



“Can Fin Homes Limited Conference Call”



SPEAKER:

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

Interviewer: So, I think we are meeting almost every quarter and we are doing some updates about what is happening.

Suresh Iyer: Sure.

Interviewer: So, first thing, I think, we are talking about 12% - 13% growth rate for this year and then we hope to pick up incrementally to 15% or from 20% onwards. But what we see is that even if we let us say do Rs. 6,000 odd crores disbursement in the next, this H2 and with the current repayment rate we might only reach 9% - 10% rate, at least the model suggests that. If the repayment rates continue what we saw in the last quarter. So, what is the maths of that 12% - 13% kind of growth rate?

Suresh Iyer: No. Actually, you are right, initially our repayments were below Rs. 1,400 crores in the whole of last year and that was what we had also factored into our listing and arrived at the target of about Rs. 10,500 crores and also, considering that we have IT transformation which is going on.

But this quarter particularly from June onwards after that 50 basis points cut that happened, I think our repayments slightly have gone up. So, that was slightly elevated in Q1, which was not much because it was just a little above Rs. 1,400 crores, it was Rs. 1,459 crores. This quarter again it has been a little high, because it is not only loan closures and repayments and BTOs, but it is also part repayments coming from customers.

Almost Rs. 200 crore repayment was higher in this particular quarter alone compared to Q1 and of which Rs. 80 crore was part repayment by the customers. So, of course, this quarter we have started an aggressive campaign to try to push up teams to convince customers that if anyway they are doing it might as well preserve their capital and put a deposit or something like that.

So, that is some kind of thing we are looking at, because otherwise we will be doing disbursement, but the run down will be higher. So, that is definitely one issue. But disbursement-wise in terms of this pickup is there. We are even in October with so many holidays also and Diwali and all. So, we have still been able to cross and do more than 800.

In fact, we have done more than what we did in July and August. So, both months we have advanced. That way disbursement is holding up and we are confident the disbursement will not be a problem. We seem to be on track for that. But repayment, yes, has been a little higher which we will have to work on this quarter.

Interviewer: But this repayment, is this geography specific or?

Suresh Iyer: To some extent, yes, because in Telangana where we have been a little slow, some of the other people have because and frankly speaking because of this HYDRA, we were the first to flag that issue that demolitions are happening and everything like that. And even now we feel, it is not the right time to push hard in Telangana. There is still some issues there. We do not want to take

that punch. Right now, we still will be comfortable with Rs. 125 crore disbursement per month only. We do not want to push it higher than that.

But it appears some of the players have taken a very positive outlook to Telangana. And that is why our Telangana particularly, if you see that Rs. 120 crore repayment, which has happened almost Rs. 45 crores to Rs. 50 crore has happened in Telangana alone. Whereas all other geographies put together has been about Rs. 70 crores. So, somewhat here and there Rs. 20 lakhs, Rs. 50 lakhs, Rs. 30 lakhs more per branch.

But particularly, Telangana and a couple of, that also only in those 13 branches in Hyderabad, it has been a little elevated. So, geography specific is yes, Telangana.

Interviewer: And these are generally the BT outs.

Suresh Iyer: That is a closure. So, I am talking about closure. So, I am assuming it is BT out only.

Interviewer: No, but we do get a sense that, if this particular account is getting closed, then which bank is --

Suresh Iyer: That is true. But in many cases, the customers come and say, no, it is not a closure. It is not a BT out, we will do it in my account, and we will do it and things like that. But eventually, we are saying the entire Rs. 270 odd crores was to be the loan closures, full closures in a quarter, which has gone up to around Rs. 380 crores - Rs. 390 crores. So, that Rs. 120 crores which is increased. So, I am assuming everything is BT out probably.

Interviewer: And otherwise, so let us say right now our new home loan rate, what is that?

Suresh Iyer: Starts from 8.7%.

Interviewer: So, we are slightly higher than the PSU banks?

Suresh Iyer: Definitely. Definitely

Interviewer: So, that also, I mean, in this kind of scenario, that is also a reason for a lower loan.

Suresh Iyer: I would not say PSU banks as much. But I think, even LIC is offering 7.5% onwards. So, that is also something that I am sure that is one of the bigger players just taking out. Because PSU banks in our geography, our ticket size, they are not the really aggressive ones. It is more likely that it will be this one.

Interviewer: Even I think players like Axis also, they will be close to 8%.

Suresh Iyer: Yes. They have not reduced as much, or they have not passed on the entire 100 bills to the new customer.

Interviewer: So, we are losing out to PSU banks and players like that.

Suresh Iyer: More likely, as I said, to LIC, Bajaj and PNB. PNB more about self-employed only. But Bajaj and this one will be a salaried also. Because they also takeover plus give a good top-up. Sometimes, we are not able to match.

