



“Can Fin Homes Limited Conference Call”

February 28, 2025



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

February 28, 2025

Nidhesh Jain: I hope that is okay with you.

Suresh Iyer: Yes, no problem.

Nidhesh Jain: Sure that's all. Sandeep you will be able to take it forward.

Sandeep Joshi: Yes, sir I will take it forward from here. Thanks Nidhesh.

Nidhesh Jain: And Sandeep if you face any problem let me, let just call him.

Sandeep Joshi: Sure. Okay. No problem.

Nidhesh Jain: Thank you.

Sandeep Joshi: So till the moment Sarath sir is just joining, I'll just give you a brief about Unifi Capital if you want. So we are a semi-registered PMS based out of Chennai. As of now we manage about INR25,000 crores of wealth largely into equities, maybe INR1,000 crores into debt. Recently we have approved in principle approval from SEBI to start a mutual fund operation. So we'll be going live with our mutual fund operation, but the PMS will continue [inaudible 00:47] will be a separate division.

So we are based out of Chennai, but we have multiple offices across all larger cities in India, maybe Bangalore, Bombay, Delhi, Kolkata, a recently GIFT City as well. So that's broadly about Unifi Capital and this would like to hear from something else.

Suresh Iyer: Yes, sure. First I'll just introduce. I'm Suresh. I'm MD, CEO of the company. So how do you want us to first give you a brief about the company or how is it or before you want to start with Q&A?

Sarath Reddy: Mr. Suresh, I think our first interaction with Can Fin is many years ago and I met him at AGM also almost maybe 15 years ago. And over the years, we've had an opportunity to interact not only with your predecessor, but also with some of the earlier predecessors. So we know a little bit about the business and the DNA of the company.

We wanted to understand from your perspective, the way you prioritize as the Chief Executive, given what the company is facing in terms of its own internal evolution, as well as competition forces. Today, housing clients are a lot more players and you all have a certain niche. Could you give us a sense of how you see this company evolving over the next three years?

Suresh Iyer: Sure. See, as you know, the company has mainly been in the salaried segment and pure housing segment only. We have very little portion which is in the non-housing segment. And so I'll start with around the same time that I joined the company two years back, we also had our 2028 vision document or strategy meeting with the board.

February 28, 2025

So roughly the plan for the path up to 2028, we have a couple of critical areas where we want to mainly focus on. So while the focus will continue to be mainly on housing, which will be about 70, right now it is about 70% is pure housing excluding the CRE portion, including CRE, it is almost 85%. So 75% is, sorry, 70% is housing.

Max-max, we will still go down to 65%, but not below that. So we still want to be a pure play housing company. So non-housing elements, which is the LAP, the top-up loans, the plot loans, all those things will not be more than 20%, max-max even the next three to five years. So that's one point. The second thing is we are right now also salaried is the main component. We have 70% plus is salaried.

But incrementally we have decided to be a little more on the what do you call the self-employed a little more because that also from the yield point of view and the opportunities are also there. And compared to the past where appraising the self-employed was a little difficult. Now IT returns are very clearly available. More and more IT returns are filing is happening. We also have payments coming through UPI. So a lot of other self-employed segment, we are able to appraise also in a better way, with more documented proof available.

So self-employed also slightly will increasing, but still we will continue to have a major focus on salaried segment only. So mainly these are the two major things. But having said that we have right now about 80% business coming through the DSA channel. And that is one area where we want to make a major shift where the next three years we want to develop our own internal sales team.

This may not necessarily be a direct sales team with the incentivization or whatever those things are the operational part of it, but we want to have our own sourcing rather than depend only on the DSA channel. So in the next two to three years, we want to bring down the DSA sourcing to about 60% and 20% we want to at least move from a direct team, plus we also are starting a digital channel.

So digital sourcing, so that will also bring in about 10%. So that's the kind of breakup that we want to have. So broadly we want to broad based or we want to diversify into the sourcing channels. That is one thing which will bring in more stability. The risk is that the DSA channel has in the sense that the BT outs is always a factor when it comes to DSA sourcing.

So that is something we want to reduce or keep an eye on. So that is one major force and the major area. And second major area that we are looking at is the IT investment because the company presently was facing a challenge in the terms of the IT because the present IT is a monolithic platform that is being the LOS plus LMS and everything.

And it was implemented in way back in 2011. So it's been way beyond its age, it's lived beyond its life. So we want to have a major IT transformation and that is something which will enable us to further improve the servicing that will reduce the TAT and also bring in some more

February 28, 2025

operational efficiency. As such, we already have a cost-to-income ratio and every opex and everything is quite less. It is well within control.

