



“Can Fin Homes Limited Conference Call”

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

Management: Yes, so I think we can start.

Questioner: Yes, thank you. Thanks for your time, appreciate it. Is this generally a busy time for you?

Management: Of course, I mean from the branches point of view, yes. But from our point of view, whatever decisions we have to take for business in Q4, it's already done. Normally March, at least I have been seeing that from February onwards, I start planning for the next year because whatever decisions we have to take for Q4, it's already done in January. So that's what.

But this time, I mean, Yes, before the year end, we have a lot of conferences, but a lot of these investor calls happening because obviously investors are eager to know what the year end is looking like, what's the plan for next year.

Questioner: Sure. So actually, so just coming -- I guess one of the things that has been happening in at least two of your larger places, right, which is Bangalore itself, which is the whole e-Khata issue has been there and then I guess also in Telangana, there were other challenges. So any update on how things are happening on that count? Because I'm presuming if registrations are slow, then by definition, it has an impact on obviously Bangalore.

Management: Yes. So, the circular for e-Khata in Karnataka came somewhere in the last week of September, somewhat 28th or something of September it came. So Q2 -- up to Q2, it was okay and we were growing at 20% in Karnataka. So we were almost doing INR275 crores run rate per month disbursements in Karnataka.

So immediately after this, one by one, all the sub-registrar offices stopped doing the registrations. So in Q3, we came down to about INR150 crores run rate per month in Karnataka. So, almost INR350 crores to INR400 crores of business lost in the quarter. After that, somewhere in early Jan or something, the government somehow was able to match, do something about for this municipal corporation.

They were able to kind of have some link where the data flows between the sub-registrar offices and the BBMP. So that's where slowly the speed of e-Khata issuance is improved, but only for BBMP, that is the corporation limit areas. BDA and municipal, I mean, panchayat areas was still not done.

So January and February, we have actually been able to slightly take advantage of this and we have been able to slightly improve it to INR200 crores. We have still not reached INR275 crores. And normally last year in March, we just crossed INR300 crores. So this year also, we would definitely have been there if we did not have this problem. But still, we were able to -- Jan and Feb, both months, we have been able to push it to more than INR200 crores.

Recently, that is just today, in fact, my colleague was telling me that some notification or something has come where the government has opened up for panchayats also, where they are going to. But we are still not clear how it is going to happen. So I don't think that with just 10 days to go, any major change will happen. But if that is really the case, then next year onwards, I think Q1 also, we should benefit from that in Q1. This is just as latest today only. During the

lunch time only, we were discussing and my colleague was sharing that some notification has come and we are yet to see.

So basically, 75%-80% of our business happens in the BDA and panchayat area. So once this opens up, then only we will really get the benefit. And once it opens up and we are back to the old numbers and INR275 crores, we have already demonstrated in H1. So at least even if we are going back to INR275 crores in FY26, that also will mean a 20% growth. Because we started off with 20% growth, but now with INR150 crores and INR200 crores, we are back to the old number.

Last year, we had INR2,636 crores in Karnataka for the full year and we might probably be ending around INR2,675 crores or INR2,700 crores, that's it. Marginal improvement only, which is again back to INR220 crores per month. So again, if we are back to INR275 crores, again Karnataka will definitely be back to 20% growth.

Questioner: And Karnataka is what percentage of your overall business?

Management: So we have about INR275 crores when we were doing, our average run rate was about, we did in Q2 if you take, we did about INR2,400 crores to close to INR2,400 crores, which means INR800 crores a month. INR800 crores a month and we were doing INR275 crores, so that's about 35%.

Questioner: So it's a pretty...

Management: It's a large this thing.

Questioner: But as within Karnataka, I'm assuming Bangalore dominates. Because this issue is largely a Bangalore issue?

Management: You can say that, because the volumes and the maximum business for us also comes from Bangalore only. It comes from Bangalore.

Questioner: Overall, 20% is Bangalore.

Management: For us? No, I said 35%.

Questioner: And the other thing is Karnataka.

Management: Karnataka. Bangalore would be almost very large because while we have branches across, we have Mysore, Hassan, Ramnagar. We have Bangalore. We have Hubli, Dharwad, Belgaum, Gulbarga, Bellary and all. But still the majority in terms of business, I think, 80% of that 35% would be here only, including the periphery areas like Hoskote, Devanahalli, Sompura, those places, all kind of things.

Questioner: So we are saying, basically, INR450 crores was our normal run rate. Now we are at INR200 crores and maybe we will get to INR275 crores.

Management: Next time, again, we will be back to INR275 crores. So 20% growth back in Karnataka. Next year will be very, very much -- and if this news that has come today, if it is really there, then in Q1 also we will be able to, might be able to see some benefit of this Gram Panchayat.

Questioner: Do you expect because of that also a little bit of what, you know, in some other places we call as a pent-up demand? That what I mean by that is, because if people were not able to do the transaction once, it becomes -- then could you see a some pent-up demand?

Management: There will be some likely thing. Although on paper we don't have sanctions on hand because our sanctions are valid only for one month. After that, we have to review the case. We have to reassess because there could be more borrowings and customers could have taken a loan or whatever. So, what we do is one month validity, we may be having INR150 crores-INR200 crores of sanctions on hand. Beyond that, we won't hold. But yes, every month we are sanctioning but customers are not able to do it.

So, those kind of things would be there. And as soon as it opens up, there would be some customers. But again, it all depends on how much or how quickly the government is able to issue the e-Khatas. Because it is not that overnight, we are talking about as of December itself there were 12 lakh applications and only 1.25 lakhs issued. So, obviously, the government is not going to clear up the 10 lakhs-10.5 lakhs in a span of a month or so. So, it will be over a period of the next six months, I think. This complete thing will unwind and everything will get back.

Questioner: To play out. Okay. And then any update on Telangana and what is happening on that?

