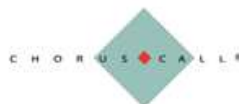




“Can Fin Homes Limited Conference Call”

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

21.03.25 Eastspring

YY Tsai: A little bit unfamiliar to me. Firstly, on the growth, the recent growth slowdown, I know there are some one-off issues like Karnataka, Telangana and then you have your tech transformation team at the same time and hence our disbursement growth has been relatively weak. So if you were to go by one by one, the key issues here maybe starting with Karnataka, maybe give us an update on the progress of this issue and also what's the timeline of recovery that we should be looking at in the next 12 months?

Suresh Iyer: Sure. See first is Karnataka. We had this issue which came up in end of September and where the e-khata was a pre-requirement now for any new transaction that was to be done, any new registration of property. So that has - the government obviously has been losing revenue because new registrations have slowed down and that is a large revenue source for the government.

Government has also been trying very hard to try to resolve this issue by bridging the gap between the sub registrar offices and registration issues which is the BBMP and the BDA and all those things. So far, what they've done is, in the corporation limit areas they have been somewhat able to solve this problem. So somewhere the number of e-khata issuances have improved, the speed has also improved, so that has slightly helped.

So to some extent it has impacted our – or supported our business in January, February where in Q3, we were doing about INR150 crores, down from INR275 crores previously, we came down to INR150 crores per month disbursement in Karnataka and January, February, we have been able to improve it to about INR200 crores. And recently in the two days back, the government chief minister made a statement that even for very soon, they will be starting for the panchayat areas also which means that the rest of the two areas also will get resolved.

So at least in Q1, we expect that this problem will get resolved completely and we'll be back to the old normal, which was the -- and registrations and everything will start as normal. So we are expecting that it should be resolved very soon. That is the...

YY Tsai: Q1 as in the June end quarter?

Suresh Iyer: Yes, in the quarter, April to June we should definitely see that because March, so far it has just the announcement has come. So, at least if in the next one month also if they are able to actually implement what the Chief Minister has indicated, then I think we will start seeing a good amount of e-khata issuances in panchayat and BDA areas also.

YY Tsai: Do you expect the recovery to be a gradual one or can it be a kind of a steep jump up because there's some pent up demand or there's those that's been stuck in the queue and then there'll be a sudden acceleration kind of a recovery?

Suresh Iyer: No, it will still be gradual only because what we have seen also in corporation areas also, even though the speed has picked up, but still there is a limit up to which they will be able to issue e-khata. And also what happens is while there is a 12 lakh, 15 lakh kind of applications, which have come for e-khata, not necessarily all of them are in respect of new property purchases.

Many of the customers also would be those where they have got their properties. They just want to perfect their title and then they just want if this additional requirement is there, let's take it and keep it in our file and keep our property papers absolutely strong. So that is also one issue. So it is not that it will be a straight steady jump because overnight also, they will not be able to clear up the entire backlog, which has been created.

So slowly this backlog will be reduced and over the period of 6 months, they will probably regularize and come back to the old normal.

YY Tsai: Okay. How about the issue in Telangana? It's also something that is quite new to me and I was just reading news online and maybe we can just hear it from you directly?

Suresh Iyer: Yes, in Telangana actually we had indicated that post this change of government in February 2024, the new government has kind of started them some demolitions and come out with some demolitions and all those things because the previous government, the previous state government which was there of another party, they had issued licenses and plan approvals in government owned land and also on lake bed land which was actually basically lakes. So there these are unauthorized, they have started classifying these as unauthorized and started demolition.

Now, obviously from the customer's point of view, they hold a valid document, they hold a valid plan, which was approved by a then prevalent government authority. They are also having - they have also paid the stamp duty and whatever state dues were there, that has also been paid. Now, just because there was some irregularity with the previous government, the customers are getting penalized, so that has impacted sentiment.

But, at least, one good thing is 3 months, 4 months back the state government then finally said, we'll at least not demolish the properties. So it is likely that they may now start levying some impact fee or regularization charges and which the customers will have to additionally pay. And they will regularize this because they can't obviously start demolishing all these properties. So sentiment has been affected, but what has happened is we have come to a new bottom.