It's about 17% is our cost-to-income ratio, but still there are opportunities where we can bring in some more efficiency if we have better IT platform and all. So that is another major area we are looking at. So we've already floated an RFP. IBM, we have announced that would be the partner for us. They have been selected as the SI and they are bringing in a host of partners with them that is for the LOS, LMS, for the HRMS, for the DMS and all those kinds of things.

And also to improve our cyber security and all those security and infrastructure platform. So this IT is one major area which we are looking at. So in the next step and that we are looking at the present what we have tied up with IBM, the implementation is going to happen in a big bang manner in the third quarter of FY26. So that is going to be in the October to December quarter.

And once that is done, the next two years that this should bring us a lot of benefits in terms of - even AI will, there's also one of the elements which has been incorporated and there will also be a better and stronger CRM and DMS and everything. So that is something which is going to help us in the years going forward. So mainly the DSA channel reducing this and developing our own sales team and second thing is the IT. These are the two major things which we want to look at.

In terms of our strengths basically, one is our cost of funds advantage that we have mainly the parentage, which is one major factor which is helping us there. And in terms of - because of that we have been able to also offer a very competitive rate, although it's not the same as what SBI or HDFC or ICICI is offering, but at least once above at the next level, maybe we are able to offer one of a very competitive rate.

So we are also able to have a better selection of customers and that we would like to continue. We want to slightly move up in terms of the average ticket size. So presently our average ticket size incrementally is about INR25 lakhs. So we would like to slightly move up the ladder and have a better customer selection. And that way we will be able to - we may have to be a little more competitive in terms of the rate, but we are quite comfortable with the cost of borrowing thing.

So that is one advantage we have in terms of cost of borrowing. Second thing, of course, we are at the AAA rated that is also helping. And throughout the last many, many years, if you see our gross NPA has always been less than 1%. So that is one of the key strengths that we have. The solid customer selection platform, customer selection criteria and the internal processes and policies for this. So these are mainly the things broadly I would say.

Competition wise, yes, there is, as I said today in this mid segment, which is, of course, the very competitive and the very price sensitive segment is INR30 lakh, INR40 lakh plus segment wherein the SBI, HDFC, ICICI and Axis are operating. But below that in terms of the competition for us, mainly it would be Bajaj and LIC housing and PNB. So the four of us would be the next rung, which would be there.

February 28, 2025

And then, of course, there are a lot of affordable housing companies where the rate of interest is and the segment that this customer selection is very, very different. So in our segment, it would be mainly these players. Again, within that I would say we are the only one who is and LIC, which is focusing more on housing, whereas the other two players are also focusing on construction finance in terms of LAP. They have like Bajaj has a very high LAP book. So we are the pure play housing players.

Our main area of operation is in the periphery of the big cities and Tier 2 towns. So that is where we are operating. In terms of the segment, this INR15 lakh to INR75 lakh segment, we believe there is a very, very steady growth and demand that is there. We have not seen even in this scenario today where affordable housing is seeing some slowdown, but in our segment we are seeing a very steady demand.

So going forward also, we expect that the demand will be there. So we aim to operate somewhere in the 15 to 17 or maybe one or two percentage point above where the market is growing. So we would like to continue to have a growth rate somewhere about one or two basis - one or two percentage points above the what market is growing at. So this is broadly, I think where we see or we would like to see the company in the next three to five years.

Sarath Reddy:

The point you made about DSAs, could you help us understand what is the strategic reason and what is the benefit by shifting direct from DSA?

Suresh Iyer:

See, one thing is these DSAs what we have is mainly they are individual people. We don't have corporate DSAs. So you could say maybe they are the connectors or they are the individuals who have a local presence in the market and are getting us the business. Now, for them actually every two years, three years that they tend to also move the business to other partners because that is the same business they keep.

They tend to earn more of it because every time they shift and they get a business, they get some commission. So slightly the general trend is that for DSA source business, the BT out percentages are normally a little higher. So that is one reason why it is there. And once it is a DSA connect what happens is we don't have a choice of the customer or the choice of the segment where we want to operate.

Normally, DSAs would bring in the files and then it becomes a dependent on the DSAs to get the kind of business we want. So rather than we choosing the segment where we want to operate, like, for example, DSAs normally there aren't any DSAs who are solely working with us. So most of the DSAs are also operating with other companies. So if somebody say, for example, offers a better commission rate or say offers some other benefit, then they would tend to get the business over there.

And normally what happens is the cream business they always would give to other players and slightly inferior quality could also come to us. So that is the reason why we believe that we will have a choice of customer would be with us if we have our own team. And the second thing is

February 28, 2025

we also want to now have it. So when it is 80% dependent on the DSAs, what happens is it's only retail business we are getting where customer, individual customer and all.

