



“Can Fin Homes Limited
Q3 FY '26 Earnings Conference Call”
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MANAGEMENT: MR. – CAN FIN HOMES LIMITED

Analyst:

It seems to be like industry itself is facing challenge. Sector level pe, you think now like, now rates are not likely to cool down right most likely we are in a long pause or it might be a hike maybe later part of this calendar year. In that context, PSU banks might not be very aggressive now. Any different thought or different view you have?

Executive:

No, so there are two parts to your question. First is regarding the growth. I think it's a fact that a lot of affordable housing finance companies which were growing at a very high growth rates have kind of the rates have come off a little bit and have been coming off consistently.

But that's bound to happen because affordable housing post the CLSS withdrawal and the new CLSS has actually the supply side has been impacted. I feel there is not much of an incentive for builders to come into this segment and come up with new housing projects.

So it's up to the state governments and the local bodies to actually do the construction and come up with the supply, which has not been happening like in the past. So obviously that is the main reason why it is happening. To some extent you can still grow your top line or your disbursement.

But if on the other side your takeovers are also happening and it's only moving from one company to the other then in that case eventually the overall book or the overall industry doesn't grow. It's only the disbursement that you will be able to show. So that is what I think is happening.

On the other side in terms of competition from the banks, you are right now today the rates are very aggressive but again as I said would the banks be interested in lending at 7.15% or 7.25% if they are bulk borrowing rates itself at 7.2%. They are taking bulk deposits at 7.2%, 7.1%, 7%.

So, with that kind of a lending rate, I mean that kind of a borrowing rate would you want to lend at 7.2%? That of course is a kind of a question because on the lending side since everything 100% of the loans are linked to external benchmark they have no option but to continue these rates.

They cannot now say that they will increase the rates for new customers or things like that at least the PSU banks. I don't expect therefore them to become very aggressive in housing because that is the fact. It's not a profitable business to that extent.

So, I feel if this thing doesn't continue much then I don't think there will be much of an impact in terms of the mid segment and the prime segment. If the war or those impacts don't continue. Then I think there won't be much of an impact.

It will maybe there will be a little bit of talk but the project launches continue, the buying continues and once again once this settles down we'll again get back to the old numbers. So, the middle segment the 25 lakh plus to 75 lakh and the prime segment 75 plus I think will continue to grow. I see no issues. I see a fair amount of runway in this.

Analyst:

And we also want to be in those tickets?

Executive:

Yes, yes, yes. Frankly speaking if you look at the 5 lakh, 10 lakh, 12 lakh houses it's really not the segment that would be there. Cost of construction alone today you can't get below INR1800 to INR2000 even in that segment cost of construction. So even if you were to make a say 500 square feet house that itself will be around INR10 lakhs for the construction alone plus the land value extra.

So if you are talking about 15 lakh kind of a property either it has to be very remote or it has to be really not good quality. Either which ways, we don't want to be in that segment. But yes there is a good opportunity in the assessed income in the mid segment also. And there we would like to go but again it all depends on how we are able to change the mindset in the team.

So as of the moment at least in the near future it will continue to be the documented income segment only. Maybe slowly we might be able to change the mindset and do a little bit of exposure in the assessed income.

Analyst:

And sir this let's say when you highlight because see Lodha or all these builder side unke launches actually the has not been in the fourth quarter at least there has not been much of a launch from the top players. Right? Just trying to understand is there a slowdown in the segment because see post COVID super prime or luxury flat they have all been – those who want already taken, now they not want to take. Now there seems to be some sluggishness in the launch pipeline.

Executive:

See Lodha maybe yes but if you look at our Prestige or you look at Brigade there it is continuing. Yes maybe Sobha has slightly reduced, slightly less number of this thing. But otherwise, it's happening. Now Godrej is also doing big project launches and all. So, I guess just maybe X may be slow but somebody else will pick up. Otherwise it is happening. I don't see much of a change.

Analyst:

And then sir let's say the higher ticket size how will we position ourselves? Do we directly tie up with builder or how through DSA channel?

