have done is 30-35 people we have drawn from our existing branches only. With more technology bringing in efficiency, a lot of more activities getting centralized, lot of more things getting automated. We should be able to free people in branches to now move to. So without adding more staff we should be able to increase our staff and our marketing and sales department.

That's where the real thing will come because once the business will come from that plus as the business grows there the payout to the DSAs will probably do it. Of course, that is obviously subject to the efficiency of the sales team because there also if they cross a minimum benchmark of about 60 lakh, 70 lakh per month sourcing per person then only we will be breaking even because otherwise the salary is a fixed cost whereas this was a variable cost. So unless they don't cross that threshold we will not be saving on the cost.

Questioner: How much would be your DSA commission on average?

Management: Blended it comes to around 0.43.

Questioner: And the overall part of the cost will be 1% or 2%?

Management: In terms of the?

Questioner: Total cost DSA commission?

Management: DSA. No. In fact, INR6,500 crores also if you see and on that 0.4% so about we are doing not much.

Questioner: You see the loan book touching INR50,000 crores in the next two, three years?

Management: Definitely. Next year at least 15-15% also we are growing we should be 50,000.

Questioner: [inaudible 39:41] in three years?

Management: Yes. 15% AUM growth is definitely.

Questioner: Because longer term project has been there, only that in between it has grown much faster at 23%, but average basically has been around 14%, 15%. So you will be maintaining the ROE which is around 17%?

Management: 17% ROE and ROA of about 2.1 plus. Right now it is 2.25 approximately.

Questioner: What is the main risk which you feel?

Management: The near term I think this risk of IT implementation may be a slight because normally there is a little bit of disruption we are trying to minimize it that is one thing, but I think the longer term another thing that we have to do is the culture of more sales driven from operation from credit

and going out on the field that is one transformation, additional transformation we will have to make where we have to move from a not entirely sales driven, but it also has to be sales approach also has to be brought in that is a culture issue which will take a longer term to change.

Questioner: Other HFCs normally have other problems, it is entirely sales driven.

Management: I know, but that is what I said it is not entirely sales driven, but at least some sales approach has to come in. Because right now it is purely dependent on the DSAs in which case what happens the cream cases go to the banks and all or to the people who are paying 1% payout. We are paying less payout because we are this thing so then slightly inferior cases do come in and from that we have to pick and choose.

Questioner: So except for the IT challenge no other challenge?

Management: IT challenge is one thing and, of course, tomorrow you know if the parentage issue takes a turn and RBI does regulatory changes and all then in that case our cost of borrowing will obviously go up if the parentage is not there. Today we enjoy a AAA rating. It may go down by a NACH. That is one thing which is always.

Questioner: Parentage on the verge of looking at?

Management: Right now no. Right now there are no discussions, no idea.

Questioner: I think we should give some time to IT's growth also and create more value against it?

Management: That is what the bank has been saying because the question keeps coming in regards to them also. So that is what Raju sir has been saying that we still have good amount of growth in the company and we see a lot of scope for further valuation improvement. A lot of things are happening. So definitely they would want to hold.

Questioner: Yes, if we create some value then we will be able to get some more value as well. What do you feel sir?

Management: Absolutely, sir.

Questioner: On the challenges side what do you feel?

Management: What sir has said.

Questioner: m, We are just worried about the cultural part you said. The culture should blend with the technological changes?

Management: Correct.

Questioner: Because the resistance to change is very difficult for people to see. And as you said on the sales side also it may take a longer time because through that to evolve is the biggest challenge?

Management: So on the balance sheet side, on terms of the portfolio quality, in terms of the policies and everything it has been fairly stable and that continuity has been there in spite of people changing at the top. All because obviously the parentage has remained the same. The overall DNA has not changed. Now we know the only thing is we will have to slightly bring in a little bit of sales orientation and of course technology is long overdue.

Questioner: Incidents of fraud, we have seen one fraud in one of our branches.

Management: In one of the fraud. That was again a non-credit issue mainly because of a process control, internal control was an issue pertaining to reconciliation to which now after this auto-reconciliation and system driven reconciliation has been removed plus the entire disbursement thing has been centralized and all check writing powers have been withdrawn. So that way now the branch doesn't have any control on that.

Questioner: So over the long term we don't know much frauds as such?

Management: No. In fact total write-offs across from the beginning of the company till now is just about INR18 crores which is the total write-offs. Write-off means the technical write-off that we have done. It is only INR18 crores which is like on a INR37,000 crores book is like just 5 paisa.

Questioner: That thing incident got a little blown up?

Management: That is blown up means of course that was, I mean frankly it was definitely avoidable. It should not have happened in the first place.

Questioner: And you got the entire sum back?

Management: No, but the other one, the Bhilwara issue which was there in 22 or something that was only 57 cases. 54 cases have been completely recovered fully. No write-off, nothing. We have fully recovered 54 cases, 3 cases are still flagged as fraud, but customers are paying. That is, as I said it is a non-credit fraud. So we don't even have an asset where we can recover from that. So we have taken the hit and we have provided fully for it.