Management: See, Telangana, I will tell you, it is more of a systemic issue or rather I would say more of a demand issue. Not systemic, more of a demand issue because the government has, is still going through the whole process of reviewing the past sanctions by the previous government and whether they are on government land, whether they are on this lake beds and all those things. So, it will take a little longer. But what has happened is, last year again in Telangana we did about INR1,727 crores. That is about INR150 crores a month. We have come down to now just about INR100 crores a month.

And I think over the period, this is kind of the bottom. I mean, so from here, as and when the areas get cleared up for the government starts clearing up, okay, this area is okay, this area is okay, these projects are clear. So what will happen is, things will start improving. So, at least from INR100 crores, definitely next year, we can expect some improvement. We are not even waiting for it to go up to INR200 crores, or INR150 crores, INR175 crores, but even from INR100 crores, INR150 crores, INR120 crores, I think we have reached the bottom now. So, from here some growth should come in, start coming in Telangana also.

Questioner: So, I guess if I summarize that effectively, what you are saying is, you are INR200-ish crores in Karnataka and INR100-ish crores in Telangana, so that is about INR300-ish crores a month, which roughly -- and those two combined contribute to about 50% of your disbursement, right, I mean, and there you can see, because of some of these reasons itself, there can be a 20%-ish growth, right, I mean, is that...?

Management: Absolutely. Like in Karnataka, we don't have any other issue. It is just a matter of -- if the e-Khata start coming quickly, we can easily pick up the business, because our enquiries are still there. We are still getting a good amount of business. And immediately when BBMP opened, we could push it from 150 to 200, clearly shows that it is not a matter of anything to do with the internal system or anything to do with our policy or anything else. But as soon as it is opened, we have been able to benefit.

Questioner: And Telangana will be majorly Hyderabad?

Management: Majorly. Out of 19 branches, I think 13 or 14 branches are Hyderabad. And then we have 5-6 branches outside Siddipet, [inaudible 0:10:00], Warangal.

Questioner: Actually, just moving away from a geography specific issue, right, I mean if we just zoom out a little bit, so effectively our average ticket size of loans is about 25 lakhs, right, give or take, which would mean that this is effectively a property worth maybe 35 lakhs to 40 lakhs, I mean somewhere in that range. So clearly, and a large part of our customers are salaried, which is obviously one of the wonderful things about, which keeps the asset quality very pristine.

I guess the question is, structurally, these people will also have other banking relationships, presumably? Because they're salaried people earning in those ranges. And now that some of the other parts of unsecured lending have seen stress, right?

I mean, you know, you go through everybody, they've seen stress. So are you finding competitive intensity from those people who say, you know, hey, for me, unsecured lending is no longer there, so should I focus on the secured lending? And especially because these are people with potentially other banking relationships, how do you think about competition in that sense?

Management: See, actually, I'll tell you, as I said, 75% to 80% of the business is in the periphery areas, BDA and panchayats. Whereas, bigger banks, most of them are predominantly 80% of the business comes from the city corporation area limits. So it is more of a geography related issue that, you know, we are the ones who are taking the risk or the better part of the cases in the periphery areas, whereas the banks are doing it over here.

And here, within this corporation limits, you would benefit only to the extent of, you know, some deviation cases and things like that. Otherwise, the rate of interest definitely advantage goes to the banks. And another thing is, there what happens is in case of the periphery areas these are developing areas. So not always that the infrastructure is ready, the drainage, it will be work under progress.

So that is the time when we enter, we take that call, we do the, based on the customer profile, based on the property value, we do it and then the property appreciates, Karza repayment track record. And as then, later on these areas come within the corporation limits, the banks will, may take over some of the loans. That is one thing.

Second, since you mentioned about this competitive intensity because of the unsecured loans and everything getting less. It is true, but at the same time, banks are necessarily required to

offer EBLR linked loans. So now when the repo rate has come down, they have to reduce the rate on their existing customers as well as for the new customers.

So now, even if you say, other day somebody was mentioning for SBI, 24% of the loans are retail loans. So on 24% of their entire book, they had to reduce it by a quarter percentage point. Obviously, that is going to hurt their spread as well. And contrary to that, the deposit rates that the rates at which they are raising money is not coming down. So it is definitely impacting their spread.

So unless, that starts coming down, then only they will be also keen to push the home loans more. Otherwise, we see a little bit of resistance that, you know, why go for all those things. And another thing is the more deeper you go geographically towards the peripheral areas or to the panchayats and all those things, the operational costs are a little higher, which banks generally do not want to get into all those hassles and all those things.

So if you see smaller HFCs, in fact, they are going more into the cold ending model or into the DA. So rather than do this, banks can always take more DA from these banks without having to get into the operational costs, without increasing the opex, without increasing anything else. So I think that is a better model now.

And RBI also has been, you know, clear. They have come out with guidelines, they have come out with all those things. They are quite promoting this DA and cold ending also.

Questioner: We do not do any DAs, right?

Management: We have not sold portfolio and we have not purchased portfolio either. Neither cold ending nor DA.

Questioner: And you mentioned about this rate setting. In our case, is this correct that the rate is reset or you have the ability to reset the rate after one year?

Management: No, no. We had an annual reset policy earlier. And we got adversely affected with that policy when the rates were going up. That was in the '22-'23 period. After that, from 23 July, I think was the last when the rates went up. After that, there was a stagnation. And then the rates have now started coming down.

And so what happened on the liability side, our rates went up. But on the asset side, because of annual reset, there was a lag. And our spreads had come down from 2.71 right up to 2.31. Then once the rates stabilized and all the resets were passed on to the customers and on, then effective 1st of January 2024, we decided to shift to a quarterly reset. So now it is quarterly reset for us.

Questioner: So quarterly reset means that every quarter, irrespective of the duration of the -- irrespective of when the loan was given, you can reset the...

Management: No, so no, it is not like that. We can reset the rate any time. Like for example, today, say for example, in February they have, the repo has come down. We can reset in February, March also.

