

Management:

Yes, I think let's start. Yes, so I'll just start with a brief about the company. So, we are a bank-promoted housing finance company and it's one of the largest PSU banks, one of the top five PSU banks.

And it's the oldest housing finance company in the sense that, among all the registered housing finance companies, Can Fin is the oldest, because prior to us, of course, there were a couple of companies, but they either got merged with banks or they kind of shifted and quit the space. So, therefore, we are technically the oldest housing, approved housing finance company. And we are spread across 21 states with a housing loan portfolio of INR37,000 crores as of now.

We have 219 branches and we are opening another 15 in this quarter. So, that will be, that will make it 234 branches by the end of the year. And in terms of asset quality, we have been having one of the best asset qualities and over a consistent period of more than 10 years, we have not had a gross NPA of more than 1%.

So, that's the kind of, focus that is there and mainly because of the segment and the product that we have been focusing on. In terms of the segment, we have been focusing mainly on the salaried segment. We have, as we speak, about 70% of the book is salaried and only 30% is self-employed.

And the 30% that of the self-employed that we are also, we have done are also those where there is a documentary proof available of the income in the sense that they have been filing IT returns. We do have a very small product where, there is a non-income proof also we are giving, but that's just about 1% or 2%. So, practically, 98% of the book is those customers where they there is documentary proof of income available either in the form of salary slips and salary credits to the bank or IT returns which have been filed.

So, that is one part. The second part is in terms of the segment, in terms of the product. In terms of the product, we have 85% of our loans are housing loans and our non-housing loans is just about 15%.

Even if we exclude the CRE part of it that, commercial real estate, which is the houses which are not more than the second house that the person is buying or is owning. In that sense also, if we eliminate, then also it is 75% is core housing. So, in terms of the PBC criteria, Primary Business Criteria that the regulator has introduced, we are very, very safe in that aspect also because that requires 60% of the business to be core housing, whereas excluding CRE also we are 75% core housing.

So, the product and the segment that we have been dealing with basically is the result why our cross NPAs and our credit quality has been, so strong in all these years. The other two points are in terms of the cost of borrowing, we are a AAA rated HFC and we are also one of the very few deposit accepting HFCs for which also we have a AAA rating.

So, basically, that cost of borrowing advantage is what we have. One is the rating and of course, the parent that we have. So, both these things give us a very low cost of borrowing which enables us to also offer a very competitive rate on the lending side. So, our average cost of borrowing

last year has been roughly in the range of about 7.52 to 7.55. Roughly, that has been the cost of borrowing that we have had in the last year. That is quite competitive.

So, we have been able to offer, loans starting from 8.95 and our maximum loans are not more than 13%. So, we are having a yield of about 10%. So, even the regulator has been talking about some of the NBFCs and HFCs have been charging very high rates of interest.

In our case, that also is not there because our highest rate of interest we offer is 13%. So, in that sense, we have been very, customer friendly, quite fair to our customers. We do have our internal credit rating methodology where we rate the customers S1, S2, S2+, and S3.

And within that, the range happens 15bps, 15 bps, there is a gap. Core housing, we charge rates start from, 8.95 and otherwise our base rate is 9.6. For self-employed segment, we charge 0.5% higher and for self-employed and non-housing loans, another 0.5% higher. So, that way is how we have a pricing also and as I said, other advantages in terms of a cost.

We have always, had a branch-led model and we have been working with a very thin staffing and our productivity with levels that is a number of cases business done per staff per month has been almost five plus. So, if it is a three-man branch, they do somewhere between 12 to 17 cases every month, they are doing new business. And some of the larger branches which are having, which are staffed like eight and nine people in the branch, there they are doing almost, 40 to 60 cases per month.

So, the productivity is something we have been focusing on and that gives us also on the cost side also, we have very low-cost ratios. Our cost-to-income ratio is roughly around 17%. So, that is the kind of thing.

So, that has enabled us to, operate with a ROE of 2.1 plus and ROE of 17% approximately. So, in the last many years because and our growths have been roughly a little lower than that because industry has also been growing at a lower rate plus we have also had, some challenges. So, based on that today, it has been, accretive.

So, we have not had to raise funds or go to the equity market in the last quite a few years. And going forward also a couple of years, we may not be required to go back to the equity market for fundraising. So, that is broadly the position.

Questioner:

Okay, that is interesting. So, with these kind of loan rates that you are charging, you are probably competing directly with banks?

