



“Can Fin Homes Limited Conference Call”

February 27, 2025



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

Suresh Iyer: Yes, so you come here for quite some time or I mean you're based in India only.

Questioner: No, I'm based in the Netherlands. Yes, I live in Netherlands and I've been here for four days only. It's a fast trip. Just one day in Bangalore. And you?

Suresh Iyer: I'm born and brought up in Gujarat, Ahmedabad. And I was with a company called Blue Finance. I moved here just two years back, for this assignment when I joined Can Fin. So it's just been two years that I've been here in Bangalore.

Questioner: Do you like it?

Suresh Iyer: Well, the weather and all is good. Traffic is a bit of a problem. Otherwise, I think, it's quite okay.

Questioner: Arriving here, it looks nice. The weather is very pleasant.

Suresh Iyer: That is true. It's only when you get out of the city and you cross that highway and everything and get into the city. That's when you see the problem. That's when the traffic starts. So tell me, how do you want to go about it?

Questioner: Well, if it's okay with you, I'd just love to ask you some questions.

Suresh Iyer: Sure, sure.

Questioner: But I'd also love to share more about ASHA International, if it's interesting for you. Yes, just discuss.

Suresh Iyer: Certainly, certainly.

Questioner: But yes, I maybe I can just, I already gave a slight introduction. So ASHA International is an international microfinance business listed among Stock Exchange. And as I mentioned, it was set up in partnership with ASHA Bangladesh. We're now in 13 countries, West and East Africa and in Asia, in various countries. And so we have -- it all started out as microfinance and in a few of the countries, we're developing our business into more banking business and want to offer more products.

A lot of our clients are asking about housing loans. We provide very small loans up to an average of \$150. So it's -- so your loan size is definitely a lot bigger. I did see your smallest loans are about USD20,000.

Suresh Iyer: No, no, that's the average ticket size, which is about INR20 lakhs here. But our average ticket size is about INR20 lakhs, closer to INR25 lakhs incrementally. But we do have small ticket loans, like we were one of the very, very large beneficiaries of this Pradhan Mantri Awas Yojana, when it was there, the CLSS, the Credit Linked Subsidy Scheme. Almost INR900 crores plus of subsidy claims that we could pass on to our customers.

So that way we have been also doing a lot of business in the less than INR20 lakhs. So our we have small ticket business also. But yes, average ticket size is there because today if you are -- you see the business in Bangalore, Hyderabad, Delhi, Bombay and all, the average ticket size

itself is quite high. You don't get even a small house, one or two bedroom hall kitchen house would be INR40 lakh, INR50 lakh plus.

Questioner: Yes. And so Sequoia, as I mentioned, is the promoter of ASHA International. And I'm joining now as Head of Business Development, focused on developing new products. And yes, very interested in affordable housing. My sister is actually an architect and is very much looking into affordable housing design. And recently in the Philippines, where a lot of people, a lot of our clients ask for housing loans, especially after a natural disaster comes.

Suresh Iyer: Oh, yes. Correct. In fact, here also there has been a lot of such things, particularly recently there were some, in fact, as part of our CSR, we have done something. Yes. Of course, it's a very small export, but this thing but we as part of our CSR, we have constructed very small, 340 square feet houses for those people who got displaced after the tsunami and everything in Chennai side.

There are a lot of these fishermen community who are still living in makeshift houses and all. So as part of our CSR, we've done that. It's not a very big thing. You know, each house costs about INR2.3 lakhs or something.

Questioner: Yes, exactly. Well, it's INR2.3 lakhs. I'm still working on the conversion. That's \$3,000.

Suresh Iyer: \$3,000. That's correct.

Questioner: Yes. And so Can Fin Homes is a very longstanding institution, I understand.

Suresh Iyer: Correct. In fact, we are -- incidentally, we are the oldest housing finance company, registered housing finance company because we were set up in '87. And there were, of course, a couple of other institutions which were set up and registered as housing finance. And like HDFC was set up in '77, but now it's converted to a bank. Same way, the next was Dewan Housing, which was set up in '85. That also eventually got converted and today it's not -- the same entity is not there.

Then there is this GRUH Finance was set up in '86. That is also converted and merged with Bandhan Bank. So Can Fin today is the oldest housing finance company. So, we have the longest, even LIC Housing, PNB Housing was set up a couple of years after us. They were set up in '89. We are technically the oldest housing finance company, the maximum, so that's it, 37 years of vintage.

Questioner: And how do you see that? Because it seems to me like a lot of the banks are offering all the kind of products that are available. And I guess there is some benefit in specialisation, but there's also upside to diversification. And especially if you have a banking license, they are getting many deposits and can use that to finance their products or to help fund their lending. And I noticed that you have a small amount of deposits, but are also able to.