Interviewer: But that has always been the reason. I mean, because of their liability profile, etc. So, they have always been able to offer a better rate. Has this issue, I mean, this competitive intensity, has that gone up in the last, let us say, 6 months?

Suresh Iyer: See, even in September, when we were talking to our branches, I said, we have not got that feel that any major player has really become more aggressive than what it was. Because if you look at the analysis of the branches, every branch has a little more than, what it was in the previous quarter. Barring Telangana, of course.

So, basically, that is, nobody feels that their competitive intensity has increased so much. Because individual branch-wise numbers is not adding up to this much.

Interviewer: So, and your expectation is, for this year, 12% - 13% turnout?

Suresh Iyer: Well, as you said, the prepayment is a little bit of a worry. I mean, concerns, if you see, the only two major challenges this year going forward is, we do not see much of a problem in disbursement. We do not see maintaining our spread of 2.75. Liability is not an issue.

The only, as I said, two challenges. One is, we have an IT transformation which we have to manage. As of now, there is no trigger for a concern. But I am saying that is something which is a major event. The second thing where we slightly need to manage is our prepayments. Because that has been a little higher. That has completely affected our --

Interviewer: So, even that 12% will be difficult?

Suresh Iyer: So, not difficult, we will have to do more. Because currently, if you see, both the quarters put together, if you see, we have had about Rs. 300 odd crores more in terms of disbursement than what we would have planned for. So, we will have to cover up. Either we will have to do more disbursement or that is so.

Our attempt, obviously, will be to see if we can do a little more than the **Rs. 6,000 crores (8:09.4)** that we are talking about. As of now, the plan is Rs. 6,000 crores. We said we will do about Rs. 2,800 crores in this quarter and Rs. 3,200 crores in the next quarter. Because originally in the earnings call, we said Rs. 2,500 crores.

But because our IT transformation, which was scheduled in December, is getting delayed by about 15 days or kind of a thing and moving into the next quarter, we will push disbursements in this quarter. So, maybe we will reset it to Rs. 2,800 crores and Rs. 3,200 crores next quarter.

Interviewer: So, the IT transformation, which you said, which is scheduled in, let us say, January, that will disrupt to some extent.

Suresh Iyer: Not disrupt. So, we are still targeting more than the Q3 disbursement in Q4. But yes, some downtime, a couple of days, and those things will be there.

Interviewer: Because I remember when this was happening in Aavas this IT transformation project, etc., they were implementing Salesforce.

Suresh Iyer: They implemented Salesforce.

Interviewer: So, they took a lot of time and that had affected the new disbursement a lot. Because I think the training also took a lot of time for the sales officers, etc. So, it took a lot of time. I do not know, how are you experiencing this or what are your expectations?

Suresh Iyer: So, training, yes, is a major activity. But in terms of the testing, in terms of all those things, we do not expect a major thing because we have already identified a separate team. Last year itself, we had a separate project implementation team, which was involved in all the activities like evaluating the various partners, their requirement specifications, their FSDs, finalization, FSDs, all those kind of things.

We also have a dedicated training department, which is going to handle it. But yes, when it comes to actually giving part of the training, the people will have to be pulled out given two days training, three days training. So, that will be a little bit of a time-consuming activity. And compared to the other players, of course, our volume or the number of people whom we have to train is much less because our staff strength itself is only 1,300 people compared to others who are almost 4,000 and above.

Interviewer: And this part will be currently going on, correct?

Suresh Iyer: Not yet. So, basically, what we have done is, once the UAT starts at that time, the screens and everything will be designed for our requirement, whatever, whitelisting and all, and it will be completely delivered. That is when we will be creating all the modules for training, for which we already have a department, separate team and all identified and working on it.

And IBM is also committed to giving its resources, and OEM is also committed to putting some people for the training modules and all. So, once that is ready, probably by end of November is when the training will actually start. More likely, end of November, possibly before December is when the trainings will start.

Interviewer: And how long this process will last?

Suresh Iyer: By January end, in fact, our entire implementation will be over.

Interviewer: Implementation and training mode will be over?

Suresh Iyer: Over, over.

Interviewer: So, maybe a couple of months of slight disruption?

Suresh Iyer: Yes, yes. Because the entire implementation should be over by end of January, across all our branches.

Interviewer: This delay for this planned IT rollout, is there any specific reason why it got delayed? Because, obviously, you are trying to change the tire in running bus, obviously, it has its own challenges. But what exactly led to this delay? And why we are confident that in January perhaps this will happen?

