



“Can Fin Homes Limited Conference Call”



SPEAKER:

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LIMITED**

Interviewer: Yes, so just a quarter gone by was quite good with respect to disbursements. A couple of things, one is that even your margins were quite strong, yields have been maintained. What are you thinking in this environment? One is, say, how are you pursuing growth versus margins? How are you going to do that trade-off?

Suresh Iyer: Sure. See, in terms of the demand, there has been, it is very strong. We feel across our branches, across all the zones, 6 zones, we are seeing positive feedback we are getting in terms of the demand, including Karnataka and Telangana, because these are the 2 zones where we were having some issues. Karnataka also, during the year, in fact, has been month-on-month showing a positive, has been showing a positive growth in terms of the disbursement, and the way it is going. In fact, Karnataka by end of Q3 will be YTD positive. And Telangana also, now that we have made some changes after that last 6-8 months, there have been no demolitions under HYDRA. So, there also we are seeing some kind of positive feedback from the branches. And the business, at least for the last 2 months we have seen, has been consistently above INR 100 crore in terms of Telangana state alone. And other 4 zones are also positive. So, growth is there, but our target for the year is 10,500 and we have crossed 4,500 in the first half. So, we need another INR 6,000 odd crores in the second half. So, we originally are looking at around 2,800. We are earning 2,500 this quarter because of the IT transformation. But instead of December end, in fact, we might slightly have it in the first fortnight of January.

Interviewer: The transformation?

Suresh Iyer: Transformation. Because the pennant, which is the LOS, LMS provider is having some more, as indicated, they are having a higher amount of customization. So, effort required is a little more. So, therefore, we will be, in fact, pushing a little more in this quarter, so that we will have a little less pressure in the next quarter when the transformation happens. So, about INR 2,800 crores is what we are looking at. October month has also been good because this month also we have done a good 800 plus disbursement and it is more than what we had done in July and in August, although a little less than September. So, growth is, of course, there. But Q4, generally the competitive pressures are a little higher. So, there could be something. And what we have seen is last quarter, there has been almost INR 200 crores higher prepayment, either part prepayment or loan closures. So, for that, one of the reasons probably is that we can pass on another 10 bps to our customer, which we may be looking at in this, maybe this month or the next month. That is one thing. But we still feel that will not impact our spreads as much because we are right now at 2.79. But if you see our Q2, only Q2 incremental spreads, they are at 2.91. So, we have some scope there. Plus the fact that we have INR 1,500 crores sanction which we have received from NHB in early October. So, there if we raise that funds, that will be at an average blended rate of 6.63. So, that will be much lower than the rest of the borrowing that we have. So, that will also give us a little advantage.

Interviewer: That would be what percentage of the total?