In fact, the base has been reset now. We were doing about INR150 crores per month in Telangana, which has now come down to about INR100 crores. So from here, I don't see any further deterioration happening. So next year, I think even Telangana will start showing some growth for us.

YY Tsai: So all this started last February or you just accelerated in the last few months?

Suresh Iyer: February 24 when there was a change of government, a change of party leading the government in the state.

YY Tsai: And this INR100 crores bottom that we're talking about is in the last month, is it in the recent months or have already reached the bottom a couple of months?

Suresh Iyer: No, we from 150 kept on to 128 and so on, so on because whatever pipeline we had is also getting exhausted and the part disbursements and all those things. Now it has reached almost stagnating around INR100 crores. We have done about - it came down to around INR70 crores

per month also. And now slightly it has improved around 90, 95, 100 and overall for the entire year, we are somewhere around INR100 crores per month.

So from now onwards, I believe now reaching about to a bottom of INR70 crores, INR75 crores per month, we have again come back to 100. So I think now, next year we should be able to do a little more than that and stick to around INR115 crores, INR120 crores per month disbursement, which will still be a growth compared to last year.

YY Tsai: Okay. And I understand none of our customers are being affected so far, but what if in a scenario where our collateral is being demolished or what is the [inaudible 07:07]?

Suresh Iyer: No. So far, thankfully, touchwood we have not had any of our customer properties getting demolished in Telangana.

YY Tsai: But what if there is something, what happens to our loan outstanding?

Suresh Iyer: No, actually, now as I said, 3 months, 4 months back, the government said we will not carry out any demolitions. So we will transfer it to another department which will look at it. So which means the government will probably levy an impact fee, because these kind of land getting freed up from lake beds or, government land getting used for construction and all that has been happening in other states also, where normally the government's input levy a regularization fee or an impact fee, whatever by one of the names they call it.

So that additional payment will have to be made by the customers. So we may - the customers will either pay it or they'll come back to us asking if they can add the loan amount and increase it and give it to regularize the account. So that is what will happen. In all likelihood, the government will come out with some norms for levying some extra charge for these kind of properties.

YY Tsai: So all this state level like risk, usually happens when there's a change in the state government. So, are there any other states that you think that we are operating in that if you have some risk as well?

Suresh Iyer: See, normally it happens all year round whenever the elections happen, whenever change of government happens. What has happened is unfortunately two of our states, which is Karnataka and Telangana, both states where we have a large presence and between them constitute around 50% of our business have simultaneously been impacted. Normally one state happens, some small impact happens there, it gets offset by higher business in another state and so on.

So normally it gets offset. It is just that right now two of our large states which contribute 50% has simultaneously been impacted. Now, even if Telangana had only been impacted and Karnataka this issue had not happened, Karnataka was also growing at 20%. So we would have done about, we would have ended more than INR9,000 crores end of this year. Disbursement would have been INR9,200 crores, INR9,300 crores, but in all likelihood, we'll end somewhere close to INR8,500 crores, INR8,600 crores disbursement.

YY Tsai: But are there any other states that you think could be have some risk that at least from what we can see?

Suresh Iyer: So whenever the elections happen and if a new government comes, some small changes can happen. That is a normal course. It has been happening all these years also.

YY Tsai: Okay.

Suresh Iyer: As I said, it is never had a - the compounding impact has not been so high for us that we have not been able to absorb it.

YY Tsai: So it's the first time it has been affected?

Suresh Iyer: Yes, there are two large states where we have a large presence are simultaneously being affected.

YY Tsai: So does this change our thinking in terms of our expansion strategy? I know we are doing 15 new branches a year. Shall we increase it a bit more to accelerate the diversification or you haven't, there's no change in the thought?

Suresh Iyer: No, we have been doing most of the expansion in the North and the West so that the 70, 30 or 72% to 28% actually comes down to 60, 40 at least in the next two to three years. So at least we are trying to minimize that impact and reduce it. So that impact that is already happening as we speak.