Suresh Iyer: See, originally, when the original plan was presented and everything, the OEM had actually presented about 40 man-days for the entire customization activity. Which is two months? 40 man-days, so two people, four people, depending on how many people they deploy, they will have to actually put in in terms of the customization.

But based on the kind of FSDs that have all been signed off, it has been a little more than that. Instead of 40 hours, actually 40 man-days, there we calculated about 110 man-days. But of course, 110 eventually when we sat across, we have actually cut down to quite a bit. So, it is not actually required that much.

So, it is still, but it is more than the 40 man-days that they had originally planned. That is why they are having to slightly delay it by a little more. And therefore, the delivery is going to start from 7th of November. They are going to start the delivery one by one. And our UATs and everything will start. Some of the customizations which are there, they are requiring a little more time. That is the only major requirement.

But now the FSD stage is already over. Sign-offs have already happened. The entire estimation of time required from the OEM side is also factored in. And we have also put in that from 7th November up to 17th January. The entire two months kind of a thing will be there for UAT testing everything. And in the meantime, once things are getting streamlined, the training modules will also start getting developed from 7th November onwards.

Interviewer: Okay. And this requires, basically we are changing everything now. So, from origination to sourcing to CRM, everything is getting changed here?

- Suresh Iyer:** Correct.
- Interviewer:** In this transformation process. And let us say once we go live with this project, currently, if we have to benchmark ourselves versus others in the market, the top guys, how should we look at that in terms of tech capability?
- Suresh Iyer:** See, from our present package or whatever business model that we are having, I think we will be having everything. We do not have, I do not think there will be anything that the market would be having, which we may not be having. But of course, like for example, we have planned in our entire module for things like, we would also have APF module, which is currently also not there. And currently also our business model does not have many APF projects.
- We just have about 115 compared to many other players who are having much more. So that, even if it is a little delayed, we do not have a problem because it is not going to affect our business much. We do not anyway face that. So those kind of things, we do not factor in a co-lending module inside this because that is something we are not presently doing also.
- So those are some modules which competition may be having, which we may not be having. But otherwise, everything that I think the competition is talking about is something which we will be having in our system.
- Interviewer:** In terms of our outlay, both in terms of CapEx, OpEx, because now it is running very closely.
- Suresh Iyer:** No, no, that is completely finalized. The CapEx, OpEx is completely finalized. It is Rs. 300 crores. Rs. 100 crores, 100 point something is the actual CapEx and close to Rs. 200 crores is the OpEx. OpEx is going to be spread over the remaining 5 years 9 months or 5.5 years. I mean CapEx is everything which is operated but it will obviously, as part of depreciation, will come in the next remaining 5.5 years or 5 years.
- Interviewer:** And of the things that we are trying to do, is this like a one-time expense or it is like we are moving something to the subscription-based modules?
- Suresh Iyer:** No, all those things have been incorporated. So annual maintenance costs, charges, all those things, the fair amount of growth has been factored in to arrive at the cost that we will be having to pay for our bandwidth, for our server spaces, for our month and year end kind of additional because everything is on a cloud, so it is pay as per use.
- So we have also factored in the kind of extra that will come in, may be required on spurs at the end of the months or the quarter ends or year ends and stuff like that. So keeping all that, it has already been factored in. But of course, as we progress, the new modules will come, those will be extra. Like if something new comes up which we want to additionally build in, that will be extra.

But that of course, we do not know when, what will come. Some new regulation changes, that will be a CR, some new module comes and we want to add it, that will be.

Interviewer: And when we are saying guiding for this Rs. 10,500 odd crores of disbursement, are we factoring some bit of disruption which can emerge?

Suresh Iyer: Yes. So originally, we had said Rs. 2,500 we will do in Q2, I mean Q3 and Rs. 3,500 because our implementation was scheduled for December. But now that since it is moving a little behind by one, so we are changing it to Rs. 2,800 crores in Q3 and Rs. 3,200 crores in Q4, because we know that when the rate is slightly, so Rs. 3,500 we are reducing it by about Rs. 300 crores.

Interviewer: Okay. So total Rs. 6,000 crores we are planning.

Suresh Iyer: Planning in H2.

Interviewer: And as of now sitting in November, how confident that everything will be over by January?

Suresh Iyer: See, as of now, from what all the work that IBM, the pen and team, because other modules are all going as per schedule, there is no issue. So DMS is almost ready, work line in fact, we should be going live this month, deposit package also.

Some of the modules we have already completed also. Like treasury, our ALM and borrowings module is already implemented. Our IT for our infrastructure for our SD-WAN that we have done, that is already implemented. Microsoft, whatever we have to move for a mailing solution, active directory and all that is already implemented.