Management:

No, we are a little higher in terms of rates compared to the PSU and private sector banks because now particularly, now they have some of them have reduced to 8.2 post repo rate cut, but otherwise it was ranging between 8.4 and 8.5 and we were charging around 8.0, starting from 8.95. So, if you look at that, we are about 50 bps higher than the banks because obviously, we are not, we do not have the CASA advantage and all.

So, we have to depend on the banks and NCBs and all. In terms of the liability side also, we have a diversified borrowing profile, borrowing mix. About 55% comes from banks, term we have moved all our bank borrowings to repo linked or to T-bill linked.

So, we do not have anything linked to MCLR. So, therefore, whenever the rates are now going to come down, we will also see some advantage or some rate benefit in our cost of borrowing. The second one is NCDs where we raise, now this year also we recently raised NCDs to the tune of INR1510 crores.

Prior to that also, we have been raising consistently. So, NCDs is the second source where we have been ranging from 2 years to, 5 and 5 years we have raised. Third is NHB refinance where the, erstwhile regulator who is now into supervision, they have been giving refinance.

So, there we have taken advantage of, because our ticket size are also low, we have been able to raise a lot of high, almost 40% of our NHB refinance is under the special categories of women borrowers or minority segment or minority community or, ticket size, lower ticket size which is in priority sector, things like that which is called the affordable housing fund.

So, because of that we get a cost benefit in terms of the NHB refinance also. So, that is the third and of course, we have commercial paper which is just for working capital and to the tune of about 6% to 7% and deposits it is a very, very small component for us.

Questioner:

Can we first start from the growth front, right? Could you help me understand, yeah, the drivers for your growth and it seems like because you said your branch like it is very thinly staffed branches that would tell me that you get like inherent demand because so, you do not need people to actually go...

Management:

That is one area we don't have. We don't have, like most other companies have either a subsidiary company which is doing purely sourcing or they have their own internal team of direct sales agents or direct marketing executives, we don't have that. And to that extent, we have a slight issue in the sense that almost 80% of our sourcing happens through the DSA channel. And we have a payout of approximately 0.43.

So, to that extent, slightly we have -- we are single channel dependent as of now, and these DSAs are the ones who source most of our business. We have already moved for a little bit of a correction on that. We have started our own sales team, internal sales team. And additionally, we are also trying to target the sales team only, tie-ups with builders for project approvals. So, once we approve the project, then we know our processing and sourcing can be a little faster in those projects.

Questioner:

So, in terms of the mix of loans, like the sourcing, do you still expect 80% of future loans still?

Management:

No, we have like going forward at least in the next three to five years what at least we have drawn up as a strategy is we want to reduce the reliance only on DSA channel, bring it down to 60%. And we would like to have our own sourcing channel, which is our sales team to contribute at least 20%. And we are right now in the -- we have just initiated our IT transformation project.

So, once that is completed by November '25, we will also start our digital onboarding and digital process. So, that also in the next two to three years should start contributing about 7% to 10%.

Questioner: The digital channel is something that it is in the works or has it started?

Management: Not started as yet. As I said, November '25 when our IT transformation project will be done, at that time we will have -- we will be able to start this.

Questioner: Do you expect like by diversifying the channels, soon you will be able to tap additional markets or pool of customers?

Management: Additional pool, yes, because our average ticket size coming back to the earlier question about growth. So, one of the levers is the ticket size. Right now, our ticket size was around 20 lakhs, 22 lakhs. We have slightly increased it to around 20 lakhs to 25 lakhs. And there is a scope to slightly improve that.

And once we do that APF tie-ups, project tie-ups and project approvals, we should start getting some business from there. That business definitely would be a little higher ticket size. So, right now also very limited business that we have got from that through our sales teams. The average ticket size is roughly ranging around 35 lakhs. So, that is one area where we can slightly improve our ticket size. So, that is one thing.

Second thing is that from the yield point of view, we have also slightly, I would say, increased our self-employed segment because that also has a strategy. Our Board has approved that we can go up to -- right now it is 70-30. When we started off, it was 72-28. So up to 65% salaried is okay, so another 5% we can move over in terms of the salaried segment. Self-employed, we are incrementally doing about 40%, so that is slightly giving us a slight benefit in terms of our yield.

Questioner: So, you mean incremental loans?

Management: Incremental loans.

Questioner: 40% is actually now self-employed. Okay. But then doing that, going from like now historically mainly...

Management: Salaried segment.

Questioner: Yeah, salaried segment and now moving to that, like how do you maintain the asset quality?