Suresh Iyer: Correct. We are a deposit taking HFC, we are one of the very few deposit taking, 6 or 7 only are there, who are allowed to take deposits, bank, NBFCs and banks and HFCs. So we are one of the few select ones who is deposit accepting and we are rated also. So all the guidelines we are following. But today our cost of borrowing for other sources is much less.

So compared to that, deposits is a costlier resource. So that's why, we are not offering some of the best rates. We probably are offering, of course, we have a product where we are offering up to 8%, but today even small finance banks are offering 8.5 and 8.75%. That's one of the things. But yes, we do accept deposits.

And see, actually, banks, if you see the traditional banks, one, there is a -- in terms of regulations, there are a lot of restrictions for banks, they are much more regulated in terms of -- although now the regulatory landscape is kind of almost merging between the HFCs and banks. But otherwise, earlier banks had a lot of limitations in terms of what they can fund and the housing also. Whereas, it was a little more flexible for housing finance companies.

Second thing is, banks, although they have the cheaper source of funds, traditionally, they have been more of banks to set up as working capital funding. And retail started only after, you know, SBI got into it in a big way. So, while they have a very big retail base also, and a lot of opportunity because of cross-sell opportunities but still most of the banks are focusing only on the bigger cities. So tier 2, Tier3 towns, as well as last mile connectivity when it comes to that, it becomes a bit of a problem.

So, that is the main reason why banks, you would not see much in their Tier 2, Tier3 towns. You would not see, like even today in Bangalore, for example, when it comes to the periphery areas, the new developing areas which are -- so we have this concept that the cities, bigger cities are having a corporation. So, they are, there is a much bigger organization, it is called a corporation, then comes the development authority, and then the panchayat.

So, that panchayat is a small village kind of a thing. So, those places normally banks are not funding as much. And these are the places where the cost of a house is cheaper. So, younger generation, people who are in the lower income strata, they prefer to buy in those places because the cost of the house is cheaper.

And these are the places where banks are not funding. So, our -- so housing finance companies have an edge in, one, they have the periphery areas, developing areas where they fund, and two, they have Tier2, Tier3 towns where they are able to do well. Most of the housing finance companies.

And of course, for some of us, some of the bigger housing finance companies like Bajaj or LIC or us or PNB, HFL, they, we also have a slightly better cost of funds. So, to some extent, we are also able to compete with, not exactly with, I would say, compete, but yes, we are also able to get some market share, small market share in the bigger towns.

Questioner: Yes, I saw you have, your cost of lending with you is very low, one of the lowest.

Suresh Iyer: True, true.

Questioner: And your cost of borrowing is also one of the lowest of all the housing finance companies. So, you keep it in -- you keep a very tight spread and net interest margin. And you do that purposely to price below most of the other companies or?

Suresh Iyer: No, see, one other thing is because of the parentage, we have an advantage in terms of the borrowing cost. We are able to garner at a very low cost of borrowing. And obviously, the purpose of our -- the whole purpose of setting up this company is not to make that kind of very high lending rates and take those higher risks, but operate in a slightly -- if you see that, you know, our product design, our processes, our internal controls, whatever we have set up, whatever kind of segment that we target, it is conservative, just like what our parent bank is having.

So, therefore, our conservative lending means that we also have to be competitive when it comes to the rate and we have to offer a slight price advantage, only then we will be able to pick and choose a customer that we want to. So, if we had to charge, we can definitely, take a little more risk and charge a little higher. But, the general philosophy of the bank is to be a little conservative.

Canara Bank promoter is also in that sense, a little conservative when it comes to lending. So, the same philosophy and DNA is there in the organization.

Questioner: Very steady, stable.

Suresh Iyer: So, compared to a lot of, most of the other institutions, in fact, our gross NPA has always been below 1%. GNPA has always been below 1%. For the last 10 years, at least you can see it's all there. It's never crossed 1%. So, it's been a very steady and stable quality of lending that we have.

Questioner: And when you think about affordable housing, how do you approach that segment? Because that's obviously much more risky than...

Suresh Iyer: See there are -- affordable housing, there are two aspects. One is, affordable housing in the periphery or in Tier 2 towns or Tier 3 towns, where the cost itself of the house is less. So, there you are able to still construct, unlike, the bigger cities where you have people are going for farm houses, second houses, large palatial houses and stuff like that. You know, smaller places, the general levels, you know, family income levels and all are also a little less. And mostly it is houses are smaller in size, cost of construction is lower.

So, roughly, you will be able to get a house in the, INR25 lakhs to INR50 lakhs, INR60 lakhs kind of a segment, you will be able to get a house, either in the periphery of the big cities. Alternatively, the same goes for the Tier 2 towns. So, this is one segment. So, here because the cost itself is lower, you are able to do affordable housing or the lower ticket, small ticket loans.