So the main thing is, deposits and our work line will go live now in this month. DMS is also ready by this end of this month. But obviously, when the LOS LMS goes, that is when we will do it. The migration of the data into the thing has also been initiated for the DMS from our existing package. That has also been planned wherein in two parts it will be over by December before the thing goes. Everything into the DMS will also migrate.

Interviewer: In this scenario now, how should we think about the spreads going forward? Since there are some bit of pressures on the yield right now because of these repayments, etc., these transfers. But thankfully, we are in a scenario where some rate cuts have already happened and maybe one is due. So how should we think about it?

Suresh Iyer: See, current, as on 30th September, our spread is 2.79%. But if you look at the incremented spread of Q2, it is 2.91%. So there is already a little bit of a buffer. And so even if, like what we are contemplating to pass on to our customer this month or next month, then also I think we will be able to maintain the 2.75% that we are talking about.

Interviewer: Okay. So 2.75% is --?

Suresh Iyer: The spread. For the full year.

Interviewer: Okay, full year.

Suresh Iyer: For the full year, we will be able to, because we are already at 2.79%. Our incremental is better. Even if we continue for Q3, we might get a higher spread. But we pass on something, then also we will still be able to maintain 2.75%.

Interviewer: Okay. But you are thinking of passing it on?

Suresh Iyer: Another 10 bps, I think. Actually, we said as and when we experience it, we will pass it on. So it was anyway due in that sense. So only thing is we postponed it in September because at that time there was a little spike in bond yields. So we said let us hold back and see how it behaves. So I think now we need to give that 10 basis points.

Interviewer: And generally, when you pass it on, you pass it on to the entire portfolio?

Suresh Iyer: Entire portfolio. Entire housing portfolio.

Interviewer: Entire housing. And is there an opportunity to, let us say, improve the composition in a favorable way so that?

Suresh Iyer: Little bit is happening already. Like if you see our salary to self-employed has changed. The mix has changed a little bit from 73-27 to now it is 70-30. Incrementally our self-employed category is 40% incremental business. So going forward also this 70-30 may probably move down further to 69-68 salary. That is one thing.

Even LAP from 5% has slightly gone up. So our non-housing category, which was 89-11 has now moved to 86-14. So that also there is a 3% increase in non-housing where also yield is a little better.

Interviewer: But your yield would be better than self-employed, right?

Suresh Iyer: Both. In self-employed it is better than salaried because we are getting 0.5 percentage point higher. We are charging for self-employed.

Interviewer: So if salary to self-employed has increased, so if salary proportion is increased, then that will compress your --

Suresh Iyer: No, no. Salary has come down.

Interviewer: Come down.

Suresh Iyer: 73 was salaried, 27 was self-employed. It has become 70-30. Now, it is further likely to go down because incremental self-employed is 40%. So both counts, the self-employed as well as the LAP will like go on moving.

Interviewer: Since this rate cuts, what is the total pricing action that we have taken?

Suresh Iyer: Passed on 25 bps so far.

Interviewer: And we are saying 10 bps more we are thinking.

Suresh Iyer: Yes.

Interviewer: So 35 basis point versus let us say 100 basis point reduction in that one?

Suresh Iyer: Correct. But 100 basis points is already on the map. So effectively if you see on 31st March, our cost of borrowing was 7.55%, which today is 7.17%. So that is the 33, we have actually got 38 basis points already. Therefore, we can pass on 35 bps to our customers. That is where the 25 plus 10 that we are planning.

Interviewer: Okay. So with this, the pricing action should be completed?

Suresh Iyer: I think yes, unless there is another further rate cut, further repo rate cut. Then maybe we will have to consider.

Interviewer: Okay. And post this let us say this 100 bps cut of repo rate cut in terms of BT out request, how is our experience and how we are handling, how much we are retaining?

Suresh Iyer: So right now, our zonal offices are basically, it goes up to the zonal office depending on the ticket size. If it is a small, we have delegated to the branch also. It is slightly higher than it goes to the zonal offices. But now, we are also going to have a third level where we also try to do some intervention or some support from the head office also. We will see if we can improve that.

Right now, it is not, we do not have much. Frankly speaking, we do not have much of conversion that is happening. Because by and large, when the customer comes, it already, we have to have that freed up to the customer. So that retention has not been a very high number. We want to see if we can push that a little.

This month, of course, it has slightly come down. But of course, it is not a real indicator because this month also there were many holidays. Not many people would have come forward for prepayments. They would have rather spent the money.

Interviewer: So that 6% generally, now everyone talks about the same number, 6% kind of number for BTO. But has there been any change in that 6% in the recent months?