Executive:

No, no, we are obviously keen to push our sales team. Our sales team this year with about 80 to 90 people they are likely to contribute about INR850 crores in terms of disbursement. Next year obviously we would like to increase it to about 150 people and expect around INR1500 crores in terms of disbursement coming from our sales team.

Of course, DSAs will also slightly increase but we are not really pushing or adding too many DSAs. If you look at our DSA numbers they are range bound between 1400 and 1600 only. Some renewals, some people moving out, some new coming in.

But roughly the DSA numbers are almost range bound between 1400 and 1600 only. We are not aggressively pushing that number. But on the sales side, we definitely want to increase our strength and we see that as emerging as a slightly higher because eventually by FY '28 we want to bring our distribution to around 60-20-10-10 kind of a breakup.

Analyst:

And these sales people are on-roll?

Executive: All, all on-roll. All of them are on-roll. We don't take that DST kind of thing. Mostly it is incentive. It's all on-roll.

Analyst: Got it. And sir from a geography in which perspective these sales people are more of South based?

Executive: No, no, North also we have a lot of them. Tamil Nadu also we have a lot of them. We don't have many in like MP, Maharashtra we are yet to have a larger team. Telangana also. But otherwise, it is there. Like North also is there and South also it is there.

Analyst: Sir let's say these 1,500 rates from the sales people, 1,500 from DSAs that push to INR3,000 crores of disbursement, right? The rest of INR7,000-INR8,000 crores because we will like to grow right disbursement by 20%, 15%, 20% types. Then what is the other channel?

Executive: No, see I'll tell you. Last year we had about INR8600 crores, INR8560 crores or something disbursement. Of which about the sales team had contributed only about INR100 crores-INR125 crores. Okay. The new branches had also contributed almost the same number. In fact it was INR101 crores if I recollect from the sales team the 30 odd people entire year had in 9 months had contributed about INR101 crores.

The new branches which were opened in '23-'24, '25 and '24-'25 they had contributed about INR126 crores. Now this year if you look at it the contribution has from both these things has increased substantially. So INR101 crores from the sales team this year is likely to be around INR850 crores.

INR126 crores from the new branches this year is likely to be around INR750 crores. So, about INR250 crores which was contributed from both of them this year INR1,600 crores is coming from these two things. As against that the older branches in the traditional business we did about INR8,300 crores in FY '25. In this year they will do around INR8,900 crores.

Analyst: Sir when you say traditional what does it include?

Executive: Means the branches opened prior to this and which were doing from the old branches through the DSA network what they were doing. Branches from the old branches through the DSA network were doing about this much. They have done to INR8,900 crores. Whereas the new two new channels that is the new branches as well as the sales team they have contributed substantially.

Analyst: And sir this Karnataka state issue which was there now it's fully resolved or...?

Executive: Not fully resolved but I think we have at least reached a INR250 crores mark in Karnataka. And Gram Panchayat is still not happening but fine we have at least diverted some to urban business some to LAP. So at least in terms of numbers we have brought it back to our INR250 crores kind of a run rate per month in Karnataka.

Analyst: And peak was?

Executive: We had at in one quarter we had in fact crossed and touched close to INR275 crores. That was the quarter before we went for before this thing happened.

Analyst: So already normalize done?

Executive: Now you can say like from INR275 crores you have brought it back to INR250 crores, INR260 crores has been done.

Analyst: So, now its fine, no issues?

Executive: Consistently now for the last I think six months or something we are doing around INR250 crores run rate approximately INR235 crores, INR245 crores, INR270 crores, INR260 crores is done. INR250 crores average is done.

Analyst: Sir we will start?

Executive: Yes, in fact I had to -- let's see I'll just have a little bit of...

Analyst: Sir how is your experience let's say coming from Gruh to this people receptivity, want to bring changes, so bring changes?

Executive: See in Gruh we had a over a period of every year we used to bring some changes. Every year it used to improve as the new things in the market kept coming, we used to do it. So somehow when it came to Can Fin, I realized there was a large gap to be filled. But having already done it in Gruh and seen some of it in Bandhan and all, for me it was much simpler that I had to simply say okay these are the things that are already there in the market let's go for it.