Questioner: And in the areas where you are basically present, who do you feel are competition-wise, who do you feel are meaningful, PSU banks or private housing finance or how do you feel competition-wise?

Management: See for rate definitely PSU banks are there, but they are not the main ones who take over our loans. It is LIC definitely, Bajaj and then PNB HFL. LIC sometimes in terms of rates have been very aggressive also. Ever since they moved out of this developer funding and all, they have been a little aggressive. So at times the rates they offer have been very, very fine. Therefore, that is one area where they pick up our loans. And almost they are present everywhere where we are there. So that is one.

Second, followed by Bajaj, but Bajaj, of course, post this EPC and all, I think has slightly slowed down because they are not able to offer the same level of top-ups and all those things like earlier and PNB of course is there, but okay.

- Questioner:** On the quarterly reset of loans, how much will you be resetting every quarter on a percentage?
- Management:** Every quarter, right now we have a 20-80 almost 20% of the loans have moved to quarterly reset. From 1st January 24, all the incremental loans are quarterly reset, but from the old portfolio, very little portfolio has moved to quarterly reset because rates did not move, but now post this February repo cut, it is a possibility that the remaining 80% old loans will also come because they would also want to enjoy the benefit of the rate cut. So now that transition probably will be faster.
- Questioner:** On the liability side then?
- Management:** We also have 60% of our loans are 60%, 65% are linked. And we don't come under the EBLR. So we can pass on only what we experience. So we will experience first.
- Questioner:** So no much pressure on the spreads will be there?
- Management:** No. Spread we will not compromise on the spreads. So whatever we experience, next quarter we will pass on.
- Questioner:** So competition wise also apart from LIC you don't see much?
- Management:** LIC, Bajaj, these are the two ones where we will slightly. PNB not much of an issue, but Bajaj and LIC.
- Questioner:** Bajaj has changed from their IPO post IPO behavior in terms of?
- Management:** No, more because of the PBC because I think they are almost breaching that or almost close to that 60%. They were aggressive on that. Their whole strategy was to pick up loans, performing loans where the track record is there. Even if it is slightly lower, then give a top up, but with PBC now they are almost breaching that, very close to that limit.
- Questioner:** And industry wise challenge you feel anything much for the overall thing?
- Management:** Industry wise I guess the last couple of years in fact a lot of regulatory changes are coming. And cost of compliance, cost of regulation, regulatory compliance everything is increasing. So for smaller players I think it will be a bit of a strain like, for example, the arbitrage which was there is also slightly moving.
- Questioner:** Regulatory arbitrage.
- Management:** Regularity arbitrage because now first of all it was a separate regulator. Now the regulator is the same. Even within that now it is clubbed with NBFC. So it is not only comparison with banks but even NBFCs everything has to be uniformly brought on the same level. So technically if you say that there is no difference in the regulation between a bank and this and HFC, then I think the whole advantage will be lost.
- So for smaller players it will become very difficult. Like now the regulator is very insistent on plan approvals. So obviously affordable housing companies who are operating in the very rural

areas or in the deeper pocket geographies, for their plan approvals is definitely an issue. That will be over a period but if regulators tighten that requirement, it will become difficult.

Second thing is this PVC criteria coming in and also regulation on this, how much you can fund and all. With those coming in, some of the players who have been only doing that and enjoying 5% spread and 8% spread and all, obviously will not be able to sustain for a long time.

Questioner: Everybody at par, it will become very difficult. So there has to be a distinction between the banks and HFC?

Management: But at least one good thing is in the beginning also we discussed that 40% is PSU Banks, 35% is Private Sector Banks. But still what is happening is they are still not able to do the last mile connectivity. So most of the banks, smaller players what they do is they source and eventually they either do a DA transaction or now they do a co-landing, which the RBI has been promoting in a big way.

So if that is possible, then why would the banks want to go to the deeper geographies? They might as well allow the smaller players to continue the deeper geographies so they will restrict themselves to their core areas of metros and bigger cities. So that way that will give everybody a chance to survive.

Questioner: Have we considered co-landing or partnering?

Management: Right now we don't need to. We don't have a liability challenge so much. We don't have a requirement of capital where we have to sell and prune our balance sheet. We don't have that challenge either. And in terms of the thing, in fact we can actually be the senior partner if it is a co-landing transaction.

Questioner: Right now there is space for everybody. With banks penetrating more and more if they are not able to get a prime market on Tier 1 in town or Tier 1 cities, then the challenge comes for them. Because the parentage they have and they have the borrowing cost app which is much more better than you, so that's the way only they can compete?

Management: However, two things. One, with these banks being on EBLR whereas NBFCs and HFCs are on their own individual PLRs. Current going forward when the rates are coming down, this is definitely going to put a pressure on the margins for banks. Because now when 25 bps came down, they had to cut down their rates.