But with our own marketing and sales team, what we want to also develop simultaneously is our own APF tie ups. So we want to have tie ups with builders. We won't be financing or funding those builders, no developer finance. But at least what happens is we can tie up with builders and have a long term relationship in all the projects that they come up with. We will be able to kind of get business from those on an ongoing basis. So the APF is also another reason why we want to develop our own sales team.

Sarath Reddy:

And how will you separate sales from credit? That seems to be a conflict that some companies have gotten wrong?

Suresh Iyer:

So we have actually local sanctioning, the branch manager is always there. The local sanctioning is with the branch manager. And we have also have a credit review monitoring CRM department is there. 100% of the cases which are sanctioned by the branches are also reviewed by them. So the chances of any kind of thing between the sales and marketing would not be there.

And so, of course, their sales team has to work more on the incentive part of it. And normally what happens is when there's an incentive and they have to solely depend on incentive and with a very small salary or something, a band like normally these DSTs or DMEs are having where they have a 10,000 to 15,000 fixed salary and everything else is dependent on the incentive.

So then what they do is they generally tend to push the inferior cases also because for them it's a purely target driven. So here in our case, we are doing it a little differently that the sales team also, we are not putting on a 100% commission or a large commission basis. So they would be also on the roll. They would also be coming in the grades of assistant manager or officer or something like our normal staff.

So at least their basic salaries and everything are taken care of, whereby they don't have to compromise on the quality just to get more incentive.

Sarath Reddy:

And the many of the other companies have switched to a centralized credit. Is that correct? Why is it that Can Fin has chosen to stay with the branch approval?

Suresh Iyer:

That's correct. So actually this is one of our USPs because when we have a local sanctioning, so we are able to at least the branch managers and one of the advantages we have is that we have a vintage in our staff because the company is also having a lot of staff who have been with the company for 10 years, 15 years. So at the manager level somebody who's there at the manager level has already spent a fair amount of time with the company.

So that also gives us a comfort plus to counter that anyway, we also have introduced the CRM, which is not necessarily a pre-sanction kind of a thing, but even once the sanction is done, there is a kind of oversight from the head office through the CRM department. So this is one of the

February 28, 2025

USPs because we are able to confirm to the customer that we will be able to sanction you. So that, that holds the customer better.

Sarath Reddy:

So the CRM department, will they review it prior to disbursing?

Suresh Iyer:

As of now not, we have not put that condition, but we can always do that. But the TAT is quite fast. So normally there is a time lag between the sanction and the disbursement. So most cases are happening before disbursement only.

Sarath Reddy:

How often does CRM, the credit team in central office, stop or disbursement?

Suresh Iyer:

Yes, so we have a lot of queries which are sent and to the zonal office wherever there are any observations and then the zonal office also ensures that the compliance is done. But a couple of cases where we have felt that the cases, quality of cases is not good. We have withdrawn the sanctioning power of the branches. There are about three, four branches already in the last about, I would say one, eight months or so that we have actually withdrawn the sanctioning power of the branches.

Sarath Reddy:

I believe after you joined, there was some case where there was some branch fraud. Could you share with us what happened and how you all have dealt with the problem?

Suresh Iyer:

Yes, so actually there was an old reconciliation issue. We used to have some funds, the local branch was having the cheque signing powers and the disbursements are happening from the branches. And since we were mainly having all our banking with Canara Bank, we used to have a pool account from where the funds used to go. So there the lot of cheques were drawn in the name of disbursements by the staff and there was a fraud where funds were siphoned off.

So since then, that was actually going on for some time because the reconciliations, it was a large volume and it was not so very prompt. So that was in one of the branches in Ambala. So we verified the whole thing and it was only solely limited to one particular branch where this particular staff was involved and was there. So what we have done since then is we have centralized the disbursement. So again, we have - there is a centralized disbursement department.

So and all the disbursements which are sanctioned at the branches, they are verified at this centralized disbursement CDD department. And thereafter, the disbursement confirmation goes to the Canara Bank and from there through a centralizing, all the disbursements are released through DD. So there is all the cheque signing powers from the branches have been withdrawn since then.

Even for the vendor payments, we have withdrawn the powers. Only for petty cash, they are able to withdraw some small amounts. Otherwise, there is no disbursements or cheque signing which is there at the branches. So that we have completely taken away from the branches and that for reconciliation process and everything also we have centralized and we have strengthened that process also.

February 28, 2025

That apart, of course, in the wake of that, we have also reviewed a lot of other processes like the CRM department was also one of the things that we 100% introduced after this particular incident. The centralized disbursement was one of them. Auto reconciliation and this strengthening the reconciliation and is another third thing. We've also actually in the last two years, we have strengthened our assurance functions in a major way, all the functions, namely that is risk compliance audit and legal.