So having so there was no major I would say research or something that was required to or main rocket science required to get a lot of things done. But getting it right was more important like getting a proper SI like IBM or a player like IBM to get the new all the OEMs together to patch it up together so that it is delivered.

Otherwise too much time would have gone if we had to implement everything ourselves. But with IBM a partner like IBM I think that helps. But the thing was that since we had already seen it in the market a lot of things we knew this was required and how this helps. So...

Analyst: And sir post you coming to this Can Fin how has been the -- means you think whatever you wanted to do with the system, process has all been done now it's just a matter of execution?

Executive: I guess yes. In fact, frankly speaking I was just sharing with my team also before I joined my interview itself there were some points discussed. I said this is what I understand and this is what we will we would want to do. After entering I mean most of it was absolutely in line with what I had seen or expected from outside.

Only thing is in terms of the IT changes I thought it was much more required to be done than what I had because obviously things are not very evident from sitting from outside as to what is the core engine. So that was one additional thing. But whatever we sat down to do in 2023 we drew up our strategy I think we are very much on course for that.

And the challenge as you rightly said is once we implement this in the first quarter the adoption and converting our -- because the maximum benefit that is going to accrue will be when we are able to use the technology to provide the services to our customers improve our TAT and once that happens and we will be able to release a lot of our internal staff for field work for business generation. So that is the main thing how soon we are able to adopt it and shift it.

Analyst: Sir on this sir what is your tenure in the -- is it likely to get...

Executive: Right now, it is it was originally for a three plus two. The 3 years got over on 17th and before that I got the renewal for another 2 years. So now it is up to '28 March. So, another 2 years is there in my current contract.

Analyst: This year, is there something on the Board agenda, ESOP or any other?

Executive: ESOP is a regular thing. Now we have the ESOP policy has already been adopted. 1% of our equity we have already taken the approval from the shareholders. And that on a yearly basis based on the scheme that has been announced will get offered to the -- will be offered to the staff.

Analyst: And sir, the entire staff will be covered or...?

Executive: No. It is up to the Chief Manager and above level executive level.

Analyst: What is the total number of employees?

Executive: So about, total employees is about 1,365 as of today. But the executive cadre, which is Chief Manager, AVP, VP and President, that is around close to 65-70 people. So, currently, it is that group which is eligible for ESOPs. And every year they get some this thing. So we had the first ESOP grant in 2024 November. Then in '25 November, again, the team has got another this thing. So these 65-70 odd people have got two tranches already.

And every year there will be a tranche based on the previous year's evaluation and criteria performance and everything. We have those parameters. Based on that, the eligibility for each one of them will be calculated and we will be offering more. So going by that, this entire 1% that we are talking about, 13 lakh shares that will be there, will probably get consumed over a period of 7 years or something. In fact, the first lot itself which was there, the vesting is yet to happen.

Analyst: And sir, on cost of funds now, obviously, the rate cycle seems to be over. But now, is there any residual benefit which is likely to be seen from a repricing perspective?

Executive: See, from the -- on the liability side, we have some small portfolio on the NHB side which may still -- because it is still on annual reset. So some loans which are yet to be repriced, some refinance tranches. Other than that, I think on the bank borrowing side everything has been repriced, wherever it is linked to repo rate or T-bill, it is there. It has already happened.

But what will happen is one other area where we have a slight scope for reducing our cost of borrowing is in the NCDs, because today our NCDs are coming at 7 point. Even if we look at

today's higher rate, it is around 7.45. But if I look at the existing NCDs which were raised earlier, some of them are at a higher rate 7.85 and so on. So when those come for maturity, they will be getting replaced with a 7.45%, 7.5% kind of a thing. So some small, but these are all not a...

Analyst: International borrowing, sir, international diversification, we are not trying to do that? Because there are a few NBFCs. I was just meeting Grama Finance.

Executive: Grama is there, Shriram is there. They are all looking at...

Analyst: That is correct.

