



“Can Fin Homes Limited Conference Call”



INTERVIEWER: MR. SURESH IYER – MANAGING DIRECTOR, CHIEF EXECUTIVE OFFICER & DIRECTOR, CAN FIN HOMES LIMITED

Interviewer:

So, I was just discussing that with Ashwini sir also, like through your earnings call in much more detail and also recent results presentation and all of them. So obviously the bigger question would definitely be around growth and what your confidence is for 4Q. But I think if I were to take a step back also, what we would want to try to understand is that in general, wherever we hear from the space, the competition is getting way too excessive in the space. The PSU banks are becoming much more aggressive now. So in that context, you are also going into the larger ticket segment disbursal and that is increasing as a percentage of overall disbursals. So over there, where does that distinct advantage come? And if that competition becomes way too excess, if I look at your spreads, there's a pretty significant delta between you guys and LIC, PNB housing finance and then Bajaj Housing. So is there a necessity to maintain that 2.75% spread guidance and a very high teens to 20% ROEs? Could you look to compress that to materially drive up growth to that high teens level or not? And lastly, on branch expansion also, because you come from a GRUH background, so I mean, you understand the Western market extremely well. So beyond South, if you were to expand it, where would the focus be between West, North, East? So those are the factors I want to touch upon. But I think even Ashwini sir really wanted to be in this meeting, I will just check with him.

Suresh Iyer:

So the questions that you raised, I might miss quite a few of them but in case I just try to cover. See, first is in terms of the competition. So basically, in the competition, yes, because now the delta or the difference between the rate that is offered by banks and the rate that is offered by us is definitely higher. But the thing is that PSU banks, I think they are generally operating 35 to 45 kind of or 35 plus segment, whereas our average ticket size is lower than that. It's about 25 lakhs. So we are not getting, at least the banks are there, but at least the banks are not the first or the topmost in terms of the competition for us. For us, it would be LIC, LIC HFL, PNB HFL and Bajaj Home Finance. These would be the three ones which would be the largest competitors for us in the space that we operate. PSU banks definitely do pick up our loans, but not as much. So we don't have SBI or BoB or somebody coming as a key competitor for us. But today, yes, the prepayments have gone up a little bit. Our prepayments and total portfolio, part prepayments, full prepayments, BT outs as well as amortization has gone up by about Rs. 200 crores in Q2 alone compared to Q1. So that's also one of the things there is Rs. 80 crore of that Rs. 200 crore has been where people have prepaid part of the loan, but they are still continuing their loans. So basically, it's not a takeover or if it was a closure, I can assume maybe it's for a takeover only. So there is a little bit of money which is coming by way of prepayment, but not for closure of loans. That is also gone up surprisingly. So we'll see how it is there. But having said that, how we will face the competition is we have a scope to actually further pass on the 10 bps to our customers and still retain our 2.75% spread guidance.

Interviewer:

So far you have cut 15 basis points.

Suresh Iyer:

25.

Interviewer:

25 on a PLR. In two tranches.

- Suresh Iyer:** In two tranches, yes. 10 and 15. And the entire thing has been passed on to our existing as well as to our new customers. And practically, except for some who would be on annual reset basis and are yet to see their reset dates to come, that will probably be there. Otherwise, at least a quarterly reset entire portfolio, everybody has got the full 25 bps benefit. And the annual reset also quite a large chunk of the customers have already got the benefit of the reduction, because every month they come depending on the data.
- Interviewer:** You are also converting more customers from annual to monthly.
- Suresh Iyer:** Yes. And in the next two quarters, at least we want to see that, because what we expect is that for another two quarters or something, maybe the rates will be low. But after that, somewhere it has to start going up again a little bit. So, in that case, before that happens, we would like to convert our entire portfolio to quarterly reset. Otherwise, again the problem will be that on the asset side, the repricing will take time.
- Interviewer:** You are saying the repo rates will again be revised?
- Suresh Iyer:** In case, obviously, if the demand picks up or if the overall...
- Interviewer:** Because the base itself is now low. The inflation base is getting lower.
- Suresh Iyer:** Is getting lower. So, going forward, whenever that, reverse turn happens, at that time, we should not be left with an annual reset portfolio. That is our endeavor right now, at least in the two quarters. And otherwise, it makes it much simpler today. While, you know, our elevated spreads are actually good to know. But the point is, we still have some portfolio where on the asset side, we have to reprice and yet to be passed on. So, the 2.79, we know is having another 3 to 4 weeks which might go down going forward because of the repricing that will happen. So, you know, that kind of ambiguity can go if, we move everything to the quarterly reset. So, that is the part of it. As regards geography where we want to grow, yes, the challenge today is only that, as we have everything else, I think, is still happening. The only concern is that we have on a consistent basis delivered the growth and the AUM growth. So, for that, yes, we have started this branch expansion and most of it is happening in the north and west only. So, we have a large number of branches opened in the north, which is like places like Haripur, Saharanpur, you know, then places like, you know, Ludhiana. We are looking at places in Mohali. Then, we are, Jaipur, we are looking at, Churu, Alwar, Sikar. So, basically, this north and west is, they are the two zones where we are looking at maximum expansion.
- Interviewer:** So even for you guys, you would avoid the metros, but then you would look at the adjacent towns around the metros. Is that how the strategy works?
- Suresh Iyer:** Not exactly that way. We do our own study. So, we have actually every branch that opens, we have a 40-kilometer radius where they can easily operate. They can sanction this person also. So, if you are already opening in, say, Ghaziabad, so 40 kilometers from Ghaziabad, you can

anyway do. Gurgaon, 40 kilometers, you can do Faridabad, 40 kilometers, you can already do. So, as such, within 40 kilometers, you will have certain location, but still if we see a good potential somewhere, we will open there also. So, it is not that, it has to be that way. But yes, today bigger cities definitely, because the property values are higher, I do not think they will fit into, like today, if you were to look at more branches in Bangalore city, we will not be able to probably get this kind of a customer segment. But if you were to operate or open, look at the locations of the outskirts, then maybe somewhere on Tumkur Road or somewhere that side, then we will kind of be able to get that kind of a profile, matching our current profile. So, that is correct. So, we will obviously be more interested in that kind of tier-1 towns or the outskirts of the metros, this is where we would be looking at.