- Suresh Iyer:** See, we have a sanction of INR 1,500 crores. So, I do not think we will require much. Of course, we will have to do a little bit of NCD raise this quarter probably because that 25% requirement is there. That 25% incremental borrowing has to come from market. So, for that, we have a little bit of short because we have done INR 980 crores in May. Somewhere we would like to do it in this quarter because in Q4 rates go up. So, rather than raising in Q4, we might as well raise now which will be a little lower. That is what the plan is. So, I guess INR 1,500 of that plus another INR 1,000 crore of NCD should pull us through in terms of the incremental fund requirement for the next 2 quarters.
- Interviewer:** Do you think the rate will go up?
- Suresh Iyer:** Generally, liquidity is always an issue. So, the rates are a little elevated.
- Interviewer:** Usually, what kind of spread are you comfortable with?
- Suresh Iyer:** See, 2.5 is what we were normally saying. But now that we are at 2.79 and incremental is a little better, I think we increase the guidance to 2.75 for this year. We should be able to maintain 2.75 spread and 3.75 for NIM.
- Interviewer:** And generally, when you are saying this year, next year you will again take a fresh call?
- Suresh Iyer:** We will take a, it depends on how the rates move. But by and large, our only other issue is we still have about 58% of our assets which are on annual reset. So, if the rates, if there is a turn in the interest rate calculation, then in that case, that might hurt us. So, the next 2 quarters also, while the rates are low, we would like to convert, we would like to push our customers to move from annual to quarterly reset. So, once that happens, then the risk on the interest, this thing spread will be much better managed.
- Interviewer:** What is taking so long? I think when you came on, so this challenge was there that most of the customers on that one year reset. And I think one of the primary agendas right from the beginning was to move this to 3 months. So, how come only still just about 40% have?
- Suresh Iyer:** No. So, actually, we changed this policy. All our loans were in annual reset only. We changed the policy in January 24. Because when the rates had gone, were going up, at that time our spreads had come down. So, we waited for all the loans to get reset, then we did the change. So, effective January 24, we moved from annual to quarterly. So, incrementally, all new loans are in quarterly reset only. Annual reset to quarterly reset, the customers were not moving that fast because there was no change from January 24 to almost till February 25, there was no change in the interest rates. There was no incentive or anything for them. So, only when the repo rate cut happened and they realized that they are losing out, from there, we have brought it down to last quarter, almost 8%-9% of our loans moved. It was 67% as of 30th of June. It came down to 59%. So, now, the way we are also now sending more reminders to our customers and requesting them to move. So, I guess in the next 2 quarters that is our main agenda, to move everything to our

annual to quarterly. So, that will in fact, give us a better safety because tomorrow, whenever there is a turn in interest rates, at that time we will have both on a quarterly reset or even max-max that will be a 3-month or 2-month gap between the reset periods. So, I guess we should be able to manage 2.75 at least in the near future. That should not be a problem.

Interviewer: And this faster return, you said some INR 200 odd crores. So, this was primarily, again, like a BT-out that was happening?

Suresh Iyer: So, it is both. What we have seen is, see, BT-out, if I analyzed branch-wise, every branch was 15, 20, 30 lakhs, not much that way in that sense, except in the state of Telangana where we have seen a lot of movement because one, we have been a little slow, whereas some of the competitors have taken a very aggressive stand and are doing it. In our case, I feel in the past, we have touched almost INR 160 crores-INR 170 crores also in a month disbursement in Telangana. But if you ask me, I would be a little more cautious. I would, 125 and I will be very happy to be very frank. We don't want to go back to those old levels.

Interviewer: So, this is part of our diversification or some Telangana-specific issue?

Suresh Iyer: See, there is a Telangana-specific issue also. Diversification, of course, is there. But I think it is more of the Telangana-specific issue. Because even now the government, although they have stopped the demolition, the HYDRA is still there. HYDRA issue that anytime they are taking small areas and then reviewing it and tomorrow, see, basically, it is a policy continuity, which is a bigger issue there, according to me. In the sense that if there is an unauthorized construction, you demolish it, perfectly okay. But here, the previous state government, elected body had given as per the bylaws and everything, they had given an approval to the end customer and they just go and demolish it just because the government has changed and you have a different view. It is not done. So, those kind of risks are, you can't actually do anything against it. Today, I think that is what happened. That is why they stopped the demolitions in the fear that tomorrow the courts will give an adverse ruling. But this kind of decisions can't actually help. They don't help.

Interviewer: This is keeping the buyers etc., on the side?

Suresh Iyer: Yes. So, in that period, we also saw that a little bit of price also came down across the board in Hyderabad and all, where the demolitions are happening. The prices also came down. So, tomorrow, even if we have to go and sell, the prices are still a little less. So, the margin that we have 15%-20% that is also kind of gets eroded. Today, in terms of a total thing, it will be about a little less, about 17%-18%. It is about INR 7,000 crores today.

Interviewer: Has that led to, even on the asset quality side, stress for you?

Suresh Iyer: There was a little bit of stress. But still, it is much under control because it is not nothing more. They also, Telangana is a standalone also, it is just about 1% in GNPA, 1.1 or 1 point something.

Interviewer: In terms of the segment that you are targeting, has there been any change or you can just refresh it for us? Like, what is the positioning that you would want to have?