Executive: But today when my bank borrowing itself is at 7%, the entire hedged cost, it actually doesn't give a direct advantage to us. But I guess in the future we will have to work on what we are looking at is we may be able to look at something if we are able to build a good green portfolio. Because for green, I think there is a scope to have a lower cost funds.

Analyst: Sir this AUM growth rate, we can now move towards low let's say middle mid-teens kind of a growth is it possible?

Executive: So next year we are looking at around INR13,000 crores disbursement. And the current rate this year we may have about INR6,600 crores as a run down. So next year we assume we think it probably will be around INR7,000 crores. So net addition will be around INR6,000 crores. So on a INR42,000 crores book INR6,000 crores will be around 14%. That is what we are actually working on. So that we should work towards about INR6,000 crores net addition to the book. So this year it will be around INR42,100 crores or something. So next year we should end around INR48,000 crores March '27. That's the plan.

Analyst: But then sir let's say 2% ROA 2.1% type ROA. Just trying to understand with this ROE can't we increase the dividend payout so that we can keep ROE slightly on the higher side? Because leverage will keep coming down because the AUM growth let's say continues to be 13%-14%?

Executive: No if we do 14% so if you today look at it our ROE is around 17% to 18%, 17.5% roughly. Say 18% to around 14.5% to net of dividend because we have a 20% dividend payout ratio. 14.5% is our net accretion to the book. So up to 14.5% kind of a thing growth I think we are – yes but the moment it crosses 14%, 14.5% growth rate then our gearing will start going up. And I think for the next two years even without having to grow.

Even if we grow at a higher rate I think we will still be able to sustain because up to eight times we can go without having to -- without having an impact on our rating. Although we may not wait till that point we may probably be around 7.2, 7.5 times gearing would happen we may look at something but at least till that we can comfortably grow. That's what.

Analyst: Sir on the opex already we are one of the best. But now for higher growth and since sales is likely to form a let's say higher share in terms of disbursement. So how should we look at the branch addition and the opex ratio for?

Executive: See opex because of the branch addition is not much. We are a very low cost model we are operating. So one branch upfront cost is about INR7.5 lakhs to INR10 lakhs is the one time cost. And thereafter it's only the salary and rest of the things it's not much. So cost of I mean opex going up is a little unlikely except for this one year when we will see a blip because of our tech transformation.

Analyst: Sir when is that?

Executive: I mean first quarter it should definitely happen because I think the delivery has entirely happened. The OEM which is the LOS, LMS service provider Pennant was slightly delaying some of the deliveries because their customization effort was much higher than what they had originally anticipated. But now that it has come I think they were to deliver yesterday or something.

So few eight components were left that they were supposed to deliver yesterday or something. If they have once that is done we will require about six to eight weeks for the entire testing unit testing as well as the entire functional testing. So I guess somewhere around mid of May we should be ready to go. We will definitely be able to do it in the...

Analyst: And what is the sir opex or capex which is going into this? One time obviously?

Executive: No, no one time our capex is about INR100 crores to INR105 crores is the INR100 crores is the capex. The rest will be purely opex which will be the user licenses and the AMCs and everything. So...

Analyst: But disbursement business getting affected due to this software?

Executive: It will be but we have factored in that in Q1 anyway is a softer quarter and implementation even if we do about 15 days or odd of this thing I think about INR300 crores of disbursement may get impacted.

Analyst: Sir why this tech cost keep -- we have done once in FY '24 right? There was a transition IT related impacted the disbursement. And now we are again into that. Is it likely because...

Executive: No in '24 it was just an upgrade. Our existing vendor had just given an upgrade from an existing version to a higher version because it was mandatory from the security point of view. It was necessary for us to upgrade because we had to mainly upgrade was in terms of the infra because we till that point in time till '23 end we used to have a active passive DC DR which means there was always a risk of a of a downtime if something happens and we are not able to move to DR and if there is a thing there would be a data loss. So that was a major impact.