Interviewer: Sir, these are the ones, basically, when you say they will match your profile, is one by way of income profile and the need profile and the salaried or non-salaried? Are they strategically different? Today, you are reasonably well-encouraged in the salaried part.

Suresh Iyer: Correct.

Interviewer: So, would the strategy differ in that case when you do so?

Suresh Iyer: Not necessarily, because even in the current locations, we have some places where we have more self-employed customers, like in Tamil Nadu. If you go to a little more in Rajasthan, again, we have a little more self-employed. But we will look at from the point of view that the ticket size is something where we can meet the customers. Like if it is a 2-wall properties or Rs. 1 crore-Rs. 2 crore kind of properties, then the expectation of the customer will also be Rs. 80 lakh-Rs. 90 lakh, where it will become very competitive and the bigger banks will obviously take the cases. And so, we would rather look at places where the property, ticket sizes are somewhere, property values are somewhere in the 30 lakhs to 50 lakhs segment, where we can easily fund 20 to 40 lakhs kind of a loan. And the income segment also, which will be looking at properties, there would be the 60,000 to 1 lakh income bracket. So, then they will be able to afford that property, those properties also. So, that is what is our...

Interviewer: 60,000 to 1 lakh per month.

Suresh Iyer: Per month, yes, per month income.

Interviewer: Generally, what is the EMI to salary that you guys target?

Suresh Iyer: At the branch, we can give up to 40% installment to income ratio. Then depending a little more up to the zone and all, maybe up to 55-60 we can go, but that will be very rare. Mostly, it will be 40-45, not more than that.

- Interviewer:** And how is that maintained? Because for LIC, what I noticed was in FY'22-'23, I think they were hitting that 30% mark. In FY'25, disbursements has hit that 40%-45% percent mark. So, has that changed in this HFC salary in general?
- Suresh Iyer:** See, HFC, when HDFC started, the ideal was 40%, we should not go beyond 40%. That is the philosophy even at GRUH, we followed. Even at Can Fin, because they all have been set up. But now what is happening is new age companies do consider these kind of higher, they go up to 70% also, some of them, 70%. So, there are, I mean, like for example, there is also a logic to it. Like in the sense that somebody who is having 5 lakh income, obviously, even they can go up to that much income because the expenses are not actually going to be so high in that way. But of course, 70% is too farfetched. The idea of 40% or the logic for 40 percent is also very sound. If you have a 100 or 1 lakh salary, then net your take home will be around 80,000. So, you give 40,000. One EMI, the default, then if I practically mean the full salary has to be, nobody will be able to give more than that. 70% means after the default, then anyway you cannot recover the full money.
- Interviewer:** So, that 50%, 55% limit is of not the take-home salary, it is of the gross.
- Suresh Iyer:** Gross.
- Interviewer:** Okay. And in general, with the feedback that you have from DSAs and also in IT hub areas like Bangalore and all, this ratio of EMI to income has shot up pretty dramatically. So, since these are some of the core markets, is that something that you noticed?
- Suresh Iyer:** So, people are giving because incentives are also very high. So, they only look at the salary and then they 30% of your income anyway comes from incentives. So, those kind of considerations are there. However, for our kind of customers, this is not the case because we do not consider all those things and we would not go beyond that. As I said, only if it is a zonal manager power, maybe it may, for a specific case, go up to 60%. There also we have provided the income more than this, but that also is hardly exercised. Mostly it is 40% and 45% in total.
- Interviewer:** In this salary part, how is it divided between private sector and public sector? And within private, basically are there two or three governments in the industry or end markets and end customers?
- Suresh Iyer:** See, government for us is about 14%. Okay. 51% is private sector salaried, then 6% is IT sector and the rest is self-employed, which are-- Now, this 51% which is there is private sector employment. Okay. That private sector employment is something where it is completely different. There is no specific segment that is there, like more related to engineering, more related to nothing of that sort. It is completely diversified. There is no specific segment which is there.
- Interviewer:** And here the range, let's say, the range where you have 51% and where you have 6%, where you have 14% and where you have 29%, how would the income range differ, very broadly can you give us a sense?

- Suresh Iyer:** I don't think we have done that kind of a breakup, that within that whether there is a separate breakup, but by and large, looking that I don't think there will be much of a variation.
- Interviewer:** And in this, basically, when you get into a new area, how do you really wean away people who are, let's say, banking with somebody else? What is the key? One is the market expansion, second is the market share gain. So, how do you look at these two buckets and how do you really plan growth distribution? There is significant demand, but how do you really plan about growth and how much...?
- Suresh Iyer:** So, basically, what is our USP, basically, what you are asking?
- Interviewer:** Yes.
- Suresh Iyer:** See, in our case, let me tell you what happens is, one, barring the banks, definitely among the rest of the HFCs and NBFC space, our rate of interest is one definite advantage because we are pricing it, almost we are among the lowest when it comes to the non-bank category in terms of pricing. The second thing is we generally are the ones to take the first risk in slightly outskirt areas where the new development is happening. Okay. So, suppose a new area is developing, say, 30 kilometers outside of Bangalore towards Hoskote side, then before the other players come in and that area fully develops, the infrastructure develops, the main highway comes through or whatever, then when the plotting originally starts and it is still a little bit of kutchra pucca roads, we are the ones, we go there. Eventually, those loans, when it becomes part of the city, it becomes a prime listing for takeovers. But till that time, we are the ones to take the first this thing, that is one thing. Second thing is we have our very strong DSA, we have almost 1,400 DSAs who are spread across and those DSAs also source the business for us. So, even when we are not having any major advertising, major kind of campaign running or anything, but the DSAs are present, so they have been with us working for a long time, so they are the ones who actually also get the business for us. That is how, these are the two major things. And third thing, of course, is that, which is our definite USP is that we have a decentralized sanction approach, where our branch managers, of course, subject to certain eligibility criteria, are having sanctioning powers up to 35 lakhs. So, what happens is, up to 35 lakhs, which is our mostly 75% of our business today is sanctioned by a branch manager level people only. They are able to clearly give a yes, go, no go kind of a situation to the customer, whereas many other players or most other players, what they do is, the person collecting or sourcing their file doesn't have any sanctioning power. They collect all the papers, then they have to send it to somebody. So, those people don't know who is the customer, they don't have the comfort. So, whatever is a paper, only that becomes a comfort, but many times there are things beyond the paper, which also give a comfort. So, those kind of cases, they are not able to take a case because it is not everything as per paper.
- Interviewer:** So the cut off time is...
- Suresh Iyer:** Definitely faster. Definitely, our TAT is low.