Suresh Iyer: So far, as I explained, our Q1 total closures was about Rs. 270 crores, Rs. 268 crores or something. That number has gone up to Rs. 380 crores plus. So definitely in Q2, there has been a Rs. 120 crore increase in the closures which I am assuming would be probably BTO only because hardly anybody closes the door. They normally would move to somebody else as the rate is lower.

Interviewer: But we still understand that the current repayment rates to –

Suresh Iyer: No, so one more rate cut and another thing is we have not had a very large chunk of customers moving from annual to quarterly. So we believe that is also one of the reasons where people are. Because when we look at the breakup of the prepayments have come from annual reset to quarterly reset.

Obviously, the annual reset customers have been considerably more in terms of the prepayment. So we will definitely, go back to them and offer them the conversion to quarterly. So that they do not think of moving out.

Interviewer: So what will be their proportion?

Suresh Iyer: Right now about 58% is annual.

Interviewer: Okay. 58% is annual reset, rest everything is quarterly reset. 42% is the quarterly reset. And do customers have to pay something also like a fee?

Suresh Iyer: Just a documentation, whatever is the stamp duty, stamp paper. That is it. Nothing else. Just about Rs. 500 or Rs. 600 or something. There is no additional percentage that they have to pay for it.

Interviewer: Sir, you touched upon BT out problem of in Telangana and Karnataka.

Suresh Iyer: But disbursement wise, I was going to talk about disbursements. No, we have not. So Karnataka, we are now almost doing 225. We initially started with 200, little more than 200. It was inching up. September, we were able to touch 270 also. So I guess, on an average, comfortably I think 250 average we can easily consider per month. So this quarter Rs. 750 crore disbursement in Karnataka can easily be considered because we have been increasing up month after month.

In terms of Telangana, again, last two months we have been keeping it about Rs. 100 crores we have done. So that also slight improvement is there in both the states. The way it is going with Rs. 750 crore disbursement in Karnataka, Q3 we will be turning positive because last year was when the e-Khata issue hit. So we had a much lower disbursement in Q3 in Karnataka. It was just about 150 run rate. So approximately Rs. 450 crores.

If we do Rs. 750 crores this quarter in Karnataka, the negative 10% will also be easily turned around. So we should be turning positive this quarter. Telangana will take a little longer. Probably by end of Q4 we will turn positive.

Interviewer: But have you faced any correction issues also in Karnataka?

Suresh Iyer: In fact, our NPA in Karnataka as of 30th September is lower than our March number.

Interviewer: And if we have to understand that e-Khata, how much should be the backlog required?

Suresh Iyer: See, today there is a huge backlog with a lot of people. But not all the people who have applied for e-Khata are going to take a loan. Because existing customers who want to perfect their documentation also will go and do it. So how much of it is actually the pent-up business demand? That is something we cannot say. And I do not think for the last 2 - 3 months there have been any new data which has come out from the government as to how much is the pipeline which is there.

Whatever we saw last was about 3 - 4 months back. After that the government also has not published any data. So we do not know that. But now at least in the corporation area it has become quite okay. Within 7 days you can get e-Khata, not a problem. Papers are there. Only panchayat is still not happening.

Interviewer: In addition to Karnataka, in Karnataka there are no issues in recovery. In addition to Karnataka, pan-India, are you seeing any changes in the recovery patterns or collection efficiencies? Maybe in specific segments?

Suresh Iyer: Overall if you look at it, our delinquency has come down. From December onwards, three quarters running, our absolute value of delinquency has been coming down. First quarter, that is the March ending quarter, we saw the reduction majorly in the SMA-0 bucket. Because that also had gone up mainly because of a regulatory change.

Now that that number came down considerably, we were also able to slightly focus more on the SMA-1 and SMA-2. So now those numbers are also slowly seeing some reduction or change. And our stage 2 bucket has also come down now in the next 2 quarters, that is Q1 and Q2 of this year.

Going forward also, this quarter also we expect that the way the recovery is happening, it should further come down. So our total delinquency which was Rs. 3,849 crores as on 30th of September, will probably be coming below Rs. 3,750 crores. That is our target for Q3 ending.

Interviewer: And there are no warning signals anywhere in any particular, let us say in terms of check bounce rate also, I mean there are no issues. Because I thought in the let us say self-employed category, if there are those Rs. 3 lakh to Rs. 5 lakh kind of loans.

Suresh Iyer: We do not have that. We do not do that. The only thing is, if you see the self-employed, last quarter that is 30th June, our NPA was Rs. 378 crores. This quarter it has come down to Rs. 372 crores. At 6th quarter also if you see, in fact mostly, I would say 95% of the reduction has happened in the self-employed category. Our self-employed NPA has come down in this quarter. That is one thing.