Management: See, actually, in the past, the assessment of self-employed segment was a little, I would say, not difficult, but it was a little riskier because it usually used to be the IT returns and things which were filed with the chartered accountants. And there was a possibility of these returns being fabricated or things like that. Whereas now what has happened is, you can directly download the returns which have been filed by the customers on the IT portal, income tax portal. So that way, there is a little more, the chances of fabrication and all those things are a little less. That is one thing.

Second, in terms of the business and all, there is a lot of reporting regulatory requirements and all those things, so it is much easier to assess the income, the registration of the company, how old is the company, what are the general sales targets, whether it is filing GST returns, whether it is -- what are the IT returns and all? So, all those things are a little more. Plus, payments also, if you look at it, a lot of payments which are happening are now coming through UPI and through digital and banking channels only.

So, unlike earlier cases where a lot of income used to happen purely in cash, nowadays that component is reducing quite a bit. So, therefore, assessing this segment has become much better, much simpler and much more reliable. So, that way, that is one thing which is there. And of course, when we do to the self-employed and all, we do take care in terms of valuation, what is the exposure we are taking? All those things, of course, are also there. So, that is one.

Even in terms of valuation, if I have to say, in the last few years, the regulator has also now introduced certain limits on how much you can maximum fund the customer. So, higher the ticket size, the LTVs are lower. If it is more than 75 lakhs, you cannot give more than 75% of the loan, of the fund requirement as loan, okay, and so on. So, that is one thing.

Plus, another thing which the regulator has done is now rather than the market valuation, which is a little riskier and prone to fluctuation, the regulator has also insisted that all LTVs have to be calculated based on realizable value. So, there also the chances of any valuation bubble or things where you can overfund the properties are kind of reducing. So, that also gives an additional comfort that now we can definitely do that.

So, going forward, these things should help us in, when we fund to the self-employed segment and would help further reduce. Because normally, yes, compared to the salaried segment, the self-employed segment has a higher NPA level. But after all these things, definitely this gap should reduce a little bit.

Questioner:

Now, with this change in business mix and also there is, we are entering a bit of slight easing environment and all that, how will that affect your overall margin in terms of your name?

Management:

Two things here. One, we are not actually bound by this external benchmark link rate. It is not mandatory for us to pass on an equivalent rate to the customers. We have our own internal benchmark, which is our PLR. So, what we do is, normally we pass on only to the extent that we experience on the liability side. So, it is always a little back-ended. That's point one.

The second thing is that when we are reducing the rate, we have also moved to a quarterly reset. So, if unlike -- of course, in a reducing rate environment scenario, this actually would not help us much because whatever is coming, we are doing it. But otherwise, we have moved from an annual reset policy to a quarterly reset policy.

So, every quarter, whatever we experience on the liability side, we will pass on to the customers. So, it is not that we are going to take a risk or we are going to actually be affected negatively because of the reducing or lowering interest rates. So, our spreads will be protected. We would not want to, like if on the liability side, we experience only 10 bps, then we will pass on only 10 bps.

As of now, whatever this quarter, 25 bps reduction has happened in the repo which has come in February, it is likely to be passed on to us only in the end of this coming week of March because all our interest repayments to bank term loans are in the last week of March. So, at that time also, what we will experience eventually will be 5 to 7 bps. So, we will pass on only 5 to 7 bps.

Questioner: Now, but so from what you are saying, it seems that you will be relatively less affected by the rate?

Management: Yes, yes.

Questioner: The broader rate changes, right? But given that you are moving to like the self-employed segment, that is probably comment higher. Would it be fair to say that your name should expand?

Management: Actually, as I was telling you earlier that we are slightly moving to a higher ticket size also. This affordable -- from this 20 lakhs-25 lakhs, we are going to this approved project cases. Now, there when we are moving beyond the 30 lakh segment, then it becomes a little more competitive because that is when we will be directly in competition with the banks.

So, as long as we are below the radar of the banks, below at 20 lakhs and 22 lakhs and 25 lakhs, for the banks, we may not be directly in competition with them. But if you go about 30 lakhs, 35 lakhs, then yes. So, in which case, on that portion of the lending we do, we will have to offer a more competitive pricing, which therefore will be offset by the extra we earn from the self-employed segment and the LAP that we are doing.

Questioner: What is the thinking behind going up rather than going down?

Management: Actually, having worked in the affordable segment in my previous for such 25 years, one thing is very, very clear. It is purely a supply-driven market and the affordable segment supply is a major issue. As long as the government incentive was there, the supply was coming. And the last 5 to 7 years, in 2017 to 2022, the affordable segment really saw very good growth.

That is mainly because the government incentives were there, because of which the larger developers or mid-size developers also found it lucrative to come and enter this market. And therefore, projects came in. A lot of affordable housing projects were launched. A lot of housing sales happened and that is where this picked up.