All those things also we have strengthened quite a bit in terms of the staff as well as the role and everything has been reviewed. So that is there plus a lot of other small other controls also we've introduced, but mainly it is the CRM, the centralized disbursement and the strengthening of the assurance functions and this. We've also tied up with a couple of other tech partners like Karza for verification of Aadhaar, PAN, ITRs, bank statements.

We've also tied up with a vendor for our valuations where all the valuations are done through a common app and everything and there is an oversight also happening over there. So these things are also we have taken from post this incident where we have strengthened our processes and all those reviews have been done.

Sarath Reddy: And so the cost-to-income compared to some of your peers, you are quite competitive. Do you have a range, you are at about 17%, 18% cost-to-income?

Suresh Iyer: Correct.

Sarath Reddy: Where is some of the others who you consider to be peers?

Suresh Iyer: See, in case of the cost-to-income, I think LIC would be a little very close. But other players, I think the cost-to-income is much higher than ours, than us actually. Only LIC would be something which would come close in terms of their cost-to-income would also be less.

Sarath Reddy: And coming back to one of the things you started up, you said about 65% to 70% is mortgage loans and 15% is LAP, that's about 85%. And the balance 15 is what and what is it going to become?

Suresh Iyer: It is currently about 85% is housing, but within housing also there are two categories. One is pure housing, but wherever it is for us more than two units like, for example, there are more than the second house or the third house for the family and all, then in that case it has to be classified as a CRE. So that has a slightly higher risk weightage, but that is also housing. So today 85% is housing and remaining is non-housing. Only thing is that within the housing, yes, sorry.

Sarath Reddy: When you say non-housing, what do you mean?

Suresh Iyer: So non-housing would be LAP, then it would be this plot loans. It would be also top up loans, which are - where the end use is not for purchase or construction.

February 28, 2025

Sarath Reddy:

And in your case, the stage 2 number when we compare with your peers, the stage 2 number is a little higher than all the other peers, whereas the stage 3, it is normalized. Can you help us understand that?

Suresh Iyer:

Sure. See, actually the due date for the EMI is on the last day of the month. That's how it is. So all the - whenever suppose a disbursement happens on the 17th of the month, we collect the pre-EMI interest for the period from 17th to the end of the month and EMI commences on 1st of the next month. So the due date of the EMI is the last day of the month.

So what happens is, for us, we follow strictly the guideline that it has to be the last day of the month and if the February EMI doesn't come in the month of February, then we classify it as SMA 0 and accordingly SMA 1, SMA 2 also gets classified, but for most other players they give a grace period for due date. So what happens is, if February EMI, the due date is 5th of March.

So what happens is, even if the customer has not paid the EMI of February in the month of February, it doesn't get classified as SMA 0. So they postpone, so what is actually SMA 1 for them is actually SMA 2 for us. What is SMA 0 for them is SMA 1 for us because they classify it after the 5th only. So it becomes overdue only if it is not paid by the 5th of March. And that if you see, we have - we mentioned in our presentation also that our due date is on the last day of the month.

And incidentally, recently the NHB has also started - has also pointed out this aspect that many, the classification and all those things, there is a grace given. So that also the regulator has pointed out because it is indirectly, while it is good for the customer that the customer gets extra days. But what is happening is it is not a uniform reporting. So that is what it is. However, if you still have to verify our SMA 1 and SMA 2 or stage 2 assets, you can - even if you see the same 6% odd whatever figure is coming, would be there for the last 7 years, 8 years also, that would also be very steadily going on.

Because our reporting mechanism has always been the same and that grace that you do is not there. So if we had given the 5 days grace, then our this would also have been lower.

Sarath Reddy:

Yeah, that's true. In the past there have been multiple CEO who have come and gone and then they professionalize the management and they stop taking it from the parent and you were I think the second professional CEO and obviously that eliminates the risk of conflicts as well as well as lack of continuity.

But it still doesn't give an outsider a sense of whether there is a fair amount of influence of the parent because obviously there are overlapping business interests. How do you guard against this? How can we as an outsider feel comfortable that while Canara Bank is a 30% shareholder, they play a promoter role and not overlapping business conflict does not come in the way?

Suresh Iyer:

See, first of all in terms of the management of Can Fin, except for one that the deputy managing director is on deputation from Canara Bank, there are no other staff who is coming from Canara

February 28, 2025

Bank. So the independence in terms of the organization and is completely there. It's a board driven company. So we have all the board, the independent board is what decides everything.

Of course, there are two nominee directors from Canara Bank the parent, which is the MDC of Canara Bank, Satyanarayana Raju is our Chairman. And we have one of the executive directors, Mr. Debashish Mukherjee who is also on our board. But other than that, we have five independent directors also, so it's basically a board driven company. That is one.

There is only one individual who is from Canara Bank on deputation. The second thing is in terms of the products, in terms of the policies, everything is completely, there is no restriction or a kind of, in fact, even we don't even insist that our customer should have an account with Canara Bank. There is no tie up or anything where there is a cross selling or anything happening.