- Interviewer:** And how does it compare to other?
- Suresh Iyer:** Definitely, we would be lower. Very few cases where, you know, I would say the local sanctioning power is there. Now, disbursement may take a little longer because of documents, how soon the customer is able to provide, but when you meet the customer, you take a look at the customer, have a personal discussion and see the property, we can immediately give. The person meeting the customer and the person seeing the property is also the same. So, therefore, it is not that I see I am comfortable, sanction is done, then somebody else goes and says, okay, but I have not seen the property. So, hold on. So, that kind of a thing is not there. The same person you go mostly, if they are on a visit and they see the property and meet the customer there itself, then there itself they can say, we are comfortable, we can do 27 lakhs. So, the customer is satisfied. Once they get a comfort that this is doable, then they normally do not go searching. They start generally working on these two documents that are provided and they are able to close it.
- Interviewer:** Generally, the DSA network is unique to you or they are open, they can source anywhere?
- Suresh Iyer:** There is no exclusivity for the DSAs.
- Interviewer:** Okay. So, in that context only, I want to get a better sense because you also mentioned that LIC, Housing Finance, PNB, Bajaj are some of your key competitors over here, if I include the banks. I mean, you have cost of funds parity with all these guys. So, if I look at their spreads, it is materially lower than where you are operating at. And Bajaj, I think, I mean, I think for, there is a huge chunk of his loans that are linked to repo also and it is part of 25 basis point cut. Even LIC operates in that 2.1 ballpark. So, like, do you think this, like, right now I think you are 2.9, which even you have said will come out, but that 2.75 target, do you think that can sustain over time? And if you could give some sense of a customer profile that what helps you maintain the spread delta over these three guys?
- Suresh Iyer:** See, what helps us maintain the spread is one hour cost of borrowing and borrowing for the franchising. You know, in terms of our rates at which we borrow from the banks or the rates at which we borrow from the market, definitely is an advantage that we enjoy.
- Interviewer:** But that will be in the case of LIC and Bajaj also.
- Suresh Iyer:** Yes, the LIC also, but the LIC has a larger dependence on the, like, for example, NCD. We have almost 55% is NCDs, whereas our 55% is bank borrowing. Now, in case of bank borrowing, the repo rate cut has been passed on to us, but for the NCDs, that has not been passed on to them. So, therefore, you know, their liability cost is, their cost of borrowing has almost remained fixed and has not come down. In spite of that, they have passed on 25 bps to the customers. In our case, 55% of our borrowing is from banks where we have experienced almost 100 bps full benefit, because 80% of it is linked to repo, remaining 20 is linked to T-bills. So, we have got the full advantage. So, we have passed on the same to our customers.

- Interviewer:** That is more of a timing mismatch. But even if you look at steady state, when you write for a 2.75% spread, I don't think LIC is still says we will operate in a 2.1-2.2 odd range on a steady state. So, where is that additional delta of 50-60 basis points? So, I wanted to get a sense of your customer profile, which helps you get that additional spread. How is that different from LIC?
- Suresh Iyer:** I don't think the customer profile would be different, but the pricing would be different. Like when we price for a salaried segment and a self-employed, there is a delta, there is a 50 basis points extra we charge. If it is for a property with a plot, there is a slightly higher. If it is a repair loan, there is a slightly higher. So, all those combinations are there because of which we are able to slice and dice our portfolio and be able to charge a little more depending on the risk that we perceive. That is the difference, maybe that is one. And second thing is that we have less of a deviation matrix compared to others where the deviation matrix is very high. So, in the sense that you are there, but when you request for a lower rate, okay, I can't sanction, maybe my senior will sanction it, okay, we will do the deviation. So, effectively the rate, even if the pricing on paper is there, there is quite a bit of deviation which also happens. Which in our case, we don't have that kind of a deviation because it is purely linked to risk. And another thing is as per regulation, you cannot differentiate between two different customers. If everything else is the same, you cannot have a differential pricing between two customers. So, both of you have the same civil score, both of you are having the same income, both of you are looking for this, then I cannot have a different rate of interest for you and for that kind of a thing. So, we follow that thing. Therefore, our deviation matrix is very, very limited. And we have multiple these kind of filters because of where we have a slight scope to charge a little bit here and there because of that. Okay, so if you are having a self-employed with only two years IT returns, you will be x plus y . If it is only with full three years, it will be x plus y minus z , something like that. So, we have very clear matrix which has to be followed.
- Interviewer:** That is why I see the variation, I think they are starting at 7.5 for new customers. And then I think they say if the customer comes up for negotiation, we start at 8.7. So, that is our understanding. But that or is it just a matter of size?
- Suresh Iyer:** Our borrowing is 7.17. And their borrowing I think now is around 7.3, if I am not mistaken.
- Interviewer:** I think they have reached at 7.3 or more.
- Suresh Iyer:** Yes, so 7.3 is the borrowing. And if they are going to end at 7.3, obviously that is a surprising issue.
- Interviewer:** So, is it a matter of size also because you are a much smaller book as compared to them that you are more room to grow? So, mine is more from a growth perspective because to reach that I think if you are doing Rs. 2.5K Cr. disbursements in 3Q, to reach your stated 20% growth target, you would have to almost hit Rs. 3,500 crores in 4Q.

Suresh Iyer: Yes, so that is what it is. But of course, there has been a slight change in the sense that we were expecting our IT as per the original plan to be implemented in first week of December. But slightly it is the vendor adds a little more of customization which has to be done. So, they have asked for a little more time. So, therefore, we are now planning to in fact push a little more in Q3 so that the pressure is less on Q4 when the implementation happens. So, we will be doing 2,800 now and 3,200 in Q4.