And otherwise, this Telangana only, in the last couple of quarters also we have mentioned that there is a little increase. Because, some places the property prices also came down because of HYDRA. So that is the only slight increase is there. Otherwise, other geographies, we do not have a problem. Our West, North, West of course, now in the last couple of months, it is absolutely a different group. East, our Tamil Nadu, North and Karnataka. Absolutely.

Interviewer: Historically, our group has been concentrated in Karnataka. It typically has given a very good outcome on the asset quality side. Now, last few years, we have been trying to diversify by moving to newer states. We are also reducing salary segment. We are also reducing, let us say, home loan to your own category. So, do not you think that the historical run rates for, let us say, the slippages of credit costs might turn a little unfavorable going forward because of all these things that we are trying to do?

Suresh Iyer: See, today our gross NPA is 0.94. If you look at the credit cost guidance that we have been giving for the last two years, last year, we said 15 basis points. Last year, other than the fact that we did some extra management overlay, if you remove that, our actual credit cost was 13 basis points only.

This year also, if you see Q1 and Q2 put together, it is very, very low. We have just done Rs. 26 crores and Rs. 29 crores. As against the total of Rs. 75 crores we did last year. So, this year also, the credit costs are well below the 15 basis points. So, while we have been guiding for 15 basis points, our actual has been below 15 basis points. So, I think our guidance of 15 basis points is fair. I do not think that will change even in the next year.

Interviewer: And you said that this Rs. 3,850 crores, the SMA-0 book, you are expecting Rs. 100 crores further reduction by Q3?

Suresh Iyer: Yes.

Interviewer: And this is purely based on correction?

Suresh Iyer: Correct. In fact, in Q2, our slippage ratio, which is 0.22% in Q1 reduced to 0.12%. So, even the slippage has reduced plus the fact that the collections have also improved. So, that is obviously the reason why further almost from Rs. 3,980 crores, it came down to Rs. 3,849 crores.

So, almost Rs. 130 odd crores we have had a reduction in our absolute value of delinquency. Mainly because one is the collection, the slippages have reduced. Therefore, whatever collections have happened, there has straight been a reduction in our delinquency.

Interviewer: In terms of EFP, it is the same thing. In terms of geography, the stage that we operate, which state would you like to highlight in terms of delinquency behavior?

Suresh Iyer: Even where the delinquency, if you are saying, as I said, the little bit of slippage is also where it has happened. In Q1, it was in both a little bit in West and a little bit in Telangana. In Q2, it is only a little bit in Telangana. Other states, we have not seen. As I said, our North and zone as well as Karnataka, our NPA in September was probably lower than by a few things compared to March also.

Our East zone and this Tamil Nadu may be a little Rs. 1 crore - Rs. 1.5 crore higher. But that also is nothing major. Percentage wise, that may also not be the case. It is only a little bit in Telangana.

Interviewer: Broadly, we are seeing that till January, there might be some disruption on the disbursement side. But from there, we should see strong pick up on the disbursement side. No, I said 14 years is enough now.

Suresh Iyer: On the APF side, we always think whether there is a lack of risk appetite at the higher level, which is putting a constraint on what is happening. Because this we are hearing for last almost 1.5 years. But in terms of the progress, it has been a little slow on that.

Suresh Iyer: APF started in June 2014. So, it has been more than 15 months. We have done about 115 projects. And obviously, in terms of the builder tie-ups, it is a little slower. Because builders do not just move and are not just ready to give. Because most of the builders are already having two - three - four tie-ups with lenders like SBI, HDFC, ICICI, Axis, sometimes a couple of others.

So, the point is, they do not just readily give their entire legal file or something for an APF immediately. So, there is a little bit of pressure required. And till now, we had only about 37 people in our sales team who were pushing for this. Only from 1st of July, we have increased it to 90 now.

Interviewer: In terms of disbursement, what do you propose?

Suresh Iyer: It is very small. Right now, it is small. Right now, our focus is still on getting an APF approval. Trying to get maybe 1 or 2, 5. Only once they experience our service, they work with us and see that there is some value addition also happening. Then they will start giving more business. It is more of a long-term kind of a thing.

Today, a builder who is tying up with us, maybe has a 24 or 40-unit project. Maybe they may give one file to us. Next project, when they put, maybe that percentage will increase. They will move to a 60-unit project. We may get about four project units. So, that way, over a period, we will build the relationship there with builders more than anything else.

Interviewer: But in terms of our own purposes, if we want to see 1 year ahead down the line, do you think the share is still small down from APF?

Suresh Iyer: Number of associations, definitely our target is to about 250 by the end of the year in terms of APF projects that we approve. Business will be less. We will see how much of the business. Right now, we are all putting it as a separate, as a regular business only. So, we will have to see how much actually is coming from that. I believe last time, we only had about Rs. 10 crores of business coming from the APF projects that we have approved in the last quarter. So, that will slowly inch up. By the end of the year, we should be able to do about Rs. 25 crores plus from the APF projects.