Again in April, suppose another rate cut happens, again we can reset. So we can do it two times, three times also in a quarter. But for the customer, it will happen on a quarterly basis.

So for example, if the customer has taken a loan in the month of November, then the next due would be February and the next due would be May and so on.

Questioner: So if you have taken the rate in, sorry, loan in November, then you can...

Management: The rate will automatically reset in the next exactly three months from then. In the intervening period, if we have reduced it two times, then the combined effect of both the rates will be passed on to the customer.

Questioner: And annual that customer would be after one year.

Management: November to November.

Questioner: So maybe, so it still means that it is possible that somebody who took a loan in November '24, that person's rate can get reset as early as May.

Management: Yes, May.

Questioner: How much component would be fixed rate for us?

Management: On the asset side is almost nothing. On the asset side, nothing. But what happens is we are not bound by the EBLR right now. We can do it as per our EBLR because for us, most of the borrowing side also is not linked to external benchmark. So what happens is we can do it only to the, we will pass on only to the extent to which we experience on our liabilities. Okay.

Questioner: So I guess right now our spreads are closer 2.6?

Management: 2.5, 2.62 was the December.

Questioner: Right, right. So and that is kind of your -- this thing is overall you think from a directional perspective or from a longitudinal perspective around 2.5, is that a number that you feel comfortable with?

Management: 2.5 is yes, even when the year began, we were at 2.54 or something. Since then it increased to 2.56, 2.62. We have kept the guidance on a conservative side at 2.5. We would not want to go below, little bit here and there can be there. And hopefully and most in all likelihood, it will be on the higher side only. But yes, we have, the guidance is 2.5. We would not want to go below 2.5.

So today, we have a 25 bps repo rate cut. But effectively, what we will get in this quarter by mostly all the loans will get reset in the last week of March only. So at that time, the effective net impact for us will be only about 5 to 7 bps because 60% of our loans or 55% of our loans are bank term loans of which 80% are repo link.

The remaining 20% are T-bill link, which has not changed much. And then we have CPs, which unfortunately, because of the liquidity in the Q4 have been at a, have been reached at a slightly higher rate. So net impact, we are only going to get about 5 to 7 bps in our liability side, which we can think of passing on 1st of April or in, once we finally finalize the balance sheet and see how much is the thing, then the next ALCO we will take up on.

Questioner: This EBLR, how does it impact, sorry, on the bank side?

Management: See for the banks, there are various external benchmarks. So each bank has to first of all select the benchmark which they are going to select. It can be 6-month T-bill, it can be a EnergySec, it can be a repo rate or whatever. Once they reset their external benchmark, it has to be disclosed and whenever that benchmark changes, they have to pass on to the customers at the immediate this thing.

So now most of the banks have opted for repo rate. So repo rate what has happened, because that is something which is now going to come down. So one round, one reset has already happened of quarter, 25 bps or quarter percentage point. So now 25 bps has been reduced for all retail loans, including home loans, including everything.

So everywhere they have had to reduce by -- So if you are having a rate of say 8.9, I have taken a loan from SBI. Today my rate of interest will be 8.6.

Questioner: Is this for all loans or?

Management: Retail loans. Retail.

Questioner: And this is a regulation. Yes, for banks, yes.

Questioner: And for [Inaudible-20:22]?

Management: External benchmark I think was done somewhere in 21, if I am not mistaken.

Questioner: But our housing loan rate used to get trillion, so that repo rate only. So I do not know that.

Management: But what has happened is the first time and after that has come, the rates have started coming down. Till that time '21 and all it was always going up. So this is the first time. So impact will be seen now because the rates are. So now just imagine 8.9. 8.9, now entire book, 24% of all is retail book and on 24% you are.

Questioner: That is why I was wondering why you did not see it from then to now and now you are, now I got the point. Curve.

Questioner: I guess the curve is shifting or has reversed direction so as to speak. Been talking a little bit about your sourcing mix. So I know DSA, that is something that you are consciously wanting to dial down a little bit. How are things happening on that count? Any updates on that?

Management:

On the DSA side, we are not saying we will be reducing the DSA or we will be cutting down the number of DSAs or reducing the percentage. The DSA proportion will or the DSA business will keep growing at a normal pace.

But we want to add an extra channel which is our direct sourcing channel which we want to add so that one is we have a diversified sourcing mix and second thing is when we have our own team we can have a more of a pull strategy as to we can decide which segment we want to target, which is the kind of customers we want to do, what is the kind of builder with whom we want to tie up.

So we are looking at an alternate channel . Once that channel grows and starts delivering more, automatically the percentage of DSA will start coming down. So right now we have done about a small team, all pulled out from our existing team only without adding staff or anything.

We have pulled out about 30-35 people who formed the sales team for us. They are incrementally doing about 3% to 3.25% of the business they are sourcing. So last quarter we also had a slight, directionally if you see from 85% when Q4 of FY23, 85% of the business was sourced by DSAs.

From there it has come down to 82-80 and now slowly below, it was around 79 point something and now it has gone to below that also. So directionally it has been coming down and it is over a 3 to 5 year strategy that we want to bring it down to kind of 60%. So we are moving in that direction, it is moving.

Questioner:

But we also saw some kind of rationalization in terms of in certain quarters that the DSA contribution was sharply down in top 10 and top 20. So that rationalization is totally over. Because I think there were some DSAs which were like given up. At least that is what showed up in presentation?

Management:

So there are two things, one is we want to, we have also internally kind of reviewed that some of the branches, some of the very big DSAs were contributing of very large proportion. So which means the branch was entirely dependent on a single DSA, which is also a risk. So we have internally kind of put in a policy or not exactly that a policy but at least a direction we have given that no DSA should be contributing more than 40% of the individual branch business.