Suresh Iyer: See, the only change is that we are slightly increasing our self-employed segment and a little more of LAP. But it is more the self-employed where the movement is happening more. We were on the book around 73-27, 73% salary, 27% self-employed. Today, on the book, it is 70-30. And incrementally, if you look at it, about 40% of our incremental business is in the self-employed segment. So, that is where the shift is slowly happening. And in fact, if you see our presentation, we have shared that in the Vision28 document that we had, one of the things was that we are okay to take it up to 65-35.

Interviewer: And pricing is similar?

Suresh Iyer: Pricing, no. It is definitely, we charge 0.5% to 75%. It is higher for self-employed.

Interviewer: But isn't this a strategy that many of the other increments are going?

Suresh Iyer: Yes. In fact, for us, it was completely salaried. And the moment we go for a higher ticket size in the salaried, then, in fact, we are in direct competition with the banks and everybody. So, instead we can still charge a little higher. But even if we have to compromise a little to make our pricing competitive in the salaried segment, higher ticket, we can do this. So, basically, that was a strategy why we decided to slightly modify our segment.

Interviewer: And all the 100% of the self-employed are cash flow-based?

Suresh Iyer: No, we don't have any cash flow-based. We have purely ITR-based only. We have only one product, which is a small NIP, we call it, no income, based on cash salaries or something. But that is a very small component for us.

Interviewer: Everything else is ITR-based?

Suresh Iyer: Purely ITR-based. So, technically we don't have that affordable segment, what they do, appraised income, surrogate income, or average bank balance, all those kind of things, we don't have.

Interviewer: So, average property value is how much for us? Average ticket size of loans?

Suresh Iyer: Average ticket size of loans is 25 lakhs. So, the property value incrementally would be around 30-35 lakhs. So, it is a small 2 BHK on the outskirts, or something like that, 600 square feet.

Interviewer: Earlier, you had talked about how the supply in this segment was a challenge?

Suresh Iyer: That is the smaller ticket size, yes.

Interviewer: So, it is affordable also, right? You were saying that now, because this scheme was phased out?

Suresh Iyer: CLSS, yes.

Interviewer: Yes, and then we did not have enough developers, developing properties in the early segment a bit of a--. So, now, what is the--

Suresh Iyer: That continues, because even now, the CLSS, which has been launched, it is not so lucrative as the previous version. So, still, builders are not rushing for new constructions, new projects in affordable. So, that is why if you see the affordable in terms of the new business, actually the growth has been coming down. In fact, now it is in single digits only. So, within that affordable mid-segment and prime, the affordable is still below 10% only.

Interviewer: So, when you are talking affordable, it is your segment or?

Suresh Iyer: We are talking about 2025 that segment. In fact, if you see our incremental business in our slide also, the 30 to 50 is where we are seeing the maximum growth. And the less than up to 10, 10 to 20, we are seeing that it is going down in terms of the percentage business.

Interviewer: Could that not necessarily affordable would have so much of basically elasticity towards DE or the cost of mortgage. But generally, given that we have also been a little slower in terms of passing the benefits of the fall in repo rates, I think the last you cut was in May and you haven't cut your interest?

Suresh Iyer: No, cut in July.

Interviewer: In July? But overall, you have just passed 25?

Suresh Iyer: We have passed 25, yes.

Interviewer: So, is that also a factor? I am just trying to correlate because our book growth, if you look this year, it is going to be just about 11%-12%. I think I have got it for 11%-13%. If you look at competition, they are still probably going faster than us?

Suresh Iyer: That is correct.

Interviewer: So, what is the delivery strategy? Just help us understand why we have kind of held back from cutting or passing the benefits and also the BT-out may be in correlation with that. Just help us understand what strategy we follow this year?