But effective 2021, when the CLSS scheme was closed, after that definitely, a couple of years, the inertia has carried on. But technically, there is no new supply coming in. The builders are moving out because this is not a fast-moving kind of a segment. And therefore, I expect the growth to be coming down unless there is a new incentive or impetus given by the government.

And in fact, that is what actually is also witnessed. If you see today, if you break down the industry or the segment into three based on the ticket size, then the affordable segment has actually gone into single-digit growth levels. It is a mid-size segment. And of course, the premium is growing at a higher rate. But the affordable segment, the growth rates have been falling actually. And that is precisely the reason why we thought it is not wise to target that segment where supply is not there.

Questioner: Interesting, because I have met quite a number of -- everyone is telling me, growth is great. It is their capacity that is limiting the growth, but the market is huge, they do not see any ceiling for growth. But you are saying, perhaps, do you think it is because the segment you are in versus theirs?

Management: No, we moved out of the segment. So I would say that, and I have been saying this for the last two years, ever since the CLSS has been withdrawn, I have been saying this, in my previous employment in Gruh Finance, we were the pioneers in affordable housing financing. We started housing finance at a period when there was no appraised income segment, we were the first ones to start it, and a lot of players subsequently followed.

And of course, that industry or that segment has definitely benefited from the government incentives and even this lowering of the risk weightage and all those kind of things. But having said that, it was always a matter of supply. And today also the supply is going down. Yes, the will to do it is definitely there.

Today there are more players who are willing to take that risk. But today if I were to do LAP in that segment, there is a lot of scope in the affordable segment. But today we are not in the business of LAP, at least not Can Fin Homes. If you see, as I mentioned, 85% of this thing is purely housing finance, purchase construction and repair renovation. So we don't have LAP as a very major segment. Our LAP book is only about 5% to 6%.

Questioner: Any reason why you're not looking to grow the LAP segment?

Management: Well, it is mainly because the company itself was set up for providing housing finance for the first-time homebuyers, and that's what we've stuck to. And LAP, of course, is there, but that's not core housing. That's not why the company was set up. So that's predominantly the reason why it is there.

Even today it's low-hanging fruit for us. LAP, increasing our LAP book, if you have to push growth, LAP is the easiest thing to do. But then, of course, that's not one of the objectives for which we were set up. Considering that our team is more into solid segment housing finance and construction and plot plus construction or construction purchase kind of cases, our core strength is that. And third, of course, is that it's a slightly higher risk is there in the LAP book.

Questioner: So from the segments I got, it seems like, okay, NIM is going to be stable. So essentially, your income growth will be driven by the loan growth, right?

Management: Correct.

Questioner: So what are you seeing in terms of -- what can we expect in terms of the growth?

Management: Next year, we are targeting a 20% disbursement growth, which should reach around 13% to 15% AUM growth. That's the kind of thing. In the long term, we would want to grow at a rate about one or two percentage point higher than the rate at which the industry is growing. We don't want to kind of run very fast and make mistakes or just for the sake of growth, build a book. But at

least we would like to be a little better than the, considering the benefits, the strength, the vintage and everything, the experience of a staff.

We would at least like to grow at a rate a little higher than what the industry is growing. So today, the industry is likely to grow around 12% to 14%. So we should be expecting around 15% around kind of a growth. So that's the long term range. If tomorrow there are incentives or there are some changes and suddenly there's an uptick in the overall growth in the real estate segment, then yes, we would like to also up our growth rate.

So indirectly, what I'm saying is we'll be about one or two percentage point above the rate at which the industry is growing.

Questioner: Can you talk a bit on credit costs, like how you're seeing it? Are there any signs of stress or how do you project that going forward?

Management: See, on the credit cost front, we are basically, following the ECL model because we come under the Ind AS. So under the Ind AS, our stage three assets, we have close to around 45% to 50% kind of a coverage is what we are maintaining. Obviously, this is also a little on the conservative side because a lot of other players who are having higher NPA levels or who are having a riskier segment that they're getting to still are having a stage three coverage ratio in the range of about 25% to 35%, 37%.

Basically, it's because of the assumptions that you are considering. In our case, we are, a little more conservative assumption you can say we have been taking. So our PCR in that stage three is around 45% to 50%. Overall, in spite of that, looking to the thing, our credit costs have been in the range of about -- because as I said earlier, our last 10-year record shows that we have not had a G&P of more than 1% ever. And that's the kind of thing we are mainly focusing on.