Only thing is the banking we have because most of the places with Canara Bank is also there. We are also south, mostly as of now 60%, 65% of the branch. And wherever we are there, Canara Bank is also there. So banking happens with Canara Bank. Other than that, there is no other restriction or a role or a compulsion or anything of that sort. In fact, even in terms of our banking, our borrowing liability side, we have 60% of our borrowing coming from banks.

So there also, in fact, Canara is not the lead, the main banker or anything. We have SBI, we have PNB, they have a larger exposure with those banks than with Canara Bank. And whatever is there, based on the RPT related party transaction, it's purely above on a purely on business and at arm's length distance only. So that is purely maintained even in terms of rate, even in terms of everything.

So there were periods where even where Canara Bank could not offer a term loan also, which is there. So we have not raised from Canara Bank and so on. Same way Canara Bank also has not done any favour that all those things are purely maintained. In terms of branch opening also, there is no restriction or compulsion or anything that we have to look at anything of that sort. So that way it is very, very clear that there is no.

However, as part of RBI's grouping, Canara Bank and its group entities are all grouped as a conglomerate. So Canara Bank conglomerate is there. So in terms of that, there are certain RBI requirements which are there in terms of oversight by the group functions, the functional heads of the parent bank. So from that point of view, we have the group CFO, the group CRO, the group CCO and all who have their own, once a quarter they have their questionnaire, they come and make a visit and just have a interaction.

So that of course is there, but that is more from the point of view of the RBI's requirement of oversight by the parent organization. So that's it.

Sarath Reddy:

Okay.

February 28, 2025

Sandeep Joshi:

So I have a few specific questions. So we have two largest states, which is Karnataka and Telangana and we are experiencing some macro issues. So since our last communication in the third quarter results, is there any progress in the state of Karnataka in terms of issuance of those E-Khata and what's the current position of Telangana at this stage?

Suresh Iyer:

See in Karnataka you are right. So we have about almost 45% to 50% of the business coming from these two states. These are the major two states in terms of the AUM also out of around INR37,000 crores, we have about INR10,800 crores purely is from Karnataka, which is about 30%. In terms of our Telangana also it is about, okay, it's also quite high. So these two states are there and in Karnataka, we used to therefore do about INR275 crores disbursement per month in the second quarter.

And that came down because of the E-Khata issued about INR150 crores in Q3 because the registrations and all were stopped because of the E-Khata requirement. So now, at least in the BBMP areas, that is a corporation limit areas, some speed has picked up and now more and more E-Khatas are getting issued. So that has helped us in the month of January and February, where from that INR150 crores that we used to do in the Q3, we have at least pushed it.

It is now somewhere in the range of 200 to a little we have crossed 200 in January and we should cross INR200 crores disbursement in Karnataka in February also. So that being the case, it's some improvement, but the main because our major focus is in the periphery areas, which would mostly come under the BDA, that is the Development Authority or in the panchayat areas. So once that opens, then we will be able to further improve.

And there also we are hoping that somewhere this month it should at least be opened up because the chief minister did make a statement that after the corporation, we will also look at BDA and other panchayat areas for E-Khata issuances. So once that starts, then it should be back to normal and we should be able to bring, so Karnataka should be back to normal, at least if it opens in March, then at least in end of Q1, we should be back to normal completely in Karnataka.

In the case of Telangana, it is still slightly, we are facing an issue of demand per se, where particularly after this new state government, where they came out with this department called Hydra, the demand is slightly from us, we are experiencing is a problem. And there, in fact, we have a substantial negative growth in this, in Telangana in this year. We would be almost ending the year about 30% negative growth in Telangana per se.

But now that at this, from this level, there is only one way, I mean, the base itself has come down so much at the 30% negative growth that we are just doing about INR100 crores from Telangana, which used to be around INR150 crores. So, from here, at least, you know, we don't expect any further deterioration in the business. So, it should only be a positive going forward in the coming year. That's what we feel.

Moderator:

So, the Karnataka expansion or things will be back to normal by end of Q1. And so, Telangana, do you think will take a couple of quarters also?

February 28, 2025

Suresh Iyer:

See, Telangana, yes, but at least, as I said, from the current base of INR1,200 crores that we are likely to do in this year which is about INR100 crores per month, I mean, from here, I think it should be a positive. So, because from here, I don't see it going down any further. So, it may not come back to the old levels, but at least it will be a positive. So, the growth next year, even Telangana is the only zone which is or the only state which is actually in this year going to be a negative for us.

Otherwise, all other zones, we are having a positive growth. So, Telangana, in fact, is pulling us down this year, but next year and since, you know, we have already come down to such a low level, from here, in fact, even Telangana next year should be positive. So, that way next year on for all our zones, we should be witnessing a positive growth.