So what we did in '24 was more of a infra part of it where we moved we slightly upgraded our servers and all those things and made it a active active DC DR kind of a setup with a little upgrade on our this thing. There in fact we only lost a few days of impact it was not at all much and the adoption happened quite fast. And that was not major this thing. But then it had a lot of other benefits in the sense that because it was an active active and we also upgraded it we could

do a lot of improvements in the sense that Aadhaar integration, PAN integration, ITR integration and CIBIL integration all those things we could do at point in time.

So these are the four major things. But the major part was the IT where we went from an active passive DC DR to an active active DC DR.

Analyst: But now since we are likely to set same disbursement of 13,000 next financial year. So this impact is just 15-20 days of this...

Executive: Yes. So in the first quarter we are targeting about 2,500 what we should do. So if that we do then there will be factoring the INR300 crores of loss.

Analyst: And finally on this asset quality now we are seeing some challenges, right? [Inaudible 0:2852]

Executive: This month's delinquency in Q4 will be lower than our Q3 delinquency across all the buckets 0, 1, 2 and NPA. And this month also at least, I guess, this month's 5th, 10th and 15th NACH also we have seen a fairly good better clearance ratio. So this month at least we have not seen that.

Analyst: No, but sir, regarding the resolution process currently underway, I am sure that your borrowers must have a dependency on external remittances; that is, they would only be able to repay their loans once funds are received from abroad. Do you have any NRI borrowers of this nature?

Executive: So we have in fact issued some internal guidelines for some precautions to be taken for NRI customers and all those things but our NRI base is very small. In fact in Kerala, where this is a very large chunk we have only four branches and I think the total portfolio is not more than INR600 crores. It's not a large portfolio for us.

Analyst: And sir this in branch maybe we have seen one fraud right INR40 crores, obviously that's done. But now what we have seen IDFC First mentor fraud right physically intervention has happened, rather than digital lest something happens right physically fraud is there. Checks and balances don't you think we should...

Executive: See what we did at that point in time for this is that now branches don't have any check signing in the -- locally at the branches. Okay. Immediately after that Ambala fraud in October 2023, we introduced the centralized disbursement. So now all the branches are issuing only DDs drawn on Canara Bank issued DDs. After a Four-Eye concept there is a maker checker at the branch then the things are sent to the head office. Head office all online.

Head office there is a maker checker, they check additional things like whether the beneficiary is correct whether the signature tallying is there whether the stage of construction has progressed, whether the amount is in line with all. So, all those things, whether this legal is in place. They verify all those things and then the disbursement is released. So the question of the disbursement at the branches where some staff can issue a wrong DD is at least is eliminated.

Analyst: Okay.

Executive: The second thing is after doing that next we took up the expenses and all those regulatory statutory payments. So, all the rents, the DSA payouts, all those things were automated and directly going to the respective through RTGS.

Analyst: Okay.

Executive: Then third was even the small, small payments like expenses that also we have done through Zaggie tie up is there for that is also now gone. So basically, at the branches there is no transaction wherein they have to get involved and they can collude. Branches only have to worry -- we have to worry about the business. Now in business there are operational lapses can happen. You don't look at the correct property valuation is slightly higher. Now all those kind of things are separate. But these kind of problems cannot happen now.

Analyst: Understood. And sanction level authority is still zonal?

Executive: At the branch and zonal and also head office. But irrespective of whether it is branch zonal or head office there is a credit review monitoring department which reviews each and every sanction.

Analyst: Okay. Before disbursement?

Executive: It is within 48 hours.

Analyst: Okay.

Executive: So, we have a go no go kind of a thing.

Analyst: May I say you have the next meeting is one on one?

Executive: No, in fact this has become a one on one. But the next one actually is two -- there are two on. Only two in the [inaudible 0:33:19], that's the last one.

Analyst: [Inaudible 0:33:24] some of these guys have come, I don't know where they disappeared. Everyone gets busy in the market.

Executive: In this group [Sneha 0:33:36] had come in the previous meeting. She joined the previous one. The other three have not come. So, this [Nidhesh 0:33:45] guy, he has not confirmed, but he is on [inaudible 0:33:50]. Let's wrap up. I'll just stop the recording.