So that being the case, our credit cost would be around 15 to 17 bps only. That's it. We've been, roughly it's been 15 bps. We can take at most 15 to 17 bps as the credit cost.

Questioner: That's true cycle. Like what's the peak credit cost you saw like around COVID?

Management: No, actually, during the COVID phase, we had this COVID restructuring plan. So basically, that benefited. But yes, at that point in time, we had about additional 68 crores of COVID restructuring provision that we had created.

And because we had about INR680 odd crores maximum, I think INR720 was the peak that we had a portfolio under restructuring. So we had about INR68 odd crores of one time, provisioning that we had to make. So that at that particular period, I think it would have been somewhere in the range of about 20 bps or something.

I guess 20-25 bps max would have been the credit cost at that point in time, considering that INR68 crore provision that we have done. But that was also more of a statutory or regulatory provision, which was more because we had offered restructuring. Eventually, if you look at what has happened on that book, the restructured book has had a peak NPF of about 18%-18.5%, which was maximum what we had. And after that, all that has also started coming off. So right

now, I think it's stabilized. Our last book also, in fact, came out of restructuring in November 23.

And since then, our book, which was INR720 crores or something at maximum that we touched, it has now come down to around, I think, as we speak, around closer to INR500 crores. So there has been a lot of repayment, a lot of loan closures, even in the restructured book. So now it's kind of behaving in a normal course.

I don't see much of a problem there. So if you again look at it, pre-COVID, we used to have a gross NPA level of 0.91, just before COVID, if you look at the March 21 or March 20, annual report. And then the COVID restructuring program was announced.

And post that, our portfolio, our portfolio was eligible for that restructuring, which was offered to the customer. So it came down. But now again, with the entire effect of restructuring gone, we are back to the 0.91. So I guess, the entire effect of restructuring is into the books today. And the level that you see today is the kind of real NPA or the...

Questioner: It seems like a very stable and to a point of being boring type of business. Is that fair?

Management: Absolutely. Housing finance, it's a boring business. And the longer we stay boring, I think the better it is. In this industry, it is. I think it has been proven over periods that, the too much of unwanted risk that you take, too much of experimenting that you do sometimes can hurt. It's a boring, steady business as long as it is boring. And the regulator also for that matter has maintained it that way.

Whenever there have been, spurts or, instances where companies have gone for a lot of experimenting or a lot of new ideas or new things like, 2080 or 1090 or advanced funding facility or market valuation-based funding or this, cash credit kind of funding or things like that, the regulator has come down. Even too much of exposure on lab, again, the regulator has come down. Valuations, as I said, they have moved from market value-based to realizable value-based.

So, whenever any such kind of experiment has happened, the regulator has also come down and kind of controlled it or very quickly stopped such kind of practices. So, the business for the last 27 years that I am here in this line, I think it has been the same boring business and the ones who have been boring are the ones who are stable and standing.

Questioner: So, in terms of now, what you are seeing in terms of comparative landscape, you mentioned that regulators are pretty quick to react to any kind of behavior that is deemed risky, right? So, in the competitive landscape currently, compared to what you have seen in the past, would you consider it to be relatively benign or how do you rate?

Management: In terms of the regulatory landscape you are talking about?

Questioner: The competitive behavior?

Management: Comparative behavior, I think there have been some, last couple of years where or last 4-5 years where some experimentation or rather some fast growth has happened. And the regulator in the

last 2 years has come out with quite a few guidelines to either control it or to kind of, I would say flag those risks or, come in with guidelines for providing for it or things like that. Like for example, as I mentioned this primary business criteria condition was brought in, then realizable valuation for realizable value for LTV consideration was brought in.

In terms of the risk parameters or in terms of the risk, monitoring, they have come in with LCR, liquidity coverage ratio. Then in terms of, right now in terms of the business that a lot of people have been doing for insurance selling or mis-selling as cases have come out, there also the regulator has now been talking about it. LAP also opposed this PBC criteria, LAP is kind of getting controlled.

So, I guess, yeah, a lot of changes are happening now and I expect that the next one year also is going to be a little more in terms of the regulation going to be very active. The new MD of NHB has been very active in ensuring to ensure that, these kinds of wrong practices are curtailed. And so, I guess for another one year, a lot of things will come because he has identified a couple of areas particularly like this classification of loans into housing, where a lot of wrong classification has happened.

Mis-selling of insurance and over-selling of insurance just to get the fee-based income. These are some of the areas where, the regulator has already flagged. So, these are areas where, some correction will happen in the next one year and some of the players who kind of violated or rather gone a little overboard will have to curtail their practices.