Sandeep Joshi:

Understood. And so, when you see your guidance for about 15% of the growth for FY26, and I mean, you are well aware of these factors happening in the state of Karnataka, Telangana, plus you are taking a major IT transformation. And I guess you have also mentioned on the call that due to major IT transformation, there may be some impact on the business, which is unavoidable.

So, when you see this 15%, are you kind of being realistic or see because in the last two years, we have been given guidance of about 18% to 20% and we have been missing it. So, when we see this 15%, because that's the third year on which you are giving guidance. So, are we being realistic considering these three issues, which are there on the background?

Suresh Iyer:

So, this is one slight issue, which is definitely going to impact our calculations next year. But we are working towards minimizing the impact because, at least, when we floated the RFP also, we insisted that the LOS and LMS provider has to be the same so that the maximum problems happen because of integration issues. So, we at least stipulated that whatever is the - whoever is the partner, the LOS LMS has to be from the same vendor.

So, that will minimize or almost eliminate all the integration issues, which can lead to some delays or issues. The second thing is we've already separated a team for our project implementation. We pulled out people from our existing various departments for this particular project. So, in terms of the manpower also, additional manpower for this will not be required and whatever little will be required will be on the technical side for which we will be recruiting from outside.

So, manpower requirement or strain because of this IT transformation will also not be much. The only thing would be in Q3 when the implementation happens. At that time, the transition from the old system, the new system and training and all will be one issue for which we are now completely trying to work out where the training and everything also is taken care of so that the impact is minimized to the whatever maximum we can do.

Sandeep Joshi:

Okay, fair enough. Understood. And so, you mentioned that our cost-to-income is about 17% in this financial year till date. And for next financial year, we are talking about 18.5% of cost-to-income. I think it's led by two things. One is the IT transformation cost. And next, we are trying

February 28, 2025

to build a sales team, which you mentioned. We want to go away from these things. We are trying to build a digital platform and a sales team. So, this 18.5% accounts for both of these issues for FY26?

Suresh Iyer:

See, in terms of the manpower, I don't think it is going to have much of an impact because we will be pulling out the people from our existing teams only. And whatever little for branch expansion will be adding people. But so, in terms of the manpower cost this will not have much of an impact in the coming year.

As regards this digital process that you are talking about, that is part of the cost of this IT transformation. The CRM and this digital mobile apps and everything is all part of the overall cost that we have already shared will be around a little less than INR300 crores. So, all the apps and everything are included in this.

Sandeep Joshi:

Okay, fair enough. And so, when we say that we want to get down the DTC share from about 80% to 60% in the next three years, you are saying, that's FY28. How difficult is it to achieve 60% because we have been trying to do in the past also. So in the last 1 year, 1.5 year we are trying to do same thing, but we have not moved away much from the DSAs. But is this 60% too aggressive for us?

Suresh Iyer:

See, actually, I will tell you, in the last, in FY20, Q4 FY23 our DSA percentage had touched 85%. From there, last year we were able to bring it down to 80%. This year in June, when we set up our sales team, so we just have a small team as of now, just about 35 odd people. And they are already contributing about 3% to 3.25% in this. And this number is also increasing month-on-month from June onwards. So, with more and more people as we pull out from the teams and add to the team, this percentage will slightly keep on increasing.

So, if you see, in Q3, it had slightly come below 80% also, the DSA sourcing. So, obviously, it is a gradual process. We are not looking at one year journey to bring it down from 80 to 60, but over a period by 2028 is what the vision document, we have mentioned that we will bring it down to 60, 20, 10, 10. So, 60% DSA, 20% direct team.

Sandeep Joshi:

Okay, that's true. So, I have a question on margins. So, margins for a 9 months basis are about 3.71%. And we have given a guidance that we would like to maintain margins at 3.5%. So, even we want to maybe build that self-employed segment where yields are slightly better, spreads are slightly better. Is there a risk to our margins because of which you are guiding lower guidance than what is there on a 9 monthly basis? Because in FY23, the proportion will only increase towards loans?

Suresh Iyer:

No, there is no risk to the margins that we because of which we are giving. It's more of a conservative guidance in terms of the margin and this thing. That's all. But otherwise, yes, 3.5% is what we have been guiding and we have always tried to keep it a little above that only. And if you see the SENP that is a self-employed when we do, we may have a slightly because we charge about half a percentage higher rate of interest for self-employed segment.

February 28, 2025

But that will slightly help, but it will be a little bit offset by our - when we increase the ticket size, we may have to be a little more competitive for that segment. And when we do a better quality customer selection, if when we go for slightly higher ticket size, then in that case so it basically this SENP increases will offset both the things. So, we don't expect the margins to be very majorly impacted, but it's more of a conservative guidance. That's it. So, endeavour will always be to be more than 3.5, but we are guiding for 3.5.