Suresh Iyer: No, actually, the first two cuts that is in May, we were the first to cut the rates among all the HFCs and NBFCs. Again, in July when we cut it, at that time in the July earnings call, we did mention that we are looking at a further 10 bps or something rate cut. At that point in time, we

still had about INR 2,500 plus crores of one term loan where the 50 bps benefit was yet to come to us. They were yet to pass it on to us. So, therefore, we had said that once that comes, we will probably our, because we have always been following a policy that once on the liability side, we start experiencing the benefit, then we will pass on to the customers. We will not up front it. So, then in that case, we waited for that. That happened in August. But somewhere in September, if you recollect, there was another 7-8 bps bond yield started going up. So, then we said, let us hold back for a month. Let us see how it behaves. Then we will look at it. Otherwise, from the customer's point of view, you cut 10 bps next only to increase it in another 15 days. It doesn't look good. So, that is why we held back. But now, there is a definite case because it is holding up. So, we will definitely be looking at 10 bps and we will pass on to the customer.

Interviewer: What are the BT-out rates in the business case?

Suresh Iyer: See, in our case, we have like you see in the quarter, we had INR 1,661 crores is the total repayment plus amortization of which the closure, which could entirely be attributable, even if you say for BT-out rates, it is about INR 380 crores.

Interviewer: That is for the quarter?

Suresh Iyer: For the quarter. So, that is INR 380 crores is about 1500 for the entire year, which comes to somewhere around 4%, 3.5%-4%. That is the actual closure and BT-out. Then there is, of course, part repayments. In fact, our bigger issue is part repayments where customers pay, but the loan is still with us, which means it is just that we have excess cash and they are reducing their liability. Now, that is what is hurting us more. Because 16% is the total closures plus amortization. 3.5%-3.75% is the amortization. So, effectively, 8% of our portfolio rundown is mainly because of the part repayments.

Interviewer: So, that is what Abhishek is asking, right? You have moved your spread agenda from 2.5%-2.75%, so you have taken an expansion, whether it is about your costs coming first or maybe being passed on later, but you have shifted that goal. Is it at the cost of growth?

Suresh Iyer: See, growth also has come because if you see both quarters, INR 2,000 crore in Q1 was also one of the highest. We have never crossed INR 2,000 crore in any Q1 in any of the years. Same way, INR 2,500 also is the first time for the company where we have crossed INR 2,500. So, in both quarters, we have seen growth. And had Karnataka and Telangana been at a better level, the normal levels also, in fact, we would have been at a much higher level. So, it is more because of the two major markets. Because today also, INR 11,500 crore is our portfolio in Karnataka. Incrementally also, if you see, 30% of the business is coming from Karnataka. If you look at Telangana, today almost 18% of the business or portfolio is in Telangana. And incremental business, if you see, then also it is almost 12%-13%. It is 1 by 8. That is the kind of business that we are doing in Telangana. So, between the two states, almost 42%-45% is what is the incremental business and in these two states, we are having a bit of a slowdown, or we are having some challenges. That is why otherwise growth is not an issue for us.

Interviewer: Is the kind of growth that you would envisage for the company, let us say, medium term for example, I am not talking of this issue period, but generally like?

Suresh Iyer: I think 15%-17% is the growth that we should be seeing.

Interviewer: Disbursement growth?

Suresh Iyer: No, I am talking about AUM growth of 15%.

Interviewer: But I wanted to ask more in terms of disbursement because that is something that has been changed?

Suresh Iyer: 20% disbursement growth. Because this year, we are talking about 10,500. Last year, we had 8,500.

Interviewer: Right. But last year was a depressed base.

Suresh Iyer: Last year was also because of Karnataka. We are still going through that. That is why 10,500. Next year, we are definitely looking at around 12,500-13,000.

Interviewer: So, in general terms, things remain as they are. Like not weak base, etc. You are okay with the 20% disbursement growth. That is what you would want to do, right?

Suresh Iyer: Correct.

Interviewer: Are there any incrementally link geography is taking much more focus area for that incremental growth?

Suresh Iyer: No, we are on a normal progression. We are adding branches. But those branches are like 18 months is the normal break-even period. They are all in different stages. And every year when we are adding 15-20, 15-20 branches, effectively that is also something which will be a regular 2%-3% add which will come from there.