Interviewer: And this delta I think because I am not sure how the situation is evolving, we are still not hearing a lot of green shoots in Karnataka and Telangana. So, is that improving which can give you confidence for that 2.8 to be achieved in 3Q itself?

Suresh Iyer: See, in Karnataka, we are consistently being able to do better. And at least April to September, month-on-month disbursements in Karnataka as well as Telangana have been improving. So, each month we have done better than the previous month. That is the kind of thing. Telangana, we also had a change of some internal teams and all. And we also strengthened the team a little bit. So, now, consistently both months we have done, last month and even in this month, we have done more than Rs. 100 crores. And this month we have done better than normally. In the first month of the quarter, there is a dip and then again it picks up in this quarter. In fact, in Telangana, we have done better than last month also. Because the team stability is coming, the changes that we have made in the teams, that is also showing results. Now, some of the internal issues, we have kind of sorted out. And now this Hydra issue is also getting sorted out. So, we are definitely seeing a positive. The team is also feeling much more confident that now business will not be a problem. Because earlier, business was a problem. Hydra did make an issue. And so, over a period when you are not able to achieve numbers, your sentiment also is a little down internally. So, that also now they are feeling much more confident that they will be able to achieve the numbers.

Interviewer: I think there is a Rs. 125 Cr. you were mentioning for Telangana or Hyderabad?

Suresh Iyer: No, Hyderabad is basically Telangana only. We have only 19 branches, 13 are in Hyderabad city only. The remaining 6 are also not very far from the cities or the extended city or a few of them are outside. So, basically Telangana, we have done Rs. 100 crore plus. We will now, maximum 125 is possible. So, hopefully by Q4, we will be turning positive in Telangana also for the year-on-year basis. Karnataka, in this quarter itself, we will turn positive. And Karnataka also, in this quarter itself we will turn positive.

Interviewer: In Karnataka, what would be Bangalore versus ex-Bangalore?

Suresh Iyer: In Bangalore would be majority because we hardly, out of 45-48 branches, I think majority ones are here. Only Mysore, Mandya, that belt, we have some large branches. That's it. Otherwise, mostly it is this belt only which is doing the majority of the business.

- Interviewer:** And over here, in general, if I come back to that competition part and everything. In general, we have heard that pricing power is slightly better when you are trying to do a self-construction project instead of, and also like when you are trying to get the money back in case a default happens. For self-construction because underlying land is with the customer, availability is slightly better as compared to when you are doing flats. So, in your case, what would be the bifurcation between self-construction and flats?
- Suresh Iyer:** Self-construction and own construction, our flats would not be more than 30%-50%. Apartments would be... Flat is 8%. It has gone down to 6% for this quarter. It is not a flat. Apartments is not a very big one. 61% is for self-construction.
- Interviewer:** This is on the total book?
- Suresh Iyer:** Total AUM.
- Interviewer:** And sir, over here, when you say that you want to create a more direct sourcing channel and move away from DSAs, because generally what you observe is like if you look at something like, I think even LIC is more, they have their own set of agents obviously, but it is also DSA-led model. In Bajaj, they are going very heavy into development finance also and then they can source the customers from there to go direct. I am not sure you guys don't have a plan of doing developer loans. That's strict no.
- Suresh Iyer:** As of now, no. We don't even have the team. We can do this because we have done, but very, very rarely we had done in the past. But as of now, there is no plan in the immediate future to start construction.
- Interviewer:** So, I think, and you are guided by FY'28, you want a good chunk of the disbursements to come from the direct channel also. So, what would that strategy be? How would you look to build that out and move away from the DSA network?
- Suresh Iyer:** Not move away from the DSA network. So, our DSA network will continue.
- Interviewer:** The growth will be slow.
- Suresh Iyer:** Yes, growth will be slow and we will instead have a stronger and a more diversified sales team because initially we started only with North and Tamil Nadu. But now, we have got this people that are there, 90 odd people, they are across all the geographies. So, we want to increase that number also. At least in the next two years, I think this number, we should be able to take it up to 250 numbers, right now from 90. That will get us the disbursement growth. This year, our target is at about 754 for the total business that we are targeting should come from this channel.
- Interviewer:** And what is generally the customer targeting strategy for the sales people in the curve?

Suresh Iyer: See, sales people, they have one is direct, they approach with us, they are in the market, they get data from various sources like our own website, whatever applications come, data we acquire from people like, you know, lead aggregators and all. That data is passed on to them because they are in the field, so they have main connectors, they have all those things. That is one source for them. The second source is we have about 115 approved projects. So, in the approved projects also, they keep visiting the builders, they keep meeting the sales team, they keep visiting the sites and then from there, they also try to get some leads and do it. So, basically, these are the ways in which the sales team is sourcing business.

Interviewer: This will be 150 already constructed and under construction projects?

Suresh Iyer: Yes.

Interviewer: But then these will largely be flats, right, which is like.

Suresh Iyer: Not necessarily. Flats, these are our tenement schemes where they have...So, basically, any project which is coming under RERA, where there is a proper community either in an apartment kind of a community or a self-construction kind of community, that those projects are approved by us. So, it could also be, you know, projects where there are multiple tenement kind of houses also. As and when the booking happens, the individual construction cases can also come to us.

Interviewer: Okay. And simply the conversion rate kind of thing, where basically people are targeting 100 plants and you get so many. Is there a way to measure conversion of efficiency of the work which is done? Or let's say, for the DSA to only, let's say, the DSA to have a much higher market share for your loans versus others. What is the method which is developed? One is this, you said, turnaround time, faster, you see. So, he himself is incentivized because his own ROI is increasing.

Suresh Iyer: Correct. That is one. But besides that, we have contests running for DSAs as well as for our sales team. That if you achieve this target in this quarter then or whatever, this month or this quarter or six months. So, we have various these kind of contests also running. We give them some rewards also.

Interviewer: That is an incentive structure in addition to the salary.

Suresh Iyer: Yes, yes. Salary for employees and for the DSAs, commission whatever they get.