Sandeep Joshi:

And so declining interest rate environment where RBI recently cut the interest rates will be benefit because I mean for banks almost entirely it has been linked to record rates now. So, will we be beneficial in this cycle?

Suresh Iyer:

See, there is a benefit - apparent benefit yes, because we will get the benefit on the liability side and we are not compelled like the EBL or external benchmark rate where we have to pass on immediately to the customer. But having said that, if you don't at least align with the market or if you don't pass on whatever we experienced, then there will be a risk of BT outs. So, we will have to look at it.

But the advantage we have is that we will we have to pass on or we will pass on only when we start experiencing the benefit on our liability side. So, what we expect is that we have worked out that this repo rate impact that is there will impact about 60% of our borrowing, which is linked to banks and about another 7%, which is linked to commercial paper CP borrowing that we raise.

So, both of this put together about 65 odd percentage where we will experience. It may effective impact on our borrowing cost would be about 5 bps to 7 bps only because some of the banks will be linked to T-bill. Some of are 25 bps may not result in an exact 25% reduction on the T-bill rate or the CP rates also. So, effectively, we expect about 5 to 7 basis points.

So, when once we once we entirely experience this 5 to 7 bps, we may probably pass on a 5 bps or something to our customer effective 1st of April. So, we have the advantage that we can pass it on after we start experiencing it, unlike the banks where they have to immediately do it.

Sandeep Joshi:

So, I also have a question on our Stage 3 assets. The PCR on Stage 3 is about 55% and normally post transition to IndAS and then the PCR is based on LGDs. So, are your LGDs around 50% to 55 %?

Suresh Iyer:

See, the ECL model is a very scientific model and a lot of it also depends on the assumptions that you have as to what are the assumptions that you want to carry. If you whether you are expecting that your accounts which go into NPA will come back in aggressive fashion in within 2 years or within 3 years or within 5 years. So, these are the assumptions we are doing. So, if you look at most of the other housing finance companies who have moved to - who are also now in the ECL model, their PCR, Stage 3 PCR is coming to somewhere between 27% to anywhere between 35%.

February 28, 2025

So, we have for us it is higher because of the assumptions that we have taken. So, all I would say is that we have been a little conservative and which is the general ethos of the company. So, we would that is what all I will say. And on top of it you will also see that we have also carrying a management overlay. So, basically it is just to have a safer thing and have a slightly higher provision just to be on the secured side that is it.

Sandeep Joshi:

Okay. And so, we have guided for a credit cost of about 15 basis points for this financial year. But over the next 2 financial year, we will be looking to move slightly towards those self-employed segment. So, do you think the credit cost likely to inch up towards 20 odd basis points for financial year?

Suresh Iyer:

So, not as much, but, I do not think it will be such a large thing because as I said, even in the self-employed segment, we are not doing this appraised income segment. We are not doing this surrogate income proof or no formal income segment kind of a segment we are not doing. Even in the self-employed SENP we are doing, it is where the people have filed IT returns. So, that also is a little safe better than the rest of the SENP. Although, of course, it is a fact that our SENPA is a little higher than our salaried segment NPA.

Sarath Reddy:

In your salaried segment, what is the kind of companies you target big or medium or small companies?

Suresh Iyer:

We have mostly medium companies, I would say, because 51% is private sector employment. And even though we are mainly in Telangana and Karnataka where Bangalore and Hyderabad is a major component, our exposure to the IT sector is only about 6% of our salaried segment. I mean of our total customer base. So, that way it is mostly the private sector employers who are - so the AAA companies or all those kind of companies would probably be with the bigger banks.

Sandeep Joshi:

So, do we have the actual amount of return of assets over the last 5 years? What has been the principal return off over the last 5 years, do we have a number?

Suresh Iyer:

See, we, I will just give you broadly. As of now, entire organization, till date I don't think we have written off or we have sold any assets. That is point number one like many other companies are selling their assets to asset reconstruction companies. We have not done that. So, that is one part of it.

The second part of it is that even when we have written off accounts, the return of is only in respect of the, mostly in respect of the cases where say, for example, we have sold an asset under - acquired under SARFAESI and there is a balance which we have not been able to recover because the sale has been at a lower price than our total outstanding. So, that would be the major component of write-off.

And other than that wherever there has been some - any kind of fraud or something or any, in the past where we have done some write-off, that also total amount of such cases is only technical, written off is only to the extent of about 17 point something crores. Till the - in the

February 28, 2025

entire company. And we don't have a provision of writing off and then putting it off the books. It is still reflecting as NPA and we have a technical written off.