So indirectly saying that if it is something reliant only on one, then it means that you are not working with others. We have to add more DSAs. So it is not that we have stopped or anything. So to some extent yes, some of the and then this actually I will tell you the DSAs also is a continuously churning kind of group. There are DSAs sometimes who stop working, some DSAs who leave, some DSAs who actually stop the business or merge with that. And of late in the last couple of years there have been this huge number of corporate DSAs who also come up.

These corporate DSAs also source and post these retail DSAs. So what happens is these people stop putting it under their individual code but start giving it to the corporate DSA who gives them more. Like for example, I will tell you in our case we are giving 0.43 blended. So there are some DSAs who get 0.35 which is the lowest payout, highest is 0.65. So blended it comes to 0.43.

Now we don't have corporate DSAs but corporate DSAs what they do is they generally start with 1% or 1.25% and they easily recruit all these smaller DSAs and say okay irrespective of whatever business you do we will give you 0.6. So for some of the smaller DSAs it is always better to move to them because even one case they are doing they would have got only 0.35 but there they can get 0.6. Whereas the corporate DSAs because of the huge volume they are able to bring they obviously can charge a higher payout.

Questioner: And this percentage is at the time of dispersal and on the total net value?

Management: Yes on the amount of the disbursement.

Questioner: So and from an accounting perspective you treat that as a cost which is expensed in that quarter itself?

Management: No, as per this since it is incidental to the sourcing and to the business both on the fees as well as the DSA payout we have to amortize it for the entire period.

Questioner: For the entire period of the loan?

Management: Of the loan yes. Both are amortized. Because now we are coming under this in DSA where we have to follow this so that it is anything incidental to the business either processing fee you take it or DSA payouts.

Questioner: Both are amortized over the duration of the loan and then if somebody?

Management: Suppose it is a 10-year loan he prepares at the 5 years then entire balance is at that time taken in that year's books.

Questioner: In that year's books. At that time then it just trues up?

Questioner: Of our incremental contribution 76% is DSAs right now but what was the other portion?

Management: We as I said 3, 3.25% is direct business and we have walk-in customers, top-up loans, existing customers who come for a top-up loan and all.

Questioner: There is no contribution from builder projects?

Management: Builder projects is now part of the, either it will be under direct or we will be putting it under this. So if a builder has just given it without any code or anything it will be put under direct also.

Questioner: Interesting and just to maybe and then we will move on to one or two other points. Just at an overall level I know your medium term guidance has been in the 15% to 18% range and that is what you feel overall comfortable with?

Management: Yes because today the industry is going at around 12% to 14% so I think there is no point running too fast at a rate which is very, very...

Questioner: That is kind of the comfortable. And sorry just remind me what is your you know effectively when for example if you add about let us say last fall you disbursed about INR2,000 crores which is I think the gross disbursement that is done. Yes and what is the runoff ratio that you?

Management: Runoff ratio is roughly around 3.75% you can take per quarter. Yes so roughly it comes to 15, 16%. 16% is the full year.

Questioner: And this includes both whatever is the normal?

Management: It includes amortization which is part of the principle of the EMI. It includes the part payment where customer just makes some ad hoc payments and still the loan is continued and includes loan closures and BT outs.

Questioner: And BT outs. So all include?

Management: All inclusive 16%.

Questioner: 16%. So obviously if I am paying an EMI there one is the interest so which is not, it is only whatever is the principle component. So by to the extent the loan reduces by that amount?

Management: Yes.

Questioner: Okay, fair enough. And this disbursement rate which was INR1,900 crores so are we saying that next year we can get to about INR2,500 annualized or?

Management: Yes, quarterly that is what we will be looking at. We will be looking at 20% growth over current year in terms of disbursement. So that would roughly work out to 2,500 plus. We will have to do a little more than 2,700 or something.

Questioner: So this year there were certain quarters where we did actually 2,300. There were certain quarters where we did 1,800, 1,900. So we are saying what the next year it might be more reasonable?

Management: So actually what happens is in the first half of the year it normally a little slower. 45% business happens, 55% business happens in the second half of the year. So first half we had about 1,800 and something in the first quarter and close to 2,400 in the second quarter.

So it was inching up in the way it should have happened. Now if this Karnataka issue had not happened then we would have done 2,400 approximately in Q3 as well. And then Q4 obviously would have been even better because Q4 but with Karnataka which is almost we lost about INR125 crores every month.

So close to INR350-INR400 crores business we lost and this quarter also even if we had to say 275 we have done 200-200 in Jan and Feb. Means this quarter also we are losing somewhere around INR225-INR250 crores. So overall about INR650 crores of business we would have lost because of this Karnataka issue of e-Khata.

- Questioner:** Switching a little bit on the asset quality side. I know there was a lot of conversation on that SMA 0 and 1. So if you can just any because I think you mentioned these were for a large number of small amounts which at least that's?
- Management:** Correct. Last 31st December we had INR2,493 crores outstanding in SMA 0 of which INR770 crores was only those cases where customers had paid their EMI but not the charges which were debited which is the check bonds charges or match bonds charges. So it was up to 850 also outstanding if you look but for us the entire loan has to be classified as SMA 0. But the outstanding was not even the full EMI it was only less than INR850 which is the charges.
- Questioner:** So I guess so if I am just making this up somebody had to pay EMI INR6,000 but there was another INR500 of charge let's say for whatever reason. And that person only paid 6000?
- Management:** 500 you know first apportionment will happen towards charges and therefore that 500 or whatever which was pending in the EMI.
- Questioner:** And then when you say the amount which is which goes into SMA 0 is the entire loan amount. So if the loan amount was at that time I am just making this up INR15 lakhs so you put the because of that INR500.
- Management:** Entire INR15 lakh has to be classified as SMA 0. Absolutely, absolutely you are right.
- Questioner:** But is there a solution for this in the sense how do we rectify it because it almost looks like optically it seems to have almost like gone up by 70% or something over a period of 1 year.
- Management:** Yes, so we what we are doing is you know this is because of a recent this we cannot have any even a single rupee in excess lying in the customer's account whatever money comes has to be adjusted towards the principal and that now it is happening on a daily basis. So suppose your EMI INR17,800 and the customer says he transfers INR18,000, INR200 also will be adjusted towards principal. So that is one thing.
- Earlier these small amounts up to 1 EMI accumulating up to 1 EMI would lie as advance from the customer and but now that has changed. So any amount excess we have to add credit towards the principal. So there is nothing lying.
- So therefore you know any collection has to happen, has to happen extra over and above this. Customer cannot say I paid you extra. That has already given to the principal and that is in the interest of the customer only.
- So now what we are doing is we have started sending SMS's to customer before the match itself that if in case it bounces you will have to pay this along with charges of INR850 and once it bounces immediately message goes that your check has bounced. So now you have to pay EMI plus INR850 therefore this much instead of this. Those kind of SMS changes we are doing.
- We have slightly increased the telecalling also and we have put up boards and all those things in the branches so customers know. That is basically what it is.