Interviewer: What is your competition when it comes to lending in the salaried segment? And just the profiling of the customer in the salaried segment. Because there you are directly competing with maybe regional banks if not the larger ones?

Suresh Iyer: Not really. If it is a salaried segment, then our main competition is LIC and Bajaj. And if it is self-employed, then of course it is PNB also.

Interviewer: So, why aren't banks looking at that same customer, the salaried customer?

- Suresh Iyer:** See, banks, one is because we are slightly below the radar. Even Canara Bank, which is one of the more aggressive banks in terms of home loans, their average ticket size is 35 lakhs.
- Interviewer:** So, you are saying for banks the ticket size is?
- Suresh Iyer:** It is one of the things. Plus the fact that our business is more from the periphery and the Tier-1 towns where the banks are not so very aggressive. It is more of, if you look at probably Bombay, Bangalore, bigger cities, yes, banks are definitely there. But the moment I move out of Bangalore and look at somewhere like Kengeri, I look at Hoskote, I look at Doddaballapura and all those things, then definitely the banks are a little less aggressive there.
- Interviewer:** So, your competition starts with NBFCs only?
- Suresh Iyer:** NBFCs and this, yes.
- Interviewer:** How about the likes of Tata Capital and Aditya Birla?
- Suresh Iyer:** Aditya Birla and Tata both are there, but their rates are a little higher.
- Interviewer:** In their salary?
- Suresh Iyer:** Both segments.
- Interviewer:** And how much, what is the difference between?
- Suresh Iyer:** See, today our self-employed also, we would be giving, starting from over 10%, if it is not, even if it is 700 score, I am saying. If it is 800, 750 plus score, then of course, it will be even lower. But I am saying, even a 700 score, we would be charging around 10% for the self-employed segment. Whereas their rates start from a little higher.
- Interviewer:** No, we have 1050?
- Suresh Iyer:** 1050, 11.
- Interviewer:** But our cost of funds versus Tata Capital should be similar, right?
- Suresh Iyer:** No, I guess in cost of funding basis, I think the closest would be LIC HFL, then Bajaj and PNB and all will be definitely 40-50 bps higher.
- Interviewer:** But I thought Tata Capital, so that is on the salaried one and on the other profile which you are talking about, self-employed, there are competitions similar or?
- Suresh Iyer:** There also. See, today when we look at the prepayments and all, who are the top 3 across the board, it will be these three only, LIC HFL, Bajaj and PNB.

Interviewer: So, is the competition in salary appearing lower, say, because LIC is going through a set of they are not growing much at all. Are we sort of, right now, a bit better off because of that?

Suresh Iyer: No. Today also, if you ask 7 out of the 10 branches we will say the biggest competitor is LIC. Because even though their numbers are little subdued, but still they are the ones who are maximum picking up, followed by Bajaj.

Interviewer: And our edge over LIC would be servicing or?

Suresh Iyer: Servicing is one. Rate, not much. In fact, they are offering a more attractive rate. They are offering a better rate than us.

Interviewer: And versus Bajaj?

Suresh Iyer: Bajaj, actually the housing loan, they offer a better rate, but they work on a blended rate concept. So, they also normally, it is always a takeover plus top-up kind of a thing. So, then they have a top-up component which is at a higher rate. So, blended cost eventually will be higher. And we are not able to sometimes match the kind of top-ups that they are able to offer.

Interviewer: But that amount you are saying? And just to understand, what is the yield which we are charging on salaried end? Maybe the difference between LIC and Bajaj for you? How expensive are we versus them on just the initial amount?

Suresh Iyer: See, LIC is offering starting from 7.5. They are very aggressive. They are saying 750 plus 800 score. So, the score, I think they would be offering 7.5 also. Our rate starts from 8.7. So, that is that. But once you look at the overall kind of a thing, I think yield-wise, we are still at 10.08. So, the gap for us is not a very large one. So, our lowest and the highest amount will be 12 even if it is a self-employed, non-housing, LAP, it would be maybe.