So, technical, other than technical written off, whatever is the NPA. So, if you are asking a lot of other companies have a write-off policy that if the account is an NPA for more than 36 months or something then we will write off. So, we don't have that policy. It continues to be as part of our NPA. So, our 0.9 or something percentage of NPA includes some of these accounts, which are old NPAs and are sticky accounts, very sticky accounts.

Sandeep Joshi:

Okay. Thanks. And so, lastly, maybe last two more questions. So, the RBI circular where they require that banks and their NBFCs should not undertake a similar business. I guess banks would have responded to this to the RBI. But what are your views on this? Is there something which can really come as a regulation so that banks can operate into a similar business? Because I understand that your customer segments and banks is completely different. How is RBI understanding the same?

Suresh Iyer:

See, that circular came in October and November 21st was the deadline for submission of the feedback and suggestions and all. All the banks have given their feedback. And I understand that right now the RBI has invited the IBA to set up a committee and give the suggestions on this aspect. So, I believe it will take some time. And off late now since that circular had come and there has been a change at the RBI also. So, since the last month or so, we have not heard anything or there is no mention much of this.

But if at all if it comes, then well, that is if it comes in the form of a regulation, we do not know how the RBI is looking at it. But if it does come as a regulation, then we do not know, then the bank will have to take a call and immediately take a view on that. But other than that, it does not actually - there are some contradictions in that particular circular itself. Because if you see in one place, it is mentioned that they can continue to have subsidiaries in for certain activities, which includes housing.

So, that one part is also there. So, that is where in another place, it also mentioned that, however, no two entities within the same bank group cannot operate in the same line. So, there is some contradiction on that. And I believe, personally, if you ask me parentage has a major, major impact on the existence and growth and everything of companies. Because today the major ones who are really doing well are all those which actually have a very strong parentage.

So, if the industry has to really grow and have some big players, then some kind of parentage is required. So, the way RBI we do not know how it is going to look at it.

Sarath Reddy:

On dividend, you have paid out a modest amount. Is it because you want to conserve capital or do you have enough capital to improve payouts?

Suresh Iyer:

So, actually, if you see in the last two years, we have slightly stepped up our dividend rates also. And from about, I think, 6% dividend payout ratio or something it is now at least 12% or

February 28, 2025

something last year, 11 point something percent, yes, there is a capital available and we can have a little higher dividend. So, that is one aspect, but still, yes, right now it is in a sweet spot. Our ROEs are 17% plus and even with a 10% dividend or 12 dividend or 15% dividend payout, we will still be able to sustain a 15% growth.

So, it is a kind of a thing. But yes, slightly we are, we have been increasing the dividend payout because 6% dividend payout was actually quite a very low payout. So, we have stepped it up in the last couple of years and maybe we will stabilize somewhere around 15 or whatever.

Sandeep Joshi:

But in the growth aspects we have over the next two years, we do not need to come to market to raise any equity capital. Is that a fair assumption?

Suresh Iyer:

Yes, because as of now the rate, we are growing at 10% and 15% also, as I mentioned, with a 10% dividend payout also. I do not think that will be a requirement plus the fact that already we are in a very comfortable, our capital adequacies today is around 23% plus. So, we are quite comfortably placed at least in that aspect. So, the next couple of years at least definitely even if we know we step up the growth to around 15, 18, even if it moves up for a couple of years that stays at a 15%, 17%. I do not think it will put so much pressure on our capital adequacy.

Sandeep Joshi:

Okay. So, just one last question. So, the major IT transformation is going to happen in Q3. Are you making sure that prior to Q3, at least let us say more than 50% of workforce should get training?

Suresh Iyer:

That is what has happened.

Sandeep Joshi:

Do we have such a variable with this?

Suresh Iyer:

Sorry, do you have the – I missed out.

Sandeep Joshi:

Are you closely monitoring the step outs, progressing how many employees are getting trained? So, that when the actual transition happens, I mean, we do not face much of impact in terms of closer disbursement?

Suresh Iyer:

Absolutely. So, we have just signed the, you would have seen the announcement has come just a couple of days back. So, we have just announced. So, we are now having regular meetings with IBM and all. And the next couple of months, we are in that process of doing it. And we will, once the - the modules and all are finalized, the training will also start. So, I do not think we will wait till the third quarter to have the training. It will definitely start at least at the end of the first quarter.

Sandeep Joshi:

Okay.

Sarath Reddy:

They say like, okay, Axis capital by Axis bank that was announced. Is that because of this November thing you feel?

February 28, 2025

Suresh Iyer: I am not sure. I am not sure what is the logic behind. But Axis also was one of I had also initially indicated that they are not very in favour of this, but as of now, there is no clear guideline which has come from the RBI. So, I do not know it is because of this or for any other reason.

Sarath Reddy: Thank you very much.

Suresh Iyer: Thank you so much.