YY Tsai: But what is the bottleneck for us to extend more than 15 branches a year?

Suresh Iyer: Not, as such there is no immediate xxthing. We can do a little more. In fact, this year we have actually opened 25 branches.

YY Tsai: Okay.

Suresh Iyer: But the net impact is 15 because we also merged a couple of branches. We also closed a couple of non-performing branches. So effectively the net impact is 15, but we are actually opening 25 this year.

YY Tsai: Can we do a bit more or what's the constraint here?

Suresh Iyer: The constraint is just that we have to get the people, train them, get them on boarded. So that is the only constraint. Otherwise there is no and if we have branches getting added, at least if we have some nearby branch which is able to do some hand-holding, then the growth is a little more controlled and better without any mishaps.

YY Tsai: Okay. And the third point on your tech transformation, I think when I spoke to you last year, you were saying that we should be more or less done by September 2025, but what I'm reading is that it's being kind of pushed backwards and being delayed for a little longer. And also you are expecting cost-to-income to rise on percentage point starting next FY27 and maybe can you tell us, is there any reason for the slight delay and also what I know the cost-to-income impact, but is there any impact on the growth as well?

Suresh Iyer:

No, actually we were - the delay actually is that, we had said September 25 we will implement it, but now the schedule which has come, it is about mid November 25. So that is just about a 1 month, 1.5 month delay, which also we are trying to talk to them if we can do it in the first fortnight of October rather than pushing it in November. And that also what has happened is the implementation we are putting in two parts.

So some of the non-core modules like HRMS and treasury and banking and all, we will be implementing in July, August. And the second phase is in November which also we are trying to push it to first fortnight of October. So practically this is just about maybe a month's delay or something beyond September that it will happen and the cost impact, we had already said that our cost-to-income would rise to around 18.5% or something.

But now that the entire project schedule has all been worked out, it is more likely that instead of FY26, in fact, it is entire amount is going to come in FY27 and not in 26. So we had indicated that on FY26, the cost cum income ratio will raise to around 18%, 18.5%, but now in FY26 there will be no impact on our cost-to-income ratios. Only in FY27 it will happen. It is actually getting pushed back the cost impact.

YY Tsai:

Okay. But in terms of the growth, because I mean, the lost opportunity during this period when we are doing the transformation, is there - are we able to quantify the growth impact?

Suresh Iyer:

We are trying to minimize it. Obviously we can't quantify it, but we are definitely trying to minimize it and see that there is a very minimal impact, at least in terms of the LOS, LMS, we have tried to keep the same vendor. So that there are no such integration issues which normally happen in all transformations.

So we don't expect that to be a problem, but training also we are trying to see and have a very extensive training sessions and maybe hands-on experience kind of modules and all which we can give to them earlier so that the impact of this learning, unlearning and learning is also minimized. And the third impact is the resistance to change, which we'll have to work by incentivizing people, giving them a lot more training, giving them a longer listening.

So that's what we'll have to do. So we are trying to see that at least, if it can be limited to maybe a quarter or less than that, the impact then that will be good.

YY Tsai:

So excluding the two states, Karnataka and Telangana, our growth has been 15, 20% and we think that this can be sustained in the next two to three years?

Suresh Iyer:

Yes. See, our other zones, that is North Zone and Tamil Nadu Zone, they are both growing at 20% plus. We will end with more than 20% growth in these two zones. Similarly, in case of West Zone, we are at 15% plus growth in this year. We should be doing that also. So both these zones, we will be positive. Karnataka also, once this issue opens up, we'll again be back to the 20% growth that we witnessed in Q1 and Q2.

So that and with the Telangana also, now from rock bottom once it starts moving up, so there also we'll have a positive. So 20% growth is something we are very positive about.