The second thing is you can do small ticket loans or the affordable housing to segments which are either as part of, I would not say financial inclusion, because today everybody is almost, you can say, having a bank account, having financial transactions which are in the overall system. But these are people where the income may not be breaching the taxable limit or people may not be reporting the entire income, the cash may not be.

So, that is cash income and all those things. That is the second category wherein also the -- because they do not have a eligibility for higher value loans, therefore they have to stick to smaller houses and smaller affordable houses. That is the second segment.

Now, between the two of them, if you see a lot of housing finance companies are going for the second option, but there the risk is much higher and you have to accordingly price it at, you know, 13%, 14% and so on, where you have a spread of 5% and you have -- are able to absorb the credit costs.

This first option that I mentioned, that is the periphery or in Tier 2 towns, there we have chosen to go for that option where the ticket sizes are less and therefore we are in the, still in the affordable segment, but at the same time we pick and choose the quality of customer.

So, here also, like, we do not have any product which is catering to the appraised income segment or surrogate income category or for category where the IT returns are not there, documented proof of income is not there. So, we do not have any product for that.

What we do is, we do affordable housing, but to segments which are, where, who are going for a -- choosing to go for a smaller ticket houses, ticket size houses, but are, but where the credit quality is good.

Questioner: And so, the rates for these products are this, are similar to your average.

Suresh Iyer: Exactly. So, it is like, for example, if the same customer had gone for a INR40 lakh house, or a INR50 lakh house, they would be -- have been eligible for the same rate from another bank. But because they are going for the periphery, the banks are not there, we are basically stepping in and doing the kind of good quality loans in those periphery areas or Tier two towns, what other banks otherwise would have done. And we are able to do that because of a cost of borrowing advantage.

Questioner: Do you always lend directly to your clients or do you go through developers as well?

Suresh Iyer: We do not lend to developers. I mean, we do not directly do a lending, do funding for construction, the developer finance. It is purely to retail. So, today 100% of our book is retail. We directly lend to customers.

Questioner: And you do not have any, do you have any opinion on who they should build with?

Suresh Iyer: Sorry, who?

Questioner: Do you have any, like, do you mind who they choose to?

Suresh Iyer: okay. See, we do not have this thing because, 60% to 65% of our lending actually is happening for customers who do their own construction. So, they choose their own architect, they choose their own civil engineer, maybe a local firm or a local civil engineer in the local city to do the construction.

So, we are okay with it. We are agnostic to who is the developer or who is the one who is doing the construction. What we do monitor is whether the cost, we take an estimate. And depending on the customers, preferences, the estimate could vary, in the interiors, they could choose the highest quality or average quality of materials also.

So, as long as -- they are generally forming, because you need to get an approved plan. So, if there is an approved plan and the construction is an RCC and with the RCC construction, then by and large, even local people, they would do a decent job. There is nothing much to that. So, we are able to finance those.

We are agnostic to the developer. But yes, we do have, you know, bigger cities, you know, CAT B, CAT C developers, we do project approvals. So, what we do is, we select the developers, we contact them and we approve the projects for legal and technical. So, the legal, we approve it upfront. Technical, we do the assessment and approve it upfront. And then, you know, whenever the customer comes, we just have to look at the credit and immediately we are able to reduce the TAT, turnaround time.

So, that we do it. But again, we go for RERA approved, we have this registration requirement. So, we go for RERA approved builders for that.

Questioner: Yes. And so, these are developers that are developing large?

Suresh Iyer: Yes, medium to large, medium to large.

Questioner: Yes. And so, you select, you assess the developments ahead of time, assuming that there will be some customers who are coming.

Suresh Iyer: Correct. That is right. That is correct. So, we -- the legal papers, ownership documents, the title clearance, everything we get done upfront. Then, before and while they put up the plans to RERA and the plans are approved, we go through the plans and approve the technical side of it also.

And we give the project approval letter saying that, the project is approved by us. But we do not fund for that. When a customer chooses a particular unit, then we fund that customer. But we do not have to again go and do the legal and technical. So, the process is much faster.

Questioner: And so, do you like advertise then?

Suresh Iyer: So, yes, at the project site, normally it is there, the project approved by Can Fin Homes. Yes. And many times, the builders also to sell whenever they are doing a project launch, they advertise, so they will put project approved by XYZ, Can Fin Homes and so on.

Questioner: Yes. And how many companies, housing finance companies do that?

Suresh Iyer: Yes, almost, almost, most of them do that.

Questioner: And so, then you will be with a number of orders?