That is possible. But otherwise, it should be, competition after that should fall in line, I guess, yeah.

Questioner: So, in other words, you do expect, like, you do see some unreasonable behaviors in industry that you think regulators should step into?

Management: Yeah, these two particular points that I mentioned, one is the valuation part of it and where the regulator has flagged out this point that a loan which was where a customer was on a particular property eligible for say a INR20 lakh loan today, two years hence, suddenly for the same property, there is a total exposure is INR40 lakhs now. Obviously, that is the property prices have not gone up by that, level or by that range. So, obviously, this over-funding or this bubble or this, higher exposure on the same property is a little worrying.

Second thing is this insurance selling or insurance burden on the end customer is also a little thing. So, I think these two areas definitely there will be some kind of issue, some kind of regulation coming in or things like that.

Questioner: Can we talk a bit on the cost side, the opex and how do you expect that to turn?

Management: See on the opex side currently we are around 17% cost to income between 16% and 17%. In FY26 also we expect the range to be almost the same around 17% cost to income ratio. FY27 we are expecting a little spike, it should be about, from 17% you should go to around 18%, 18.5% mainly because we have gone in for IIT transformation project.

The total project cost is INR297 crore and IBM has been selected as the vendor for this as a system integrator. They are bringing their own set of OEMs that is LOS, LMS, document management, HRMS, something for treasury and borrowing program and ALM and CRAR. So, all those things, the cost will hit us in FY27 onwards because there is a one-year implementation cycle plus a three-month hand-holding.

So, basically the 15-month almost up to March 2026 will all be capitalized and from April 27 onwards only the cost will actually start coming into the books. At that time the whole breakup is about INR100 crores is the capex and the INR197 crores spread over 5-5.5 years is going to be the opex. So, the total cost of this IIT implementation from this FY27 will be approximately around INR55 crores to INR60 crores. And currently we are spending about INR15 crores and once this project goes live somewhere in November or max say up to March even if there is a - we are running a parallel run or something for a couple of months for a double check.

Then also post-March, there will be sunset of the existing LOS, LMS application. So, the current cost will come down. So, the net impact will be around INR40 crores to INR45 crores which should be around 1% of the cost because currently we are approximately around INR4,000 crores is the total income, annual income. So, one year hence probably it will be a little more than that obviously.

So, going by that we expect that about one percentage point will increase in the cost-to-income ratio and over a period of this it will be absorbed because our incomes will go up whereas this cost will be kind of steady for the duration of the project which is 7 years including the implementation period.

Questioner: So, perhaps around 2 years we see the spike to 18, 18.5 and then perhaps hopefully the...

Management: It will start coming down from there, it should start coming down because on the cost front we have always maintained a low cost operational model. All our branches are on lease basis and when we start a new branch we have added 14 last year, 15 this year. We go for a small setup with only about three people and most of the branches we have selected locations that we have selected are in Tier 2 towns.

So, these are obviously locations where you do not have a huge market which we can kind of get into. So, about 10 to 12 loans, 15 loans per month is what max we can expect from these locations. So, we start with these small branches, three people. One time cost is just about 7 to 8 lakhs per branch, the interiors and all those things and then the three people staff. So, it will be roughly not more than about 12 lakhs, 15 lakhs will be the total cost.

Questioner: Can we talk a bit in terms of your target returns like, yes, just because from what I am hearing it seems like everything is almost like...

Management: The challenges are, I would say, yes, I mean, it sounds too simplistic, but yes the challenges are one on the growth side because we need to now deliver on one, our geographical diversification. Two, we need to deliver on our mix of salaried versus self-employed and housing versus non-housing which we have kind of embarked upon. So, that is a journey which we have taken which

will in the next 5 years eventually result in about 60% DSA sourced business, about 65% salaried segment, 70% plus core housing and including CRE probably about 80%.

So, there will be a little increase in SEMP, a little increase in our non-housing. And in terms of our growth, we have already embarked on this branch expansion. Actually, post COVID there was about 3 years or something where we had not added any branches. So, that is another thing which we have started now. So, there is a journey or a kind of a strategy that has been drawn up and we are now slowly working on that strategy. And in terms of cost, yes we do have that advantage, it is proven over the last many years.

We have a rating and if the way it continues; I think the rating should hold. So, again, that would not impact negatively the cost. So, the only two challenges, one is on the IT side, as I said, we have an implementation which you just embarked upon. So, that will have to sail through properly with minimum disruption, that is what we are working on. And the second thing is, as I said we need to set up our own sales team and deliver. That is the only case where we will be able to bring down our DSA reliance.