- YY Tsai:** For the entire FY26, right?
- Suresh Iyer:** FY26, yes. Overall, we should be able to do a 20% growth in disbursements.
- YY Tsai:** So is there any rise in competitive intensity at all because we've been hearing the banks also want to accelerate, I mean, we also want to grow their loan book in this space. It seems like the banks are coming down the curve, going down the curve. Are we seeing that on the ground?
- Suresh Iyer:** On the ground, we are not seeing much. Competitive pressure has not changed much. And banks also, what they are doing is - the RBI sometime back had come out with clear guidelines on how to go about with cold lending and also with DA transactions. They had clarified the accounting entries and everything for DA transactions as well.
- So basically, banks and larger players are also looking at - instead of actually going to the deeper geographies and doing business there, they might as well purchase the book from the smaller players through DA transactions or do co-lending tie-ups with the smaller players to get the last mile connectivity. So, basically the banks are focusing on direct business in their own core geographies, which is the Tier 1 towns.
- And for Tier 2 towns and Tier 3 towns, they're only buying the book from the other players. So basically the competitive intensity from the banks directly on the ground is not witnessed much.
- YY Tsai:** And our direct competitors would be the likes of PNB Housing and Bajaj Housing, right?
- Suresh Iyer:** And LIC Housing Finance.
- YY Tsai:** LIC Housing, okay.
- Suresh Iyer:** Yes.
- YY Tsai:** Okay. And you see the likes of PNB, they're trying to go down the value chain to affordable housing, so that they can enjoy higher ROE, ROA. Is there a strategy they were thinking about or they're happy with our current segment?
- Suresh Iyer:** We are happy with the current segment. In fact, I've been holding this view for the last two years that the supply is going to reduce in the affordable segment because the incentives have been withdrawn. The tax incentives, the subsidy incentive and all that was given, they are being withdrawn.
- So basically, supply will come down. And in fact, at least so far, the same whatever I've been fearing has kind of happened because affordable housing segment has kind of - the growth levels have reduced and now they are in the single digit levels. So I continue to hold the view that probably the affordable housing, the growth may not be as attractive and as compared to the mid segment or to the prime segment.
- So right now, at least we don't want to go down to a segment where the growth level, the growth is actually tapering off.

YY Tsai: Okay. And in terms of asset quality, I think last quarter we are seeing a little bit of inch up in the MPAs and especially in Karnataka, I know it's very noisy in Karnataka, especially in the MFI space, you hear about this ordinance on all that. I know it doesn't impact us directly because it's a different segment, but is there any kind of a collateral impact in terms of credit culture on the ground, especially in the states? It's just so messy in the states?

Suresh Iyer: No, actually you're right that the ordinance had come, but it is not affecting us directly because we don't have those kind of very high lending rates and all. And we are a housing finance company, this ordinance is more for microfinance lenders. But yes, there is some noise particularly in a couple of branches that we are seeing, which are more rural branches like Bidadi or Ramnagar and all those places.

We have seen a little bit of a noise. Customers are going to the police station, we are having to go there and explain and all, but a couple of cases have happened, but otherwise it is not impacting us. Our in all likelihood, our gross NPA in percentage wise in Karnataka and a couple of other geographies will actually be lower than last year.

YY Tsai: So not just Karnataka, but in all the other states, you don't see any signs of stress or anything?

Suresh Iyer: Only in Telangana, as I said because of the sentiment issue is there, so some cash flow has been impacted. So we are slightly seeing a little higher delinquencies, but in spite of that, at least it was a very clean portfolio in Telangana, even with this slight increase in delinquencies and NPAs in Karnataka, I am sorry in Telangana, it is still actually below our company average, but in Telangana, there's been a little bit of an impact in terms of delinquencies for us.

Other geographies, like Karnataka our North zone, our West zone – our North zone, our Tamil Nadu zone and all, we might probably have NPA levels almost same as last year or maybe a little lower also. In terms of that, because the portfolio has been increasing, NPAs have not increased in the same level. So percentage wise, it might actually be lower also, this month we are expecting it could be lower also.

YY Tsai: And the other issue on the RBI's directive on this bank and their own NBFC subsidiary of a LAP and all that. And I think Canara Bank also mentioned in their call that they're open to selling our stake. So could you tell me - I don't, I guess you probably don't have much comments, but anything how should I read these issues, probably a two year, three year kind of a timeframe?