- Questioner 2:** But looks like it seems like it is a from what you are describing it is a structural type issue. What I mean by that is then it is quite likely that the amounts can stay high in that bucket?
- Management:** See because it will come over a period of two to three quarters it will come down back to the original number because you know customers also like today you do it but tomorrow you may correct yourself in this thing but somebody else X may do it Y may not do it. Next may X and Y both may not be the ones some Z customer might bounce for him for whom it is the first time they are doing it.
- So that kind of is a constant thing we have to now change. So basically it is a process change we have to do which is now for lifetime you have to change the process and change it.
- Questioner 2:** But if a cheque bounces then the customer again has to redo it. That is the way it is?
- Management:** They will have to transfer yes.
- Questioner 2:** They will have to transfer through online or again let us give you another example.
- Questioner:** So if you take that kind of amount out you know what I am saying is let us say which got classified at SMA 0 because of for lack of whatever non-payment of these charges. Would then the number be reasonably comparable to?
- Management:** Yes then INR770 crores would come down so 2493 would come down to around 1500 so 1600.
- Questioner:** And last year it was 1397. So I guess that is and but then was also SMA 2 also. SMA 1 right. SMA 1 also...
- Management:** The amounts are a little higher but I think percentage wise it is not making too much of a change. It is by and large it is roughly almost we have been seeing the SMA 2 and SMA 1 Stage 2 is not actually making too much of a change in percentage.
- Questioner 2:** So you are saying I think it was up by maybe 20%, 25% SMA 2 also. I mean I am talking about from an yearly basis...
- Management:** What I mean is there is an increase yes but I am not sure how much is the entire thing.
- Questioner 2:** But just maybe at an overall level from an asset quality your I guess credit cost perspective. Have you seen any significant changes in that or this is still business as usual? Because the reason I am saying is we have obviously seen all the stress on the unsecured part and we obviously expect this to be the most secure in that. But is there any change in the credit cost trajectory or anything of that sort that you see that you anticipate now or over the next medium term?
- Management:** What we did observe was once we have done this some of the SMA accounts are a little sticky. So that is of course I think but I guess that is always in every company that would be there. Every month they remain in SMA 2 and they do not move much.

They just pay one EMI and which otherwise makes sense because you know we normally give a FIR of almost 50% and so effectively if your salary is say INR75,000 our EMI would be almost INR35,000. So INR35,000 2 EMI's of INR35,000 will be more than one full salary that you are getting in credit in your account. So normally you know once they get into default it is a little difficult to completely bring them on.

We have to slowly, slowly take you know it takes over some period to bring them down. So the stickiness remains and that is something. Now as a Stage 2 actually compared to March I do not think it is a it is less than 20% increase. It was around 1,700 and in December I think it is around 1,930. So 230 increase over 1,730.

Questioner 2: 1,700 and 1,930 and when you are okay this is Stage 2?

Management: Stage 2, SMA 1 and SMA 2 put together.

Questioner: So overall I guess you are feeling that you know not a significant change on the asset quality side. I think that is sorry were you asking something?

Questioner 2: No.

Questioner: Okay, so yes so I guess overall you are saying it is only about a 15%, 16% growth which is which is probably part of the course maybe a little bit here and there. Correct. Which obviously is life is never you know is never straight line...

Management: It is not worrying according to us. It is still because you know frankly speaking even a one year lag and if you look at it one year lag it is less than 1% for us. Okay.

Questioner 2: So the pain from I understand one year back we used to have something called as restructured book which was around 600, 700 books. Is the whatever pain or whatever was supposed to come from there everything is in the system now?

Management: Yes everything is in the system. In fact this increase also is mainly because of the restructured pool only. Because you know our restructured pool entirely came out in November '23. So after that also slowly only with a little effort people were moved to SMA 0 then SMA 1 we were still holding in SMA 1 then SMA 2. So basically you know this is mainly whatever increases because of the restructured pool only. And the restructured pool came out last in November '23.

So it is more than a year now that it has happened and whatever even with all our efforts at recovery you know whatever had to move I finally has moved and we now know. Now there is a normal part of it but I think it is not worth mentioning also now separately.

Questioner 2: What would be the portion of central or state government employees as a part of your whole customer pool?

Management: Central state government would be I think what 14%. Yes ESU and this thing is roughly about. So I think government is 14%. That is it. AAU 25% is 15%.

Questioner 2: And on long term expectation of order can be the credit cost where will it stabilize that?