Interviewer: So, what is the general commission that you pay to DSAs?

Suresh Iyer: It starts from 0.35 and goes up to 0.75 depending on the ticket size and how much business is kind of getting disbursed in the month.

Interviewer: Do you have a sort of metric that in the DSAs, like the 1,400 DSAs that you offered, what would be your market share of the incomings at the DSAs?

Suresh Iyer: No, that we won't have. But, many of our DSAs are already working with elsewhere. So, I am sure it's not, but they don't disclose how much business they are doing. Often when you ask them, they say, yes, we do business of Rs. 3 crores every month or Rs. 1 crore. So, they will share that, but nothing very concrete where we have a mechanism on how much they actually do.

Interviewer: So, then if I were to look at it from an OpEx standpoint, because you said like you also want to increase your sales team from 90 to 250. So, obviously, additional incentive is an order that you will have to pay for. So, then OpEx as a percentage of your AUM, do you think this can move up? I am trying to get a sense of where your ROEs will land at. Spreads, there could be some room to compress it to drive higher growth. OpEx, where do you think that lands on? And then credit cost, would it still be in that 20 basis points range on an annual basis? I know this quarter was much lower and I think you are guiding it to be very low in 3Q also. But then on a steady state, how do you see these 3 parameters moving?

Suresh Iyer: See, in terms of our OpEx from the DSA channel vis-à-vis we our own sales team channel, I know we have worked out our internal what is the benchmark which our sales team will have to do to see that we are benefiting. Like today, for example, if I do up to Rs. 1 crore of business, I will be paying some 0.43% or 0.45% to the DSA. That would be X amount. Now, I am already paying this much of salary. So, if I have to now do something better over here whereby I earn more than the product, what is the kind of benchmark minimum amount of business they will have to do? Now, currently, since we are in the investment phase, we are still putting people, they are still getting trained, they are still thinking of the numbers. Probably, if I take a status of the 6 months and see what is the profitability of the business source through the DSA channel, probably that will be better. But in the long run, this will be better. Plus the fact that when it is a portfolio sourced by our own team, we get to pick and choose the customer we want to target rather than the DSA where as we said it is not exclusive. So, it is possible the team may go elsewhere and the deviation cases only may come to us. So, that kind of a thing is also there. Plus the fact that in a DSA, the portfolio is likely to shift after every 2-3 years because generally the same customer, the DSA may want to move elsewhere so that they can again earn out of the same customer. Whereas in the portfolio sourced by our own team, the stickiness will be more. So, if you look at all these three angles, then definitely this will be better, the direct sourcing will be a better channel for us. So, you expect by FY'28, it should be breaking even. Before that, already in fact, we are very close to hitting that benchmark. I think if we touch Rs. 1 crore, we will be better. 1 crore per month per staff. Today, our 90 people in the month of September were able to source Rs. 77 crore. Even if this improves a little more, we will be able to touch that 1 crore per staff per month. Approximately 4 or 5 loans per sales staff. They should be able to reach that 1 crore ticket size. Once they reach that 1 crore, then I think they will be probably a better channel than the DSA channel.

Interviewer: How much time does it take from getting to a customer to final sanction?

Suresh Iyer: Sanctions, that is a very short process because the segment that we deal with, we either go by the salary slip or we go by the ITRs which have been filed. We are not looking at that surrogate income proof, operation income where we have to go visit the property, business multiple times to see how much cash flow is there. So, all that is not there. It is a much simpler green channel kind of a thing. So, for us, sanction can happen in 1, maybe 2 days we can do it. Only thing is there will be a technical property visit or something. If that property visit also is an approved project or something like that, then it is even faster. Otherwise, we will have to also make an extra visit to the customer for appraising the property before we can give the gold. So, I think that is the only time for in-principle sanction. And as I said, 75% of the cases are sanctioned by the branch. So, once they visit, they can easily give the sanction.

Interviewer: So, your incentive structure to your sales guys would be based on where they can source more than 1.5 Cr. And obviously, that number will change over time?

Suresh Iyer: Not really. Today, even at 23 paisa also we are incentivizing the DSAs. Here also we are doing it. So, it is not that incentive structure starts after that. Today, we are trying to motivate and promote the team. So, obviously, even today, even when they are less than 1 crore, also we have certain incentives. But that is much less. Over a period of time, yes, you can say that the incentive structure will be after a cut-off point, which will probably be 60-70 lakhs or something.

Interviewer: Are there any referral schemes where let us say the existing guy who has taken loan, if he gets somebody else?

Suresh Iyer: Yes, we do have some discounted processing people do pass on.

Interviewer: So, 2,500 crores would mean let us say multiplied by 4, that is a gross number of people coming in, 10,000 every quarter.

Suresh Iyer: You can say almost that much.

Interviewer: 100 a day would be nearly.

Suresh Iyer: We are doing, yes. In fact, more than that. If you look at it today, we are doing approximately 3,800-4,000 gross in a month. In a month, gross loans in a month. That comes to, assuming there are 22-23 working days, it comes to almost more than 100.

Interviewer: Your disbursement every quarter is Rs. 2,500 crores.

Suresh Iyer: Yes, Rs. 2500 crores. You are talking about amount. I was talking about cases, sorry.

Interviewer: Yes, but I have to say that I have multiplied it by 4, that is 10,000 people.

Suresh Iyer: So, 2500 crores is the disbursement amount.

Suresh Iyer: No, no, you are saying 10,000 in a quarter. I am saying more than that because we do 3,800 cases a month. So, that comes to around 12,000.

Interviewer: How many of you guys do this? How many people deal with Can Bank? How much non-Can Bank people do you pay?

Suresh Iyer: Most of them.

Interviewer: How many of our customers, the NACH people, do they have an account with Canara Bank?

Suresh Iyer: It was just about 15% of the customers. 85% non-Can Bank.

Suresh Iyer: And it was not because Canara Bank referred to us.

Suresh Iyer: Because we have 90% of our loans under NACH. So, within the NACH also we are just analyzing how much comes from where, how much comes from there. So, I think only about 15% of the customers. There were around 30,000 customers who came from there.