- Suresh Iyer:** Yes. So, normally what happens is every builder prefers to have at least three or four such tie-ups. You know, because every customer may not be eligible for a loan from only one entity. So, there would be some deviations, some differences, some preferences. So, they normally go for one bank, one housing finance company, one mid-size, this thing, maybe two banks and so on.
- So, the customer, whoever walks in, they are able to offer something. If they are not meeting the criteria of a particular bank, then at least they can offer it to a housing finance company or something.
- Questioner:** Yes, interesting. And do you ever have issues with, sort of thing, issue with cost overruns when people develop their own properties?
- Suresh Iyer:** It happens, see, by and large what happens is, in a self-construction, once the margin money has been contributed by the customer, the rest comes from a loan. So, at least the funding is not a limitation, but sometimes it happens, customers are --have chosen a contractor, the contractor does not do a good job, he take, he delays. Then sometimes, this project overruns happen, in big projects also. But what we do is, we do only funding based on the stage of construction. So, it has never happened that, it never happens that we have funded more than the actual cost that is prevalent.
- Questioner:** Then, how do you mean by that, more than the actual cost that is prevalent?
- Suresh Iyer:** Like, for example, today the loan, we have assessed the property that the total cost is suppose, say, INR25 lakhs.
- Questioner:** Yeah.
- Suresh Iyer:** And we have approved a loan of INR20 lakhs. So, the customer would bring in his INR5 lakh, then we would start doing the funding. Now, as and when we do the funding, if the project reaches a particular stage, say, for example, it has reached the lintel level, then we know we can fund up to INR7 lakhs. So, INR5 lakh customer brings in, we would only do INR2 lakhs. So, our exposure is INR2 lakhs vis-a-vis the cost which is already incurred of INR7 lakhs. So, we are already, you know, having a margin. As the next, when it goes up to lintel level, we may be able to go up to, say, total cost of INR12 lakhs.
- Customer margin is 5, so we can do another INR5 lakhs. We have already funded INR2 lakhs, we will do another INR5 lakhs. So, we still have only lent INR7 lakhs against the total cost of the project at the site of INR12 lakhs. And particularly when it comes to, only construction loans, then the customer already has the land, the land is already brought in as a margin. We only fund the construction portion.
- So, there of course, we have the land itself as a margin for us. So, what happens is, it does not happen that we give the full INR20 lakhs upfront to the customer and the customer then does the construction. It is always in a staged manner. So, therefore, we always have a security cover available.
- Questioner:** And so then the cost overruns are really a risk of the customer, essentially?

Suresh Iyer: Cost overruns, that way we are always covered in terms of the security. But of course, if it is a semi-finished property and for 6 to 12 months it has remained like that, in a semi-finished or the same, then sale, nobody would like to buy a half finished or things like that. So, yes, so such cases, sale does take a little longer time. So, if we want to acquire that property and sell it, then it takes a little longer time.

So, in such cases, in fact, it makes more sense to work with the customer and see that, you know, they only complete the construction even if it is instead of 3 months to 6 months delay. So, what normally we do is we have a --for such cases, we have a, we normally give a moratorium of 18 months to 36 months for the entire project to get completed.

So, the customer may want to finish it in say 12 months, but he gets 18 months. So, even if there is a slight overrun, it is okay as long as the customer is servicing the interest. If the customer defaults while the construction is going on, then we stop the further lending and we do not fund the customer.

Questioner: And how do you manage the dispersal during the project? Do you have people going on site or do you have the customer sending updates or the developer?

Suresh Iyer: No, we have our own panel of valuers. So, first disbursement, before the first disbursement, our own staff has to visit. Similarly, before the last disbursement, again, our staff has to visit. In between, we have a valuation, we have a panel of valuers. They go visit the site and they give us a report with photographs. And they give the valuation or estimate, this is the level, and accordingly, we release the funds. So, no disbursement happens without verification, either by our person or by our in-panel valuer.

Questioner: Is it a high cost?

Suresh Iyer: No, not really, because there is obviously a cost involved, because every visit means there is a charge and that is there. So, there is a cost, but overall, when you look at the cost, it is overall cost, all-inclusive put together does not cost more than 2%, excluding the documentation cost, of course.

The total cost including the cost, like for example, INR20 lakhs is the cost. So, INR20 lakhs means our total processing fee is about 0.5%. Then we have technical, legal charges, civil charges, and every time we visit, our valuer charges something. All those put together would come to another INR10,000 to INR15,000. So, that is again 1%, less than 1% for a INR20 lakh loan.

So, overall, the cost to the customer all put together does not go more than 2% in any case. Of course, if you have the documentation charges, which they are stamp duty and all that is they have to pay to the government, that is extra. And if the customer chooses to go for insurance, then that is different. We only insist on property insurance. The property that we have financed has to be insured. Life insurance is not mandatory.

Questioner: Do you offer that product, property insurance?

Suresh Iyer: Property insurance is a small amount. So, customers do not go for it. But life insurance, if the customer wants to be funded, then we can. We have a separate product. We offer extra loan for that.

Questioner: And do you have any digitization initiatives going on?