But at the same time, their sourcing is through deposits. Under deposits the rates are not coming down. So it's definitely going to put a pressure on margins for them. Again another 2 rate cuts are expected in the next 6 months. If 2 more rate cuts happen and another 50 bps it goes down, then definitely the margins will come under pressure for banks.

Questioner: Very true. We had seen at the time of Gruh also, the way you all are working, there was a long runway. Unfortunately it got merged for whatever reasons they had. That's why we thought that Gruh itself had a long runway to go in the area that you had done. And you were there present and so you know about it but unfortunately. So that's the same thing which we feel. The runway

is still there. If you can do it. That's the idea. It's not that despite competition there is space for every player to prove?

Management: Most other developed economies today also, India is the housing contribution is only 11% of the GDP. It's very less. We still have a long runway. still have...

Questioner: Both the players could have existed simultaneously. Ultimately they want to be the GST bank and GST bank is also having a tough time.

Management: One thing is definitely there. A bank will always have a short to medium term only, because basically banks do work in capital and short term loans. Now housing book coming into this thing is definitely going to have an ALM issue for the banks. From the ALM point of view, banks are not, beyond a point even, they will not be able to sustain a very large book for long term loans.

Questioner: Something like SBI has gone from I think 2016-17 they were at 16% now they are at 24%, 25% home loans. Do you think an SBI also will have to cap at some point their home loan book?

Management: No. Journey from whatever percentage to 24% was when the interest rates were going up or when the margins were not under pressure. Last few years if you see there is tremendous pressure on deposit rates. An SBI borrowing at a 7% plus on deposits.

Questioner: That is a good answer.

Management: So you can imagine that scenario is first time is being faced. Second thing is the margins under housing, the EBLR was there. Even after EBLR came, they never had a situation where the rates were coming down. It was the EBLR came and the rates were still going up.

So again they would have a problem. Now EBLR is coming down, deposit rates are not coming down, the margin pressure will come and that is when I think, some cap, something will have to be done.

Questioner: Yes, that is what I mean. The rates coming down on deposit rates are not coming down. Whatever reason because the short term deposit challenge is there. The systematic deposits are not coming, the rates are not coming down on deposit rates?

Management: So I was talking to a banker, what they are saying is we are not, today the retail investor has tasted the SIP benefits. When SIPs are able to give them 12%, why will they want to come for a 6%, 7% deposit also.

Questioner: The culture has changed. The culture has changed and we think there is a systematic change. They use tailwind which is happening. Although there is volatility in equity markets, people are not seeing but still. But then the spreads of the banks are just getting impacted. We don't know where it will stop. What do you feel about that personally?

Management: See right now I think already banks have started hitting around 3%...

- Questioner:** If you see a quarter, he is working at 4.95% and 5% spread. You see a HDFC bank still working at 3.5% after doing merger with HDFC. They say that it will start to stabilize. Internationally, do you think the spread is coming down to 2%, 2.5% Do you feel that it can happen?
- Management:** For PSU Banks, I think it is already touching 3% and below 3%.
- Questioner:** SBI is still at least 2.9% still...
- Management:** And now with two more rate cuts, I am sure this will further come down.
- Questioner:** But at some point of time, because of the cost of operations and the credit cost, they will not be able to pass on. Otherwise, nobody will be able to bring down the rates. That's what we feel with the spreads. It is difficult to bring down the rates.
- Management:** In fact, that's a big challenge now for PSU Banks.
- Questioner:** Despite RBI bringing down rates, it will now be passed on to the customers?
- Management:** Right now, they are compelled to pass on because of the EBLR thing. But I am sure they are going to at some point of time have to recoup their decision. Or they will have to stop worrying about spreads and say, fine, this is what it is.
- Questioner:** Any impact of MFE lending basically, Microfinance in Karnataka?
- Management:** Couple of areas, very few areas, there was a little bit of a pressure. But I think that was also in the month in which the announcements were relevant, the Chief Minister making an announcement and all those things. Yes, there was a little bit of a pressure for a month. But I think now, it's not as much.
- Questioner:** Does it benefit us?
- Management:** No, no. In fact, it's hurting because there are areas where MFI is there. Customers will say, you are charging too much. We don't have any rate beyond 13%. But still, when a customer wants to complain, they will go and complain, they are charging exorbitant rates. So then, we will have to take a backseat. So this kind of, it can become a mock sentiment also, mock mentality.
- So then it becomes difficult. So we have to be a little cautious. But I think that has kind of passed. We had one month where we had a little bit of a concern.
- Questioner:** Every few years, the cycle comes?
- Management:** What is surprising is, RBI after this Andhra issue where the MFI thing happened, they put a cap that you can't borrow from more than three. They withdrew it. Now again, they are reproducing it. It should not have been withdrawn in the first place. I think that was a sensible thing to have kept it even at that point in time. There was no reason to do it. Because over-leveraging is definitely a concern.
- Questioner:** That's right. Thank you, sir. Thank you for your time.

March 19, 2025

Management: Thank you so much.