Interviewer: And you are saying that generally the customer profile of what a Canara Bank would finance, that would be 45-50 lakh ticket sizes, that would be different.

Suresh Iyer: The average ticket size of Canara Bank is around 35 lakhs-36 lakhs. Average ticket size of a Canara Bank home loan customer.

Interviewer: So then, what is the strategy as you move? Because a lot of incremental disbursements are coming in that greater than 30 lakh ticket sizes, which I think then overlaps very closely. That is my initial question on the competition front. Because from LIC we are hearing very negative comments. Bajaj is giving pretty negative comments on how the competition environment is shaping up. And similarly we have heard from HDFC, ICICI also. In fact, I think those guys are now lowering their threshold rates to a very aggressive competition in 2H. Because I think even their thought process is the same thing. And because when the rate cycle turns, we don't want to be caught on the wrong side of it. So from that angle...

Suresh Iyer: We are saying, let's look at these rate. So when the rates go up, we will out there.

Interviewer: Especially for banks, because they are leading to repo. So the pass-through is almost straightforward. And so that is where I was coming from a competition perspective. Is that 2.8-3.2 disbursement target and then like a 14%, I think a 13% loan growth target and then 15% from next year. Is that too ambitious?

- Suresh Iyer:** See, our numbers are not very large. We are looking at only Rs. 10,500 crore disbursement this year. Entire year. I think probably HDFC bank would be doing more than that in a single month. HDFC bank or any bank for that matter. Because they are looking at a huge number, different number.
- Interviewer:** So then size is a...
- Suresh Iyer:** So for us, it's not a very large piece of this thing that we have to fight. So maybe as you said, LIC has to give a 7.5 because they have to keep on bringing that number. It is very critical for them. And therefore, they can't be so juicy about the rate.
- Suresh Iyer:** See, I think they are Rs. 15,000 crores disbursement in a quarter.
- Interviewer:** So size is the bigger factor.
- Suresh Iyer:** Size is one of the factors. And for LIC, I believe it could also be because the DSA channel is also moving out. I think that is a big thing which across the industry, everybody is talking about. Because nowadays, everywhere the business is moving through the corporate agency codes only. Where the payouts are 1% to 1.5%. So like Andromeda, Ruloans, Paisa Bazaar. Those DSAs, they don't have their own set up everywhere. They just have, so okay, you have a case, give it to me. If it will get sanctioned, I will pay you 60%. Case is over. So what happens is, they are doing more on the trading kind of. Basically, they are becoming traders. Anything you bring, I will just pass on, I will get it and I will pass on something more to you. Now, a DSA who is getting 0.45 or 0.35 with me, for them, it is very easy to get allured by the fact that okay, whatever I am giving to them, I just have to put it through them. The same case will be done and I will get 0.6 instead of 0.35 or 0.45. That's basically what is happening in a lot of places. So over a period, this retail DSAs will have to go. So when you say 1,400 DSAs, these are very localized DSAs.
- Suresh Iyer:** Very localized DSAs and since we don't have a DSA, even if they put it to a DSA, that loan will not get sanctioned by Can Bank because we don't have Andromeda on our panel. We don't have Ruloans. We don't have a Paisa Bazaar or we don't have any of them on our panel.
- Interviewer:** And for these DSAs, the DSA income will be the primary business that will be offered. It will not be like a connectors like a housing, affordable housing company. Those are different?
- Suresh Iyer:** No, they are also like connectors only. It's not that it's not very different from what we are doing. We call them DSAs, but basically they are connectors only.
- Interviewer:** No, because I think like I talk to someone like a Chola or an Aptus. For them, a connector definition is very different. Like the barber will also be a connector for us. We will pay 25 basis points or sourcing income if he gets a customer to us. So for you, the primary job of the DSA would be that DSA income itself. It wouldn't be something else.

- Suresh Iyer:** Yes, kind of you can say. Most of them are like that. This would be a major chunk of their income.
- Interviewer:** Because you grow, you have a lot of experience in affordable housing also. So then does Can Fin Homes also shift to that segment? Because that is where you can create a distinct advantage. Because banks are definitely not going to come to that segment. LIC is going there, Bajaj wants to go there. PNB is going there very aggressively. So what is your thought process around that particular?
- Suresh Iyer:** See, in GRUH also, we have seen one thing that till the time the CLSS was launched. GRUH also was struggling. So also was can Fin and so also was everybody else in getting the numbers. So only after the CLSS came in that the AWAS also grew, the Aadhaar also grew, everybody grew. And now the CLSS has been withdrawn. Or even the new avatar is not as lucrative as the old one. So no wonder the growth in the affordable segment in the industry as a whole has been kind of tapering off. Today it's in the single digit numbers. Now yes, the affordable housing finance companies still continue to show the 20% and 30% growth. But when the industry is not growing, it only means that you are just either doing non-housing loans and growing. Or maybe they are just moving from one entity to another. The loans or the whole size of the market itself is not moving. When it is growing, the industry records, you look at all the rating agencies who are doing it, their records. Everywhere it shows, there is the same loan which is there. If you look at the total pool of loans which are below 15 lakhs, it's not growing more than 10%. It's been coming down. So of course that's one area. Sales supply will have to be definitely looked at. And some incentivization will have to be given for that segment to actually grow.
- Interviewer:** Mostly I think the affordable housing companies are getting more into self-construction. I think HomeFirst is an exception. But it is that feedback that we get?
- Suresh Iyer:** If you want to, on a 3 lakh gross book, to be able to get the same kind of growth by doing 10 lakh loans. But for you guys, that is not an area. Not as of the moment. Affordables, I think the definition is also a bit... An affordable segment purely depends on being able to do surrogate income proof and appraised income segment. Today even a class 4 employee in a government is able to get about 60,000 salary. So there is a question of being able to look at 8 lakh and 10 lakh houses. They can afford a 20-25 lakh house.
- Interviewer:** No, I think because I think PNB, when I speak to them, I think they have gone so-and-so over there that masks.
- Suresh Iyer:** Yes, I think if you read the report, even 35 lakh, 14% of their affordable Roshni product is more than 35 lakhs. So in what sense is it an affordable idea?
- Interviewer:** I have heard different things from everyone, but not positive things.