Interviewer: And as of now, there is no plan to enter into developer space?

Suresh Iyer: Funding, no. Not developer funding, not yet.

Interviewer: Sir, in terms of our expansion now for the next couple of years, what are the plans?

Suresh Iyer: We will regularly keep 15-20 branches every year because our plan is to have about 300 branches by FY '28. We are currently at 248.

Interviewer: Okay, 300 by FY '28.

Suresh Iyer: Yes.

Interviewer: Okay.

Suresh Iyer: March '28, we should be having 300 branches.

Interviewer: And these branches are being opened in which geography?

Suresh Iyer: Mostly North and West, but we have opened in AP also and we have opened in Tamil Nadu also. Tamil Nadu, one or two only we opened last year. This year, we have not opened. This year, about three or four we will be opening.

Interviewer: Three we will be opening.

Suresh Iyer: More in North and West so that our balance.

- Interviewer:** Okay. And this IT transformation project which you mentioned, so what will be the cost of this particular project which will hit in quarter four?
- Suresh Iyer:** No, it will start hitting by FY '27, Q1 FY '27. Because we signed up with IVM in February '25. There is a 12-month implementation and 3-month hand-holding period. So, whatever happens till March '26, everything is going to be only capitalized.
- Interviewer:** It will be capitalized.
- Suresh Iyer:** And then, because it is an implementation project. And then from 1st of April, we will have the depreciation hitting and the AMCs which will come in.
- Interviewer:** So, what is the total cost?
- Suresh Iyer:** Total cost would be approximately about Rs. 60 crores per year. And net will be about Rs. 40 because we are already doing about Rs. 20 crores. We are currently also doing but this current vendor will be sunset in March '26. Once we are through with the implementation. So, that Rs. 20 crores will be saved and net will be, so net increase will be about 40 crores additional per year.
- Interviewer:** Okay, which will hit the P&L account for going forward.
- Suresh Iyer:** Going forward, yes.
- Interviewer:** But the capitalized amount which you have already done in FY '26, that is obviously a higher amount.
- Suresh Iyer:** No, that is higher. I mean, as I said, the capex is about Rs. 100 crores. But the depreciation part of, so the entire thing will be about Rs. 60 crores. Part of it will come by way of depreciation, part of it by way of AMCs and monthly payouts and all.
- Interviewer:** Okay. But you will be able to make it up with, let us say, increased efficiencies and increased productivity from that aspect.
- Suresh Iyer:** Yes, there will be efficiencies coming in. We may in fact even be able to pull out some people and move them to sales.
- Interviewer:** Okay. So, let us say if I look at the expected ROA of FY '27 versus FY '26, will we see a dip curve?
- Suresh Iyer:** There would be some impact because 1% of our cost income should go up. Rs. 40 crores means our total, this thing is income is about close to Rs. 4,000 crores. So, therefore, 1% in terms of cost income will go up. Credit cost, the way they are holding up and the way there is, it will be

definitely some saving there. Our NIMS have improved. So, some of it we will be able to offset because of that.

Interviewer: Okay. And those increased efficiencies and let us say productivity, that will take some time to come.

Suresh Iyer: That will slowly come. Initial dealing problems will be there maybe so that in six months we can say we will be just offset by that. But afterwards, I think we should definitely start seeing some in next year Q3.

Interviewer: And in terms of sourcing, let us say the top 10 - 20 DSS, how much they will be contributing?

Suresh Iyer: I think we have that slide about 9% or something is done by the top 20 DSS.

Interviewer: And let us say historically this number has probably been the same?

Suresh Iyer: It has actually come down. It was around 10% - 11%. It has slightly come down to I think 9%. 9%. 8%. It was FY '23 was 11%, the top 20 DSS, share of property DSS, that has come down to 8%.

Interviewer: Because one of the things that we keep hearing from our interaction that we want to reduce this dependence on the DSS in our sourcing.

Suresh Iyer: Not reduce in that sense that we want to cut off our DSS. But the thing is our direct sourcing has to increase that way the percentage comes down.

Interviewer: Correct.

Suresh Iyer: That is how. So, but still I think our overall number is...

Interviewer: 70, now slightly 79 incrementally. So, there are coming down stories.

Suresh Iyer: Coming down slower than what we would have wanted. By now we would have obviously preferred to bring it below 75. Because we were 87 when we started off in March '23. From there we have been just been able to reduce by about 8%. Whereas we would have preferred to bring it down much further.

Interviewer: And in terms of our experience of attrition, where were the frontline sales people are?