- Management:** It could not be more than 20 bps. Right now 15 bps. We are talking about 15 bps only. So 15 bps to 18 bps you can say. Yes, it is that range.
- Questioner:** Just one you know maybe just final topic is there has been you know at least in our mind a lot of confusion if I may use the term or lack of understanding of this RBI circular about 4th October. You know I guess that is how it is referred to 4th October circular. So maybe if you can just summarize for us what does it you know what does this mean?
- Management:** See there was a circular and 21st November or something was the date by which all banks were expected to give their feedback. Couple of banks of course all of them would have given their feedback including Canara Bank has given its feedback. But a couple of them openly also came out like Axis Bank and all those saying that you know there are you know this should not be done until you have to consider.
- Questioner:** And just at the highest level it was essentially saying a bank and any of entity where it owns more than what percentage they want to...
- Management:** No, what it says is that you know you can have subsidiaries but there should not be any overlapping of business. So if the bank like for example Canara Bank is having home loans on its own it is doing plus it also has a subsidiary which is also doing home loans. So there is overlapping of two different verticals.
- Questioner:** And the definition for a subsidiary is, is it because I mean Canara Bank, in Can Fin owns 20%, 30%...
- Management:** It is technically an associate not an affiliate. But in any case they said that no two entities even if it is having an overlapping of business then they should bring down the state to below 20%.
- Questioner:** Below 20, that is what I am saying, so below 20.
- Management:** So now what has happened is you know a lot of feedback has gone back to RBI. We understand that RBI has asked this Association of Banks to you know IVA to come up with a group and form a group and give suggestions to the RBI and then they will take a call. So it is now been almost like 4-5 months and nothing has come out.
- Second thing is you know in the meantime the RBI governor has also changed and it seems this present governor is like a little okay with it or is ready to consider reconsider or whatever. So that is what it is. But having said that even the circular per se there were some areas where there was some ambiguity or some you know clarity was required.
- Like for in one place in the circulated says that you know bank can have subsidiaries to operate certain businesses such as XYZ and all including housing finance. So housing finance was one of the things where they said you can continue. So some banks are taking it that it means that we can housing finance is not a problem.

At the same time in another place it says that however if there is an overlap of business then you have to bring it down which means you can have a subsidiary or whatever but have not more than 12%-15%, 20% holding. So that is some ambiguity. That is one part.

Second part is if at all you know that circular was to stand then in that case the HDB financials they will have to give up -- they will have to completely exit because then it is not in line with what is the circular talks about. Same way for some of the thing. So if the circular was to come in its present form and whatever then in that case it is you know huge amount of capital requirement will be there whether the appetite is there whether that much capacity is there to absorb so much of capital is another question.

Third point is you know like you know when immediately after the circular when Warburg Pincus was to acquire Shriram at that time RBI said that you have to reduce the stake in HFFC where it was holding more than 20%. But subsequently I think there are other subsidiaries who have been given permission to acquire in other companies. So all those things are not very clear as to what is the real direction.

Questioner: Just at the highest level if as I said if the circular were to stand. Looks like what you are saying is there are good reasons where there may be a rethink and all of that on that. If at the most extreme interpretation of that, would that mean that Canara Bank stake if Canara Bank was to continue its housing loan business, which you would expect, let us say, if you take that then their stake in Can Fin should fall below 20%?

Management: Correct.

Questioner: That is what it is?

Management: If at all it comes and that our chairman who is the MDC of Canara Bank, he also articulated saying that in terms of the group, in terms of the circular the only subsidiary or group company where we have this kind of overlapping is Can Fin. And right now we will see, he has also said that we see a good amount of potential to improve the valuation and to improve the business and so we indirectly saying that we want to focus on the subsidiary.

Questioner: Right. Fair enough. So right now we will see what, but although let us say, did you have to get less I mean, the circular was to be implemented then the quality of the overall book of even HDFC Bank that will whatever is getting reported will also change. Because now you are being reported as a subsidiary, but when you are, if you were to merge that business inside the bank then it would be a totally different ballgame?

Management: If they have to merge it, but if they have to the other option would be to reduce the stake further.

Questioner: Reduce the stake below 20%.

Management: Yes, I think, but that over a period of time will also then have implications of cost of funds and things like that. I mean clearly we have how the rating companies think about that and all that will have implications of cost of funds.

Questioner: But it looks like from your perspective or from what we were saying is there isn't not much clarity, but maybe it looks like it may have gone into a that we will talk about it. There was a thought, we will deal with it.

Management: Yes.

Questioner: On the expense?

Management: Yes, actually that is.

Questioner: Yes, I mean, what we are interested in is like what portions of business do you think that would be - there would be a change and what efficiency would be brought in, maybe the cost structure, maybe currently we have some numbers from the conference call, but yes, in which areas are we going to see the improvement?

Management: First and foremost, the improvement will come because there are, this RFP includes three parts. One is the core application part, second is the infrastructure part and third is in terms of the security part. So, security 100% is going to have a definite improvement in terms of the security environment because we have factored in a lot of end point security improvement in terms of the backups, in terms of the firewalls, in terms of all those things.

So, security part definitely is going to be, but obviously there is not going to be witnessed upfront on the face of it. In terms of the technology, there is definitely again going to be an improvement because we are moving from this MPLS plus internet connectivity phase to a SD-WAN where we will have a much more secure kind of platform and we can improve the options in terms of where we can have multiple MPLS lines, we can have all those kind of things also.

So, connectivity and infrastructure that way going to there. We are moving entirely from half on-prem and half and 70% or 80% SaaS based model and 20% on-prem to 100% on-cloud model. So, that is another thing which is going to happen in terms of the things. So, things like redundancy in terms of providing for peak load and all those things will not be required because it will be pay as we use kind of a model once we move to the cloud. So, we do not have to build redundancies on our infrastructure, on our hardware and all those kind of things of on-cloud.

Questioner: See in future that would help?

Management: That would help because if suppose in March the peak load is much higher, month ends it is much higher, at that time we do not have to actually provide for those kind of redundancies in our infrastructure that can all be managed because it is a pay for use model that is on the infrastructure side.

In terms of the application side, there are quite a few additional modules which are going to come like for HRMS is one, DMS is going to be one. We are also looking for treasury, banking and all those kind of software. These are all additional modules which are going to bring in efficiency in the respective departments not at the front end, but definitely that these are going to bring in some efficiency because they will all be this thing rather than.