So, these are the two, I mean, kind of challenges or kind of monitorables, I would say, which will have an impact on this thing. Otherwise, in terms of the ROA, we have given a guidance of 2.1 ROA. Presently, we are a little higher than that, we are at 2.25. It is the same way on the ROE, we are at around 17 and we have said it will continue to be around that. And spread and NIM also, we have given a guidance of about 2.5% spread and 3.5% NIM.

Both we have actually slightly higher than the guidance that we have given, but on a conservative side, we have given a guidance of 2.5% spread, 3.5% NIM, 2.1% ROA and around 17% given take a little, the ROE.

Questioner: So, it seems to be a very stable business. So, the tweak like the event on the growth, it seems like a little small tweaks to...

Management: Exactly. We do not want to kind of rock the boat. There are some small challenges, which we want to do on through small tweaks. Absolutely correct.

Questioner: But from say investors perspective, what are the things that we need to look up for to kind of have a sense to see whether things are going on still well?

Management: Definitely growth is one parameter you will have to keep an eye on because on that front, there have been some hiccups here and there. We had first the COVID where something this happened. And during that time, because that voice could not go out, obviously, the reliance on DSA is increased. Prior to the COVID period, we had a 50-50 DSA sourced versus direct sourcing, which went up to almost 85%, close to 85% in the last quarter of FY23. That is when we said we need to control it and bring it down.

So, growth is one definite monitorable you will have to see. So, that was one hiccup that we saw. Subsequently, there was another hiccup where we had a couple of - on the internal controls point of view, a couple of frauds which had happened in 22 and 23. Post that, we have brought in a lot of internal control processes and we have streamlined some processes. We have strengthened a

lot of - we have strengthened our assurance functions. We have introduced a lot of IT interventions and monitoring that has happened.

So, all those things now are kind of in place, but those definitely took a toll on in terms of our growth. So, that happened. And then last year, we kind of completed all those things back on track, but then now, we had a small issue in our core two states of Karnataka and Telangana. So, there we had to take a slight beating because business has slowed down these two states. Of course, Karnataka should recover very soon because it's almost the state government is also working very hard to streamline that process of e-khata.

So, I think once that is done, we should again be back. So, I think growth is one major area which is a monitorable and a couple of, I think quarters or a couple of, at least a one full year of steady growth is something which will - is required, is absolutely what must be done now. Second is the smoother transition on IT because our IT also actually was implemented in 2011. So, the current LOS, LMS application is very, very old. It's long beyond its kind of life.

So, this transition is also another monitorable which will have to be seen because any transition or any IT transformation results in some kind of disruption. Now, how well we are able to minimize this disruption is another monitorable and that's what we are also working on. So, growth and IT transformation these are the two areas, I guess, will be the key monitorables.

Questioner: Right. The IT disruption, the way it manifests will be through like slowing down growth or like take up the expenses?

Management: Expenses I already explained that there will be an expense from FY27 that will be about one percentage point in terms of the cost to income ratio.

Questioner: But that's assuming a normal smooth transition?

Management: No, cost wise, at least the transition is not going to have a higher impact. It's not going to be adding - that INR40 crores is not going to go to INR50 crores or INR70 crores.. But on the business front, yes, there could be, one is the, transition if it doesn't go through or there are delays in the transition, it could affect. So, currently what the IBM has shared with us, the implementation plan is that in November 2025, we will be implementing the entire LOS, LMS across the company.

Now, this is very critical because October onwards is October to March is the peak season for housing finance companies. And obviously, it is in this third quarter that it is going to hit. So, if the transition does not go well, then it can affect the business for a couple of quarters. That is what we are working on to minimize.

What we are also trying is that if this November period can be slightly advanced to say early October or something, then maybe we can minimize the kind of impact and maybe a one month or maximum we can have the impact and we can do it. So, that is one. A couple of other points that we have taken or steps we have taken to minimize the disruption is that we have insisted on the LOS and LMS service provider being the same vendor.

So, at least, in terms of the integration that is required between LOS, LMS, two key aspects of the business, it will not be there because it is a tried and tested. So, we have got IBM has come up with Pennant. They are going to bring in Pennant, which is already running at Bajaj Finance and Bajaj Home Finance and also at LIC HFL. So, these are two players where it is already running smoothly.

So, we are bringing in that. So, the integration between LOS and LMS will be to a large extent resolved because you are bringing the same vendor. The second is in terms of training where we realize a huge amount of training will be required because it is a complete transformation. It is not a patchwork where we are removing one piece and putting another piece and so on. It is a complete LOS, LMS, HRMS, DMS, everything, rule engine, everything.