- Suresh Iyer:** I am just saying, so their own breakup of the presentation if you see, so that 14% of the affordable Roshni product is having a ticket sales of 35 lakh plus.
- Interviewer:** Basically, in terms of repayment, normally the duration once he takes the loan is maybe 15 years, 20 years. But normally, after how much time people are able to repay? Is it coming down?
- Suresh Iyer:** It is actually not. We have analyzed that data. What happens is in the first year of the loan, the year in which they take a loan, hardly anything comes back. But the next year onwards, some small portions do start coming back. In the first 3 years itself, 15% of the loans get repaid. That is how it is. And then every year it slightly keeps increasing.
- Interviewer:** In an entirely new geography, to build a business, what does it take really? What are the 2 or 3 critical things which have to go right for you to help you grow in those markets?
- Suresh Iyer:** Firstly, in the places where we are growing, hopefully we have already had some experience, we have branches there and we are only slightly expanding over there. But if it is a completely new geography, then it has a different set of challenges. In our case, at least those challenges are not there because we have a sizable number of branches in and around Jaipur, in and around Delhi, in and around other locations. So, at least it is only a matter that we have people who understand that market. We have people who have operated in that segment or in that particular geography who understand the documentation part of it. But if it was a completely new geography, then even if we get local people, there are always new geographies come with a new set of frauds or new set of issues because we don't understand that place. So, that is something I have seen. Not only in GRUH, when we first entered MP, we had a couple of small issues in MP also. Because for us, understanding that local documentation processes, some of the local issues was absolutely new for us. Same way, when we entered Karnataka, we had one or two cases, bad DSAs who had crept in, some advocates who were not. So, it is always a case. But if you already are existing and present in that market, then certain challenges are less. So, you only have to see that you start with some existing person so that you have a proper system in place. You also see that you are careful so that nobody is running very fast.
- Interviewer:** That is kind of it. This 50-40, 50 in private sector and 40 in government employees. So, that makes it 65, which is almost two-thirds. Now, this 51 ratio in Karnataka and Tamil Nadu and the ratio outside these places, does it geographically differ?
- Suresh Iyer:** It does. Like for example, Tamil Nadu. We have seen that the self-employed segment is definitely higher in Tamil Nadu. But when I look at Telangana, the percentage is much lower. The percentage of salary is higher for us. Same way, if I look at Rajasthan and Gujarat or particularly Rajasthan, the self-employed is a little higher than the rest of the country. So, those kind of things, geographical differentiation is there. But that is the market. You have more business and smaller business entities in Tamil Nadu and these places.

Interviewer: I think you mentioned 90-250 salespeople. So, one is that, in which geographies would these hiring be? Would they be in the newer branches that you are expanding into?

Suresh Iyer: Across.

Interviewer: So, there is no particular concentration. And the hiring for these guys would be from existing competitors?

Suresh Iyer: Partly from there and in fact, we expect that next year round, we might be able to release some of our existing staff also because once our IT transformation is in place, I think that will bring in some efficiency. Some places, we may be able to release some people from within for this sales also.

Interviewer: What exactly means IT transformation? Why would it lead to such a big debt and productivity and what was it before?

Suresh Iyer: Right now, the current system that we are operating was introduced in the year 2011. So, since then, there has been no change of vendor, no change of software. Only thing is, 2 years back, we at least felt that the old system was so restrictive that there were no API integrations possible. A lot of other things were therefore not, any third-party vendor solutions which were there, we could not integrate with it. It was only LOS-LMS because in 2011, there was no concept of CBS. It was only LOS-LMS. So, we only had an LOS-LMS. Even the deposit package and the GL package or the financial package, that was also something which was just fitted in without actually being a standalone product in itself. So, therefore, it had its own set of limitations. We upgraded it at least the core LOS-LMS to a level whereby we could integrate third-party solutions and make some changes. But still, it does not have a lot of capabilities which today any new LOS-LMS vendor or a new application would be having. Plus, our architecture also was such that we required a lot of improvements in our security environment. We required a lot of this in our infrastructure environment. We had to build a SOC. We had to build a NOC. We only had a LOS-LMS with integrated some third-party small purchasing of our deposits and GL. We did not have an HRMS package. We did not have a document management solution package. We did not have a risk package or a treasury module or things like that. So, now we have gone for IT transformation wherein we have an HRMS package, we have a DMS package, we have a separate dedicated deposit package as a separate solution for GL and finance. There is a separate treasury, risk and risk package. There is a LOS-LMS. And it comes with a separate architecture whereby integrating any new third-party vendor solution to APIs is very, very easy. Plus, it has digital capabilities. It has mobile options, mobile solutions, applications. So, all those things definitely. And it comes with automatically evolved LOS-LMS. It already comes with its network of a lot of controls, regulatory requirements and all those things where it was all subsequently developed in the last 11 years in the old package. So, obviously, it brings a lot of benefits.