So a lot of manual work which is happening particularly like for us in our HRMS module or a lot of scanning and everything that is happening and duplicity of storage space being used for our, we will all get reduced once we move to the DMS and all, we implement the DMS that is one. Third thing is we are going to start, we do not have a digital on boarding and digital sourcing.

Questioner: LMS system.

Management: We have an LMS and LOS. LMS is there, but we do not have the digital capability right now. So this thing is going to come with digital capabilities also. So once it gets implemented, we are going to add one more sourcing channel which is a digital channel for us, where we have projected that we are going to have 10% of the business coming from the digital channel.

So that is one more thing which is going to get added, plus while we have moved to a lot of things in our existing system itself post this January 24 onwards, we have started moving a lot of things because we upgraded our current system also.

So through the API capabilities on our existing LOS, LMS also, we have been able to patch and join a lot of third party vendor solutions, but with this new module that is going to come, it is going to be a much more nimble and this kind of LOS, LMS because current LOS, LMS that we are having is something which we acquired in 2011.

Questioner: What is it based on current LOS, LMS?

Management: Of course, now when we upgraded, it is still on a micro services environment, but it is still a lot of patchwork has gone into it. So this new one which is going to be there, it is going to be - it is a newer, much newer model. So it is going to be much more nimble.

Questioner: So it will be a new LOS, LMS?

Management: New LOS, LMS absolutely.

Questioner: And then which one is this going to be based on?

Management: So IBM has brought in Pennant. Pennant is running right now in Bajaj and in LIC housing.

Questioner: And what will be the backend? I am talking about, for example, a lot of backend customer management?

Management: So Pennant already has a lot of CRM solutions already there as part of it and that is also SaaS based. So I mean whatever Pennant has there, that is what will be there.

Questioner: And you would not require any finical or anything at the backend?

Management: No. So right now here what is there, I mean since it is not a - you do not need a proper CBS like what banks are using because it is a single product kind of a thing. So we have much simpler applications. So a core housing finance related LMS, LOS is sufficient for us.

- Questioner:** So my bigger question is for the IT investments we are making, what kind of book can this particular system support?
- Management:** Support, it can go easily up to more than a lakh or 2 lakh crores also, it can support. So the future what we have built is keeping in mind 15% to 20% growth annually in our loan book, that is the kind of projections that we have provided to build in the capacity because they have to build in the capacities and they have to project for it in the RFP. So we have provided for that. So that way it could go up to more than 1.5 lakh crores also, that can easily be managed.
- Questioner:** Slightly shorter question, since we are trying to move some business from DSAs to our internal channel. So are we factoring in some kind of incentives for the people internally who are going to do it or how does that work because I think the incentive part would be?
- Management:** I understand, incentive is a key driver for this particular channel. As of now, not yet, but we are working on something, we have not started to be very frank and once we get a little more larger team, we will have to do it.
- Questioner:** But do we have any team size in mind? I understand currently we have around 35 people in the sales force. So are we saying that goes up to a particular number?
- Management:** We have the projections in the sense that eventually, depending on the size of the branch one or branch people from each branch will have to be separated and identified for marketing without adding the team size matrix. So finally when this whole thing falls in place, I think we should be having almost, say for example, by that time FY28 we are talking about 300 branches, out of 300 branches we should be having somewhere around 450 people in marketing.
- Questioner:** But Suresh, until now whoever is going to be assigned to this role would have been doing something else, which he might be comfortable in. But what I am trying to say is if he is going to get into a sales role, wouldn't there be a push that would be required in terms of an incentive? I am just asking that particular question?
- Management:** It is very correct and very pertinent question. So we have not, we did try this taking from the existing team who are doing only credits, used to sitting in the offices and operating the backend and everything, whereas DSAs were sourcing everything. From there we did move people last year. It failed.
- Fact of the matter is we could not do with the same set of people. And most of the people felt they were more comfortable doing the backend office job and not ready to work. They were too comfortable with this thing. So it didn't succeed last year. It's a fact. This year what we have done is, therefore, some people who were still showed the interest, we continued with them.
- Remaining we moved back to their old work. And as and when we started having people leave or we have additional staffing to be done, there we are taking from the market, we are taking lateral hires for this particular model and those with some sales experience in the competition or in the market.

So existing people will not work, very valid point that you have made. In fact, our experience last year was a total, it didn't work. It was a failure. So we are now getting people from outside only.

To start with, what we have done is, yes, we don't have currently an incentive package. So we are running contests and we are trying to do those kind of things instead of having a proper incentive package. We are running contests and we are, you know, some kind of incentive is there through the contests for them. It could be some trips, it could be some.

Questioner:

No, I think you are aware of the challenges and I guess you are trying to find the best answer which is fair enough. Also, see, since we had met you almost like if I am right now, 1.5 years back and you were new to that system at that point of time, you are trying to do some transformation in terms of the TSA channel. So do you think the progression has been according to your understanding, I mean, whatever you expected, faster, slower, how do you basically assess that?

Management:

There have been hits and misses. This particular case definitely is one where we could not succeed in terms of the marketing team last year. So we have tweaked it and we are doing it differently this time. In terms of the IT, we got the approval in Jan 24 to migrate from the existing platform to the higher version. Earlier platform was a monolithic, this kind of a platform. We have now moved to the higher version which is on a Microservices environment.

So that was earlier it was not API enabled. So once you move to the higher platform, it is now API enabled. So we have been able to, therefore, you can see a lot of things we have been able to integrate into the system and a lot of processes we have been able to kind of automate.

Like earlier, PAN verification was manually, the teams had to go to the PAN site and had to check whether the PAN is valid or not. Same way Aadhaar, they had to go to ID and verify. Cibil, they had to personally go and download from the Cibil by entering all the things and all.

Now all those things are automatic, have been automated. Same way now, with this Karza app, our boys are able to directly say, trigger the request, the OTP goes to the customer. Based on the OTP, we are directly able to pull the ITRs from the platform, IT Income Tax Portal.