Suresh Iyer: Yes, we in fact have done quite a few things. At that time of onboarding, we have a tie up with a third party vendor called Karza. So, what they do is, the customers, first of all, they can also on our website upload and send all the documents, their Aadhaar card, whatever, KYC documents, income documents, they can upload and give it also. That is one thing.

Second thing is even if they do all those things, then at the time of onboarding, based on the documents submitted, we online verify the veracity of the documents from either the income tax portal or the Aadhaar, that is the UIDAI portal. So, that customer onboarding that is there. We also have a linkage wherein the customer can directly submit the income tax returns from the, whatever has been filed in the income tax portal through a OTP linkage. We can directly send a linkage. It will be downloaded. So, that is also possible.

Third way is even bank statements, customer can directly give us the bank statements directly from the bank in soft copy. They do not have to and that is the account aggregator tie up also is we are working on it. So, there also the customer does not have to submit any physical documents. Online, we can collect it from the bank.

Then after that, for our valuation, we have tied up with a company which is providing a mobile app to our staff as well as to our empanel valuers. So, when they go for a site visit, they can do the take the photographs are also there. They can upload all those things online and the online report also comes to us. That is also there.

For legal, not as much. We do not have a platform for that because mostly you have to see the physical documents. You have to verify in the service chart offices. You have to go through the chain of documents. So, that is something which is not happening. After that, in case of post disbursement also, they can send their request.

Everything can be done online. Even their statement of account, they can put a request and they get a statement of account, balance confirmation. They get their income tax certificate. Everything can be done. So, paperwork, of course, they have to submit the papers, but a lot of it can be avoided also. They can do online. Direct verification is possible.

Questioner: So, this linkage with you said Karza. Is that like a referral company?

Suresh Iyer: No. So, it is just a service provider. So, when they have through API and connect, what we do is when the Aadhaar is received or the PAN is received or we directly scan and the scan copy is uploaded to the Karza. It directly goes and searches from the UIDAI portal or the income tax portal and gives you the confirmation. So, it is basically only a service provider.

Questioner: So, it just turns around the day for you.

Suresh Iyer: Yes, correct.

Questioner: And do you work with any referral?

Suresh Iyer: Yes, we have in fact our DSAs. DSAs are actually the major source for our sourcing. Almost 80% of business comes through the channel partner or DSAs.

Questioner: Yes, I saw a list of like 200 or more DSAs.

Suresh Iyer: No, we have 1500, close to 1400.

Questioner: I was scrolling. I guess I stopped too early.

Suresh Iyer: No, no, it is almost, we have 200 branches, 219 branches are there and we are adding another 15 this year. So, there will be 234 branches, but I am saying DSAs we do not have on the website, the list, but each branch would be having 3, 4, some may larger branches may be having more than 5 or 10 DSAs also.

So, approximately we have 1400 DSAs who are supporting the sourcing for us. And so, they are the ones who are connecting the customers, they are the ones who get the leads, whatever leads they get, they are giving it to us. And when they come with the paper, they know our policies, many of them have been associated with us for a long, long time. So, they have full knowledge of our policy and all those things.

So, they know which customers can get a loan from Can Fin. So, they get good quality customers only to us. We also have online onboarding where people can go to a website, make an application, submit their documents and they also give a, our system also is able to work out and give an in-principle sanction. So, that is also there.

Plus, we are also having our own sales team, we have initiated that and we have a very small sales team. We initiated that as an experiment and it is doing quite well. So, we will be expanding that team also. So, they are also bringing about 3%, 3.5% incremental business is coming through the, our own market sales team. And we have now also, we are also exploring digital avenues. So, we are doing aggregators, lead aggregators are there. From there also we source inquiries, leads and then we pass it on to our sales team for contacting.

Questioner: So, how does that work with the lead aggregators? How do you?

Suresh Iyer: So, these lead aggregators have mostly online platforms and they are able to collect some documents, do some verifications, some basic work is done and people who are interested can go and log in their inquiries over there. So, those leads there are forwarded to us and depending on the portal or the website or whatever lead aggregator is having, they would do some, up to some basic level of verification at their end and then they give the leads to us.

So, like we can pick and choose, we want leads from X, Y, Z cities only, people having income of more than 25,000 per month annual, sorry monthly family income, people who are at least having a salaried set. So, we can pick and choose the criteria and we get the leads accordingly and we forward it to our marketing teams.