- Interviewer:** So, when you benchmark yourself to peers, was it like this takes you ahead of the peers or in line with peers?
- Suresh Iyer:** I think this would be taking us very similar to the peers. Almost equal to the best, I would say, among the peers.
- Interviewer:** Okay, good. When you, let's say, plan a company for next year, year after that or 2-3 years, look at when you made, how were the assumptions made? Basically, what are the real one or two big underlying assumptions? How did you arrive at that?
- Suresh Iyer:** The main 2-3 assumptions, if you ask it, would be, today, one thing is very clear. Feet on street has a direct correlation to the amount of business. So, it could be in the form of an extended branch network or it could be in the form of more staff or it could be in the form of a network of associates like DSAs or Advocates, Valuers and all those kinds of things. So, obviously, we plan that as one thing. Technology, obviously, is a major, major issue because without that, a lot of things, double productivity and all. So, there are some, we plan technology. So, I think, when we look at it, we look at what is the kind of growth we want to achieve, to achieve an industry level or a little better than industry kind of AUM growth. We already know the kind of, today I know that Rs. 1,600 crore is a quarterly rundown portfolio. So, which means, you know, whatever we do, we have to ensure that 1,600 crores or 6,400 crore is going to be the annual rundown. 6,400 crores plus what I do is what is going to add to my AUM. So, that's how we arrive at the number to look at it. So, this year when we are talking about 10,500 crore, we started off with something around, 1,350 or 1,400 crores as the rundown per quarter. So, that comes to around 5,600 crores as the rundown. So, 10,500 crores, we said, we will approximately have about 5,000 crore getting added to the book. Okay, that was the calculation. This quarter, of course, the numbers have both. Last quarter was 1,459 and this quarter is 1,661, which means our rundown has been higher than what we had anticipated, which obviously means that we have to do more now to see that we reach the same AUM number. Same way, next year now we will work on a revised calculation about 1,700 should be the quarterly rundown. So, that means, you know, Rs. 6,800 crores or Rs. 7,000 crores. So, if Rs. 7,000 crores is the rundown, Rs. 6,800 crores, then if you want to x amount of growth, that we will have to look at it.
- Interviewer:** It will almost be 20% further growth in FY'27 on disbursements versus...
- Suresh Iyer:** Yes, because 7,000 means almost 17%-18% is the rundown. So, if you want to do 15% growth on 18 plus 15, 33% of the book has to be the thing. So, if you have Rs. 43,000 crores, then we will have to do almost like Rs. 14,000 crores to do it.
- Interviewer:** Yes, but your guidance still remains for a 15% AUM growth.
- Suresh Iyer:** 15% AUM growth, of course.
- Interviewer:** And just on branches by this year and how much will you reach to?

- Suresh Iyer:** See, we have, we have given our guidance to 15 branches. We have already opened 14. One is just happening and in this month or so we will be doing it. But there is a scope to add more. We have identified some more. Now, we will see if the board permits, we will be going ahead with those branch openings also. At least they will help us next year. But the idea is that by FY'28, we want to have 300 branches.
- Interviewer:** And today it is?
- Suresh Iyer:** 249, yes.
- Interviewer:** But what is it which competition does better than your company, which you want to, let's say, do it or do better than them? Is there anything?
- Suresh Iyer:** See, one very clear thing is, the Feet on Street channel. Like, if you look at PNB HFL, I think they have more than 4,500 people. If you look at AWAS, again, they have more than 3,000 people. If you look at Aadhaar, again, it is more than 3,000-4,000 people on the field who are sourcing business? Whereas, in our case, we are with 100 people.
- Interviewer:** But then Affordable versus your segment also that bifurcation...
- Suresh Iyer:** PNB HFL, same way. LIC has 60:28 and Affordable also. So, I think that, to some extent. Even before that, they have been a subsidiary to source business. LIC HFL has a subsidiary to source business. So, what the subsidiary is doing, that it doesn't even come on the books of the, as expense.
- Interviewer:** I am cognizant of the time. One last thing I want to get a sense from you. Like, because you have worked in different geographies and all. From a customer behavior standpoint in South, or the geography that you operate in, versus where you are expanding into West, North, East. We have generally had the feedback of very different customer behavior and all. So, what is your sense of the geography you are expanding into, versus where you already are? And we have also heard different things from the yield standpoint. In South, you can generally get better yields, facing the Affordable segment, versus what you get in North, Rajasthan, Gujarat, Madhya Pradesh, those areas. From that, what is your view on those things?
- Suresh Iyer:** From the credit perspective, Yes, South has been generally a good market. And the default rates have generally been lower, compared to North. But I still feel it is more a question of how the selection process and your monitoring process is there. I think you can still manage. It is not very different. Yes, definitely the default rates are a little higher. West is a better evolved market. They are also a little similar to the South. Although, I personally feel that Maharashtra is over leveraged. In Maharashtra, everybody is present and housing has penetrated to every nook and corner and everything. So, definitely and every kind of loan practically has kind of penetrated. So, there is a little bit of over leveraging, I feel, in Maharashtra, I believe. So, you have to be a little... But otherwise, these three markets, not a little higher delinquency is there, but still you

can manage. Even if it is not very good, there are very good pockets, even in the North, where you can do good business.

Interviewer: So, even as you expand more to pan India, that guidance of holding on to maintain a 3.75% there?

Suresh Iyer: See, this year, yes. Hopefully, next year also. But once the cycle turns, then probably this will get impacted because it will depend on how much of our portfolio we are able to shift from annual to quarterly. Otherwise, the same thing will happen that on the liability side, the repricing will happen immediately and on the asset side, it will take a little longer. So, we are also trying to push that in the coming two quarters, we try to maximize the conversion from annual to quarterly so that whenever the cycle turns, at that time, we do not have the problem.

Interviewer: I am talking from a cross-cycle perspective. So, that you would still want to maintain in that 3.75 only when the rates have been coming down, housing finance companies have benefited better. So, this is one of such cycles where 20 basis points credit cost and high-teens ROEs will hold on to stick.

Suresh Iyer: That is true.

Interviewer: Okay. Sir, on the needs of the, let us say, home loan takers, how has it come down in your case? Let us say, what was it 5 years back or what was it 10 years back? What is it now?

Suresh Iyer: I do not have the exact number, but I am assuming that, I mean, from what we generally are looking at, whatever, it roughly is in the late 30s now.

Interviewer: I think the pay commission and other things will also help you in couple of years. Pay commission?

Suresh Iyer: Pay commission was last announced, there was a good amount of increase. Definitely, it has helped. Suddenly, the eligibility and everything has improved. So, every time there is that, it will help also. Always.

Interviewer: Anything that you missed out?

Suresh Iyer: No, I think it was all covered. And this competition thing is something I have been hearing always. Always everybody is... But everybody has certain kind of advantages and disadvantages. And it is all about how well you are able to execute your plans.

Interviewer: Actually, that is why I think most of my questions were centered around what is your customer profile. That is where the difference seems to be coming. And obviously, I think your size definitely creates a difference. Maybe 3-4 years down the line, you will have a different conversation.

Suresh Iyer: Possible. Where we will be under greater pressure to deliver because we will be at a higher base.
Possible.

Interviewer: Okay. Thank you, sir.

Suresh Iyer: Thank you.