And a lot of other things like automated reconciliation, then this BBPS for collections, then e-NACH, then this vendor module payment and all those things we have been able to migrate. So on the IT front today, I think even without this IT transformation, we have been able to plug in so many things that, I can say that barring one or two small things like digital signatures of customers, a couple of things like that, I think we are, and maybe CRM, which is still getting done.

Other than that, I think we are there and comparable with any of the other players in the market in terms of the IT and automation. We may not be having the best marquee names like a Salesforce or things like that, but we do have a working model for us and which is, meeting our requirements. So that is one thing.

In terms of our other things that we have embarked upon, so one is like our branch expansion. We had stopped it from 2019 post-COVID. It was kind of stopped. We started it last year. We have 14 branches we opened last year. So that this quarter, if you see Q3, those 14 branches have contributed an additional INR30 crores, which is about INR75 lakhs per month per branch.

Now that is still not the best because a branch of that size should be doing INR2 crores, but it is just one year and normal break-even period is about 18 months to 24 months. So next year, the same branches will be contributing close to around INR60 crores in a quarter. So that would be...

Questioner: You said how much did they contribute per quarter?

Management: In Q3, they contributed a little more than INR30 crores. Okay. So this was purely new business which has come in. Next year in Q3, if you see the same 14 branches would be 2 years into the system, they would be contributing the normal INR60 crores approximately. Another 15 are opening this year. Next year, these 15 branches would end and Q3 would be opening. So slowly, this cycle starts.

Second, this year after that change of model, we changed it and we started getting lateral hires for our sales team. So now this quarter, they have brought in about 3% to 3.25% of the businesses. This has come from the sales team. So almost like we did around INR1800 crores and something. So 3% of that, almost INR50 crores, INR60 crores they have brought in, this particular channel has contributed. And this is month on month increasing now.

Even the staff is increasing but even business per staff is also increasing in the last 6 months from June to December. So that is also one positive which is slightly there. The pace of course you can say whether it is happy, not happy. Yes, you would have obviously been happier if it had been more but at least some directionally it is.

Questioner: Directionally you feel comfortable?

Management: The other thing is in terms of APF, we said again the same team was to do APF last year the experiment failed. This year after this new team has come, we are looking at around 75 projects we should be having by March, approved projects. We are already at 70 yesterday. I just got the, I was taking the stock. Just the 70th of the project has been approved. So we are at 70, we should be close to 75 or something by the end of the month.

Next year we want about 250 projects on board. So that is another thing which we are looking at in terms of, APF approvals. In terms of, I think, so I mean these are the things that are ongoing, so.

Questioner: No, I mean this is. I had, on the ticket size, basically we are currently at around INR23 lakhs but earlier you talked about the ticket size going much higher. But if I am right, in the last 9 months it has dropped from INR25 lakhs to INR23 lakhs. So what is the trajectory going to be going forward because that seems to be...

- Management:** I agree it was INR25 lakhs but Q3 it has come down to INR23 lakhs because, both our Hyderabad and Bangalore. In Bangalore our average ticket size in Hyderabad is almost INR40 lakhs. In Bangalore also it is much higher than the average. So obviously two big cities are affecting. So our Tier 2 towns will still be doing about INR20 lakhs, INR20 lakhs. But once again when both these cities start firing, we will again be back to INR25 lakhs and so on. So that was, in fact, I was also suddenly when the Q3 numbers, so then we did. So it is purely because of the Bangalore business.
- Questioner:** And in branches, the employees would be directly at the conference halls? I am talking about, are there going to be deputations from Canara Bank or no? At that level in the field?
- Management:** There are no deputations except, Mr. Saha is from Canara Bank. He is there as a Deputy Managing Director. Other than that there is nobody from Canara Bank. All are internal, are employees of Can Fin only. And there is no deputation coming from there. It is absolutely separate hiring, separate.
- Questioner:** And the incremental, whenever you open a branch, there would be incremental hiring for that particular branch?
- Management:** So hiring normally is for two things. One is for the new branches. Second is, we have a matrix. Depending on the size of the branch, we have to at least provide them with sufficient staffing. So every, as the branches grow in size, and they move to the next level, we will have to add that also.
- And obviously last year and this year also, we have been strengthening some of our internal departments. If you see the first year, we had reinforce, rebuild and reach higher. So obviously the reinforce part was when we reinforced our all assurance functions. So risk, compliance, finance and accounts and our RBI internal audit.
- So that, so some, but that I think is mostly done. So it is mostly for the new branches and for the branches who move up the ladder.
- Questioner:** And do you think a mature branch can do around INR60 crores? That is what you said.
- Management:** INR60 crores, yes, I mean anywhere between INR45 crores. Normally a large branch has been doing about INR15 crores on an average. So there are branches which do a little more also, INR18 crores on there also. But anywhere between close to INR45 crores to INR60 crores, the larger branches are doing per quarter.
- Questioner:** And in terms of geographical concentration, I think until now nobody would have even asked you about that particular question. But since now Hyderabad and Bangalore issue have cropped up, are we thinking on those lines?
- Management:** No, no, it was part of the strategy. In fact, in 23, when we drew up the strategy, it was very clear that, we were at that point in time, 72% of the business was coming from the five southern states. In spite of the fact that between 60%, 65% of the branches were in the south, but 73% of the business was coming from the southern states.

North and west where we had a fairly large presence, very old branches, still it was less. So in fact, even if as a strategy we had said that when we open the new branches, we will focus more on these two geographies of north and west. So last year when we opened 14 branches, most of the branches were in the north and west. Even this year when we are opening branches, most of them are in that category only. So hardly we have branches in the other geographies right now.

Questioner: So north, west and south?

Management: Yes.

Questioner: I think this is super helpful. I am also cognizant of the time. You have been more than generous with your time. Thank you so much, everyone. I appreciate it. Thank you. It is really an honor for me. I really appreciate your taking the time out and super helpful conversation.