So, for that, we have already provided and planned for an extensive training program, both from our side as well as from the SI, that is the IBM side also. And we will be working on that. So, that should help a lot. The third aspect is where, resistance to change because normally, three years, five years, people keep changing their systems.

So, people are used to change. In our case, unfortunately, this present vendor has gone on for almost 13 years now. So, the resistance to change, I expect to be a little higher than what it would be in some other places. So, that is something we have to kind of work on. And we will have to do something whereby, this resistance to change or how they adapt to this change and how well they accept this change is what we have to work on.

Questioner: So, in other words, like, by this time next year, like...

Management: Correct, March 26.

Questioner: Right, things should...

Management: On both fronts, we should be in a much better position to decide that, yes, whether the growth has come, yes, and whether the IT transformation has moved smoothly. And if, obviously, the growth is a lesser of an issue because today, in terms of other than Karnataka and Telangana, we have already demonstrated that, growth is possible because our North Zone, our West Zone and Tamil Nadu Zone, which contribute, which are almost about 10 or 12 states for us, they are already having about 15% to 20% growth even in this year as we speak.

Karnataka also, in the first half of the year, post our, all the correction, the strengthening of processes, assurance functions, and change of process policies, controls, was also, had started showing, reflecting 20% growth. So, but for this e-khata issue that came up in end of September and has affected from Q3, that was also growing at 20%.

So, there is a definite demand side is not a problem in Karnataka in terms of our ability to deliver performance is not a problem because we were doing INR275 crores per month in Karnataka in Q2 and Q1 was also there. So, we were at 20% growth in Karnataka.

So, in terms of our ability to deliver performance in Karnataka, it is already there, that the demand and the market itself is already there. It is only that, the government has come up with

a new system, which is kind of becoming, which has become an obstacle. Once that is resolved, then we should be able to go back to our old 20% growth norms kind of thing.

So, by and large, we are almost there in terms of growth, a large major component of our business teams are on the delivering growth.

Questioner: It seems like Karnataka has done quite, there have been quite a lot of these kind of new policies or whatnot like that happened in that state. Do you think apart from Karnataka, are there other, do you expect similar kind of policies from other states?

Management: See, across, during the, throughout the year, in so many years, every, some or the other state always has some problem. Like today, there will be an election in X state, so that suddenly for some time there could be some, slowdown in that particular state till the election is completed and the new government takes over and clarifies its policies. Some other, this, once this is resolved, some other state goes into elections, that is there.

This state goes in for a digitization of its land records, some other state goes in for a different time. So, some or the other at some point in time is always happening. So, it is just that, it doesn't happen simultaneously.

Today, for us, unfortunately, our reliance on two particular states of Karnataka and Telangana is very, very large. So, while this problem has hurt everybody, but it is not so pronounced for others because, they are not so very, centered around these two states. Whereas, in our case, 50% of our business and almost, INR10,000 crores plus INR7,000 crores, INR17,000 crores book out of INR37,000 crores book is only in these two states, which is roughly about 40%, 45%.

In terms of incremental business, Karnataka was doing INR275 crores, Telangana doing earlier about INR150 crores or INR220 crores and INR150 crores. So, roughly about out of, INR750 crores at INR700 crores that we were doing, these two states are contributing 50%. So, we have been hit in the two areas, two states, particular states simultaneously, where our concentration risk is very, very high.

Questioner: So, it is a chance of bad luck?

Management: It is whatever, I mean, you cannot say bad luck. I mean, it is obviously, in terms of strategy, our concentration risk was always there. And we had to address it. Unfortunately, we started addressing it or realized and started working on it and it has hit. Had it been probably say, in 2028, then we would, our reliance would have been much less, because we were already moving from a 7 to 28 to 60-40. But fine, I mean, it was a known, unfortunately, it hit us.

Questioner: But these are still like temporary issues, right? So, once you, as you said, the growth has normalized. So, it would set a low base for?

Management: Yes, I think the next one, 11 o'clock is the next meeting.

Questioner: Okay, well, yes. But I think, so, these issues like the Karnataka and all this, it should normalize?

March 25, 2025

Management: Karnataka should, I guess, not more than a quarter in the first quarter itself, because the Chief Minister has made the statements. I am sure the government would be working on something. And at least in a month or so, I expect that some outcome will be there and things will pick up.

Questioner: All right. Thank you.

Management: Thank you so much.

Questioner: Thank you.

Management: It's a pleasure talking. I'll switch off this thing.