- Questioner:** You tell the lead aggregators ..?
- Suresh Iyer:** Depending on the lead aggregators platform, whatever data is available with them, we can on all those parameters, we can give them filters. So, using those filters, the eligible customer base will be forwarded or shared with us and we have to pay per lead, we have to pay some token amount. So, per lead we have to pay right now about INR100 per lead and whether it is converted or not, we have to pay to these aggregators about INR100.
- There are also cheaper options where you can do INR15 and INR20 but of course, there you may not be able to put so many filters or you may just get a lot of, so the quality of the data will be, there will be more junk data also there. So, if you have more filters, the better quality of data you will get. Otherwise, you will be just wasting time on -- you can buy INR15 leads, INR10 leads but then you will have to do all the work and only to find that the rejection rate is as high as 95% or 100%.
- Questioner:** Yes, so what ASHA India is now trying, what they're considering, converting their business model into is --so they have this business correspondence business but they have a lot of clients from their own portfolio before, a lot of client data. What they're trying to do is be actually a lead aggregator but not only but actually do a full assessment of the customer on their platform and then send a full, like a complete package to the bank or to the lender that the client would select based on what is available according to the client's criteria.
- So, all the lenders give what their preferences are. Then, ASHA would assess, okay, which banks match with this client and have all the information that is required and then say, okay, this is, this client wants this loan, here's a full package.
- Suresh Iyer:** Exactly. So, a lot of lead aggregators are doing that as well for housing loans also. So, they, -- you can share all your product and process features with them. They will have their, decision engine and the backend. So, whenever a customer puts the lead, they will just see which are the entities with -- under, to whom this lead can be considered and then they pass on. But those kind of things will also mean that we have to share all the data with them, all our internal policies, process and all. And there, of course, the rate again would be much, much higher. Per cost per lead will be much higher.
- Questioner:** Like a percentage more?
- Suresh Iyer:** Kind of. That is true.
- Questioner:** Yes. Because that's what they intend to do.
- Suresh Iyer:** Correct.
- Questioner:** 1% referral fee or something. Do you have -- do you like that method or is that?
- Suresh Iyer:** That is also there. But, today, what we are paying to our DSAs. So, this is something which is also done by these, what do you call, corporate DSAs. So, corporate DSAs charge 1% for a

housing loan and 1.25% to 1.5% for a LAP loan. And today our DSAs, what we are paying is just about 0.43%. Yes.

So, if you go to this corporate model, then our initial onboarding cost will be much, much higher. And, at the kind of spread that we are making, I don't know, it doesn't make sense because if the loan moves out in 2 years' time, then we are not making any money in that case.

Questioner: Yes, exactly. No, that makes sense. But I think for, the fee would be much lower for a home loan, I guess.

Suresh Iyer: No, as I said, 1% for the -- these corporate DSAs charge 1% for home loans.

Questioner: Really?

Suresh Iyer: Yes. That's a lot. Yes. So, when we are talking about, all costs put together are only 1.5% for the customer. In fact, frankly speaking, in the affordable segment, the cost of, the overall extra cost that the customer has to pay is very, very high. Because, the rate of interest is high because it's affordable and it is also, if it's a self-employed appraised income, no income, proof of no document income, the rate itself starts at 13% and 14%. On top of it, in the name of risk, most companies are mandating or insisting on insurance cover.

So, insurance cover is another 3%, 3.5%. Yes. Stamp duty rates today are almost, even in the lowest rate is about 6%. 6% is the stamp duty. Even if you go for some of the states like Gujarat or Rajasthan, some of the places, whereas here in Karnataka, it is 8%. So, 6% also, if you see, 6% is the cost, 3.5% is the insurance cost. On top of it, if you have to pay to the DSA and all those things, obviously, therefore, the processing fee charged by the lenders will be 2%, 2.5%. So, effectively, for a 10 lakh loan, the customer ends up paying almost INR1 lakh or as the fees and everything costs just to get the property.

So, this is one area where it is, something where the regulator is looking at, because the cost for the customer becomes very, very, you know, high. Yes.

Questioner: Very interesting. We --what we're thinking about with, with ASHA in terms of housing loans, but this is quite complicated and I'm not sure if this will work, but we see a lot of our clients building, it's all informal housing, informal, and they all build it themselves with concrete and with sheet metal. But often there are, we believe there are better materials available, more natural materials, but these are regarded more as less durable and..

In fact, if you have a sheet metal roof, you have a very hot or very cold, there's no insulation. And so, we're thinking about how to combine the loan with some kind of stimulus or requirement to use a certain set of building materials and to, yes to make the house of the client more sustainable and also our risk lower.

Suresh Iyer: Well, that's actually very, very true, because let me tell you, even in housing for that matter, there is tremendous scope for actually bringing down the cost, because as I mentioned to you, these extra costs is one aspect, 10% to 20%, 10% to 15% customer has to pay. Second thing is,

about 15 years back or something, when we actually got into -- at GRUH Finance, when we were doing affordable housing.

In 2003, when we started, okay, our whole --our entire purpose was affordable housing. We were like, can we offer a house where the cost per square feet for the customer comes to below INR1000? So, if the cost of construction can be reduced, INR700, INR750, at that time it was happening, and if the land cost can also be, through whatever means reduced, then effectively INR1000 per square feet can be done.