Suresh Iyer: Our attrition even now is about 14%.

Interviewer: And that experience is same at the frontline sales case also?

Suresh Iyer: So, our maximum attrition happens in the first year of the person joining. One because, mainly because people are not used to this branch approach. Most of the people are only doing CAs, only doing office, back office operations, only doing credit. So, once they come in as branch manager here, then also they have to do sourcing, they have to do collections, follow up. So, then some of them do find it difficult. So, that maximum attrition happens then only. It is not a major issue.

Interviewer: I think the key is that it is your IT transformation because we have a really bad experience.

Suresh Iyer: No, I can understand. That is of course there, but we have really taken all that planning we have tried to put in. Of course, we have a proper governance structure. That is why we have been able to look at it very closely. We have a daily meeting, weekly review meeting. We have an external expert who is coming as a consultant over and above that. IBM and the PwC which is, PwC is running our PMO.

We have also taken the help of some; we had about 8 odd people required only for the implementation period. So, there was no need to recruit them on the basis. So, we have outsourced it, and we have got some good staff from KPMG who are helping us in that also. So, we have got some good, so all those things we have factored in, planned and a good governance structure we are having. So, as of now we feel we are well under control. Since it does not seem any major.

And 7th of November is when the first delivery will come in for the LOS LMS for our UAT testing. In terms of our DMS, in terms of our deposits, in terms of our work line, in terms of our this one DMS work line and deposits and our in for accounts package. I think we are very much under control. The HRML is almost completed. UAT is also complete. It is ready for implementation. Deposits also it is initiated. So far no issues, no issues, touchwood. I think only 7th November, once it starts, I think UAT, if everything is fine, it should not be a problem.

Interviewer: Data transfer everything has been taken?

Suresh Iyer: Data migration, yes. Data migration also, in fact, as I said, part of it we have done it because we did for the treasury ALM and borrowings module. And the GL also part of it is done because it went along with the borrowings and ALM and treasury module. The rest of the things, the DMS also we have started the migration part of it.

Now the rest of it, so far in terms of customer, what we have done, what IBM has done in terms of their Excel-based migration, they are saying there is no problem. It is fairly okay. All the templates, everything that was required has already been provided.

Whatever templates have been sought by (48:21.6), they have all been provided. So, therefore, in terms of the data, we have sufficiently provided them. Now, they will be doing two, three,

four rounds of data migration on the production or the UAT and SIT and all those things. They will be servers; they will be doing it.

Interviewer: And what are the changes we require to, let us say, do on the process side that has already been thought through?

Suresh Iyer: Yes, yes. So, as I said, there are about 40 odd customizations which are more as common customizations, but will have to be done because we have a third-party tie-up for PAN verification, Aadhaar verification, all through external parties. So, those kind of customizations, API exchanges will have to be done. But that is common business. Everybody is doing it. It is only that our vendor is different. They will have to do it differently.

The only things are where there is some difference between what we do and what the market has done and what PAN will have to really customize for us. There are about 9 modules, 9 small activities like combined LTV, things like that, where our logic is completely different. We are doing those things which others probably are not. So, those are the only things otherwise that has been worked out. All has been mapped. What are the standard deliveries? What are the customizations? Just 100 in practice and has to be ordered and the eight, nine modules, nine small things that we have to customize exclusively for us.

Interviewer: And on the regulatory side sir, is there let us say current pending issues? Any just currently anything you have to rectify?

Suresh Iyer: No. So, in terms of the FY '24, March '24, NHP inspection report that has been closed. Even our IRF meeting, whatever, there is nothing pending from the IRF for this thing. In terms of our March '25 inspection carried out by NHP, which got over on 18th September, there also the preliminary discussion, nothing major is there. It is only operational or procedural issues which are on ongoing basis have to be affected.

Interviewer: Because I think one of the things that is being talked about particularly for NBFC is the segment that regulator wants some transparency in how the pricing is being done and any pass through which has to be happen or any associated charges, there has to be a proper rationale for those kind of charges. We have seen taking some pricing action has already happened in few other companies.

Suresh Iyer: So, that we have already passed on to the customers and we already have a proper interest rate policy where we, in fact, we are following the same system that banks follow in terms of, the cost structure plus the business strategy premium, BSP and the CRP credit risk premium. So, the same strategy or same policy we are also have adopted and are following. So, it is very transparent in our ALCO, we are looking at it.

That is why I also said our cost came down from 7.55% to 7.17%, that is 38 basis points, and we are passing on 25, we have already done, 10 more we are doing it. So, that way we, whatever we have experienced, we are passing on and that is clearly the policy, right.

Interviewer:

All right, sir. Okay. Thank you. Thank you so much for your time.