Suresh Iyer: The original draft circular had a two year time frame, but in all likelihood either it could be pushed back or it could be extended to beyond two years, if at all it comes. As of now, the current dispensation on the RBI is that it may not, they may not push it right now because the previous governor had this view, but the current governor has slightly taken a - has also gone on record that we have only given the approvals now, if you are withdrawing, it is not right.

So either it may be not going, they may not go ahead with it or they may postpone it or even if at all they do come with it, it might be with a longer time frame. That is what it is. As for Canara Bank, currently we are not having any discussion or any view right now that we are aware of, of any such discussions, but yes if there is a regulatory compulsion, then Canara will obviously

have to do it, which our Chairman has also indicated, but that is only in case if it is a, you know, regulatory requirement.

YY Tsai: And obviously our cost of funds is so low because of Canara Bank. So any potential buyer would need to be - would need to have a credit rating of similar to Canara Bank for you to continue to enjoy the...

Suresh Iyer: Obviously. If it is an equally strong parent who or an investor who comes in, then obviously the impact may not be much, but otherwise there could be a one notch downgrade which would impact our cost of borrowing by about 25 bps.

YY Tsai: Okay 25 bps impact. Just some clarity on the CFO's departure. Any reflects that you know?

Suresh Iyer: No, nothing. In fact, he is basically from Delhi side and he moved here for this assignment, but there were some family constraints. He had to move back to Delhi. So he's going back to Delhi basically. There are no other issues. And we've already had our - previous CFO who was there and who took other responsibilities, we have appointed him back as an interim CFO. And we are later on looking for somebody who is - who can fill up this particular position in the new course.

YY Tsai: Sandeep, do you have any questions?

Sandeep Bihani: Yes, sir. Couple of them. Thanks. One is this whole state level benefits which are given by the state governments. This seems to be more of a structural trend with every state doing it. So how do you - how do you capture it, reflect it in your business economics?

Suresh Iyer: No, I got it. So basically you're talking about the freebies that the state governments are offering for their election promises and all those things, like guarantees and all those things.

Sandeep Bihani: Yes and that also affects your business in some ways?

Suresh Iyer: No, actually how it affects is that the governments obviously have to the deficits, the state budget deficits and the kind of allocations, they do get impacted. The segment that we are in mostly do not - does not get affected much because most of these freebies are more to the lower end of the strata, economic strata. So they don't normally come into the segment that we cater to.

However, obviously, the government has to offset the impact of the freebies that they are giving to the lower strata. And therefore, some like for in Karnataka itself, if you say, today the electricity charges have been slightly increased, the per unit charges, the rates for local transfer, metro rates, metro travel and all. So overall there is a little bit of impact for the end customer in the mid segment and the higher end segment where their outflow cash outflows do get impacted over a period of time.

It is there, but that is something we anyway have conservative lending norms in terms of FIR and IIR compared to what the competition is. So we can't do much beyond that. We are already at a slightly more conservative position we have taken.

Sandeep Bihani: It doesn't affect the credit quality or the customer intent to service his loan to you?

Suresh Iyer: No, as long as the customer is a first time home buyer and affiliation or the attachment to the house is definitely much higher. So it doesn't impact much, but yes there is a cash flow impact for the customer definitely.

Sandeep Bihani: Yes.

Suresh Iyer: And our customer also there is a cash flow impact because the electricity bills are going, go up by about INR500 rupees monthly electricity bill outflow. The travel costs slightly go up, your some other things on the food items get taxed a little more. So those things happen. They have to be - the customers have to bear that, but it doesn't at least affect the repayment capacity at least like the Karnataka has been maximum affected.

One of the first states where all the freebies have been offered and it was the, the guinea pig was Karnataka only and the impact is now getting witnessed, but at least in terms of our repayment, we are not seeing that issue here.

Sandeep Bihani: Okay. Thank you.

YY Tsai: Okay. Thank you, sir, for your time.

Suresh Iyer: Thank you. Thank you very much. Pleasure talking to you.

YY Tsai: Thank you. Bye.

Suresh Iyer: Thank you. Bye-bye.