So, for, so our first affordable housing unit that we gave, it was a G plus 4, I think, unit, ground plus 4, kind of apartment thing was done, where on the third floor, the cost for the customer was only INR95,000. It was as low as that. And it was a small --of course, it was about, we were able to offer about 800 square feet, super built up area for the customer.

Unfortunately, today the cost of, the land costs have gone up somewhere, no subsidy or anything is coming in the form of land cost for the customer. Land, therefore, they have to buy at the market rate. On top of it, the cost of construction, because of all those things has gone up to, minimum today is around INR1,500.

Even if you go for a very poor quality, it comes to INR1,200 per square feet, only for cost of construction. Therefore, affordability in that sense is a little difficult. So, if somewhere, a lot of scope is there for, you know, affordable housing also, if they can do some research on how to bring down the cost of bricks or how to do a different method of construction which can be faster. So, a lot of people have gone for prefab construction and all those things also.

Those attempts have also been made for prefab construction and things like that. Like this entity that we are doing, INR2.2 lakhs, INR2.3 lakhs is the cost, it is a small 340 square feet house which is constructed. Of course, it is not the best quality and all, but it is definitely better than the kind of makeshift houses that they are living in.

Tomorrow, even if there is a kind of cyclone or something, at least to a large extent, it is insulated, they are safe inside the house. So, something like that we will have to keep trying. So, this one we have done as part of our CSR and we would like to do more. I mean, those kind of things are definitely something we should explore.

Questioner:

I think, I am thinking about it now as perhaps which is somewhat similar to how you assess developers ahead of time and pre-approve a project. Maybe what we could do instead of, it is a project, we pre-approve a construction company or a material supplier because most of these clients obviously build their own homes, but they need to buy the materials from somewhere and say, okay, if you buy your materials from this company, then we know the materials are of good quality and they are the right ones, you will probably get some good advice as well, then we can partner with them and give loans.

Suresh Iyer:

Yes, there was in fact, about, I think 4 or 5 years back, if I am not mistaken, there was this company which was doing bulk material supply to builders at a much cheaper cost. But it was more of a B2B kind of setup was there and suddenly it did very well and I do not know now, it is completely lost, that company which was trying to do this.

In a very short time, it was able to, because it was able to buy in bulk from the supplier and use their platform to sell to multiple developers, wherein the developers would get the benefit of the bulk purchase cost, because otherwise, developers would not buy so much amount of bricks, so much amount of cement, so much amount of steel from in one go, they will buy as and when the project requirement is there.

But this platform, they had started where they could have 20, 30 large developers and say that, okay, you, whenever your requirement is there, I will provide you, but a combination of that, they would buy in bulk from the suppliers. So, that actually did very well in a very short time, but I do not know, it is almost lost now.

So, something like that will actually bring the cost of construction down. Because even when a developer goes and says that I want to buy so much of bricks for my construction, still it will be just for one project of maybe 200 houses. But when they go for some 50 such builders together, have a requirement purchase, the cost will come down.

Questioner: Yes, exactly. And I think in microfinance, it is even the case that all the clients, they buy their materials over time, and it is like their -- it is like, almost like their bank account is to have a box of cement in their house, and then they accumulate until they have enough to actually build.

Suresh Iyer: Correct. So, it is most of the smaller towns and all, it is mostly incremental housing. They will build one room, they will just repair the roof for one, then they will go for the next one. So, it is normally, the project actually goes over a period of 5, 6, 7 years. And they, by the end of 7 years, they have one house where at least they can, that is how it happens.

Questioner: True, exactly. And we need to find a way to fit into that model, I think, to be able to help. Because you cannot give a loan for the full house in one go, because it is just way too risky. Yes, thinking of it like a bit like, if you would do it a bit like what has Bajaj did with the consumer products, where you can give a loan, a loan for building materials at the same price.

It is like a buy now, pay later, but you pay the same and the construction company gives you a discount to the customers. Or you get your interest from the construction company, because you are bringing all these customers to them. But yes, it is a different sector, so, who knows.

Suresh Iyer: And the regulation is also different, you can do it for, so PNB for housing and all has not yet come. And I do not think it is something which, the guidelines are different, because basically then the element of a secured loan or the security, secured portion of it does not remain. If the house it is not complete and you are just keeping a loan where it is only partial, then obviously the valuation and everything will not justify it. So, I guess that is one. When it is an unsecured product, that is a different issue.

Questioner: Yes, exactly. A lot of this would be unsecured.

Suresh Iyer: True.

Questioner: And do you do any incremental housing?

Suresh Iyer:

Yes, we have a product called for repair renovations. If somebody wants to do a repair renovation, slightly add one room or maybe do something, that is also there. Of this, obviously the requirement will be much less. But what happens is, we know, unlike what you are saying, what we give for repair renovation, we take the entire house mortgage. So, the security is always there.

And mostly it is for a home loan, existing customers prefer this more, because their house is already mortgaged with us. So, then they also, when they have to maybe build a roof or maybe they want to build one second floor, one more floor above this, one additional extension room and all, then they come to us.

Questioner:

Yes. And what would you say are your biggest challenges currently in your business?

Suresh Iyer:

Biggest challenges, I think, of late, everybody would say regulation is changing very fast and the arbitrage which is there is moving out. But I guess for us, it does not, I mean, it is not a challenge, because for us, particularly if you are asking, I mean, IT is a challenge. We are just on the verge of IT transformation.

So, that is going to be one immediate one, because any IT transformation can lead to a disruption and we are working to ensure that this disruption is minimized. Yes. And practically, it happens without any impact on the business. So, that is one thing.

Other than that, I guess, in this, as I said, the industry growth and all is quite steady. Demand is very good. So, I do not see that much as a thing. Overall cost is always going to be, how you manage costs, how you manage your liabilities is going to be the biggest challenge. In our case, thankfully, we have very good borrowing resources are available.

We do not have that liquidity issue either. But for a lot of other players, I think affordable segment, I think the biggest challenge for any new entry, entering into the segment, particularly the affordable segment would be liquidity and resources. Borrowing would be a biggest challenge.

Questioner:

Do you see any risks in the economy? I have read from an outside view that like the, at least the equity market in India is quite, its valuations are quite high at the moment.

Suresh Iyer:

There has already been a correction, quite a large one in the last 3 to 6 months. Yes. There has already been a good sizable correction. But, so there are -- there are a lot of stocks which are today actually at attractive levels. But yeah, there was that one thing that a lot of money has gone into the equity market in the last, even domestic investors are there, which amount of funds are coming into the equity market.

That is true. But a lot of correction has already happened. And, but overall, if you look at it fundamentals wise, I believe, some bit here and there and someone best to slow down or some could be there. But by and large there is a -- industry is doing quite well. I mean, well, now for our industry also, if you see housing, I mean, affordable because more of a supply issue, there could be some problem.

But otherwise, in terms of the demand, in terms of the availability of funds, in terms of, you know, the, the need for housing, housing as a percentage of the GDP, just about 11%, which is much, much lower than in so many most other countries, I would say. So that way the scope to, for the housing industry to grow is still there. It's very much there. Yes.

Questioner: One of the main challenges that we face with ASHA International is the, is all the currency risk, in different countries we operate in. And we have lots of different countries, and we fund the debt a lot with US dollar debt from outside. And so we get in a big mismatch between our, our assets and liabilities. And when currency devaluates, we can --we can lose a lot.

Suresh Iyer: But the dollar has become stronger only. So now it must be good for you. I mean, most countries that you mentioned, I think the dollar is getting stronger.

Questioner: Yes, I think that's probably bad for us because it means the local currency is getting weaker. And our loans are in local currency. So our, the value of our book decreases.

Suresh Iyer: Oh, in that sense. In dollar terms.

Questioner: Yes. And then so we lose a lot of money. So we really...

Suresh Iyer: Oh, that way, yes. I think otherwise, from the funding point of view, you obviously, you know, the dollar has become stronger, you have to bring in less, less, say.

Questioner: Yes. Then we -- so we need to lend more in local currency. And that will help if we can convert our businesses more into banks, then we'll be able to...

Suresh Iyer: Also garner resources from locally.

Questioner: Yes, exactly.

Suresh Iyer: So you have any existing bank, which is, any other entity which is converted into a bank? Because quite a few MFIs did get a banking license, small finance bank license.

Questioner: Yes, we do. We have one in Pakistan. We have one in Ghana. I think in... I mean, the licensing schemes in every country it's different. Some we have like a deposit taking license, some we have a banking license, there's all these things in between a microfinance and a bank, as you all know. But we have a few banking licenses, but not yet everyone.

But we also -- I think it's good, we start with a few countries, start to develop our broader portfolio of products and see how we can manage that. Because until now we've been very much, very focused on the classic microfinance loan. So we're -- we're now going through a transformation that a lot of these microfinance companies that have been successful, the most successful in India have been through, like Bandhan or Ujjivan.

Suresh Iyer: True. Regulation also has become very different for now. In fact, it's the last 1 year or 1.5 years it's been quite difficult for MFIs.

February 27, 2025

Questioner: Yes, for sure. No, we know we've unfortunately almost lost our India business because of this. Since COVID, it's been a real struggle. Well, thank you very much, Suresh. It was very...

Suresh Iyer: Thank you very much for taking time. And once again, apologies, we had to reschedule and because these meetings came up, so...

Questioner: No problem at all. Thank you very much for, I mean...