Interviewer: So, they would have a wider range? You are making it a narrower range?

Suresh Iyer: It is a narrower range. No, in fact, I don't know. The yield, I think, should be incrementally, it might be lower as a kind of push that they are giving.

Interviewer: Any plans for you to look at affordable segment as well?

Suresh Iyer: Not right. Because actually, the teams are not at all accustomed to lending and doing appraised income and all. It has to be very maybe a small beginning, small pilot. Then maybe we will look at it. But as of now, nothing.

Interviewer: Any partnering with any banks or smaller NBFCs?

Suresh Iyer: So, in the long run, in the medium term, yes, we would like to have either a co-lending or a DA kind of an arrangement where we are the purchasers or the major partners in a co-lending. But as of now, we are yet to draw up a policy.

Interviewer: So, you are the purchaser, and you have a smaller entity?

Suresh Iyer: Yes. Because in terms of co-lending, I don't think there is a need for us to be the 20% partner. Neither liquidity is an issue nor rate of interest is a challenge.

Interviewer: What would be the current split of the existing book of 40,000 just to again understand between the various components, whether it is the CRE loans or the mortgage, then the non-mortgage, retail exporters, etc., can you help us understand?

Suresh Iyer: Sure. We have that slide. Roughly, if I tell you, it is 86% is our housing including CRE. CRE would be about 11%. I think 10%-11% would be CRE and our LAP is about 6%. Then, so 86 and 14% is the rest of it. So, that is 6% out of that 14% is LAP. So, the remaining 8% is top up, lot loans and personal loans.

Interviewer: Builder loans?

Suresh Iyer: We don't have builder loans. It is all retail only. So, about 75% is pure housing.

Interviewer: Could you give loan for plot book?

Suresh Iyer: We can. So, there are two things. One is we can give us little bit of lot for funding. Second thing is we take an undertaking from the customer for a composite loan. So, they purchase the land and then they have a plan to construct it. But there we have a 12-month period. If in 12 months, they don't start the construction, we compulsorily convert it into a plot loan and start charging the higher rate of interest and reclassify that loan as a non-housing loan.

Interviewer: Incrementally, any of these numbers change in ratio, like LAP to 6%, you said?

Suresh Iyer: LAP was 5%, it slowly moved up to 6%. And even top up loans, because when Karnataka, we are facing this e-Khata issue, our Karnataka branches also moved a little bit towards, more towards LAP also. And now even in some of the newer geographies or even in Rajasthan and all that, the demand for LAP is also quite high. So, there also our percentage, if you look at it, would be a little higher compared to the rest of the places, Rajasthan, Gujarat.

Interviewer: So, one is, how have you done this workaround of this e-Khata issue? Because that is not done yet. So, how have you solved for it? And the other thing is, why are you saying that the LAP demands, even in other states, like here, obviously, maybe your employees are choosing LAP because they can't do HL. But there also, why do you see this LAP demand high? Where is it coming from?

- Suresh Iyer:** See, first of all, in Karnataka, what we have done is, this e-Khata issue, at least in the corporation units, has been kind of resolved, just takes about 7 days and all, you can actually get e-Khata. If your papers are clear, you can get it within 7 days. So, that process has now been kind of sorted out. It is only the panchayat areas where we are not able to get e-Khata. So, that is one thing. So, we are now getting a higher percentage. Earlier, when it actually hit, it was almost about, I think, 70% odd would have been easily our panchayat business. But now, in Karnataka, now that has kind of changed. That is one. Second thing is, in LAP, you don't have to go for a re-registration for the property. That is why a little more of LAP, the branches have started. And in terms of Rajasthan, Gujarat, and particularly West, there has been a general LAP has been more of a business profile. So, therefore, they are looking at raising money based on that.
- Interviewer:** So, there is a substitution of say, unsecured loans into a more secure?
- Suresh Iyer:** LAP business, even otherwise, even for us it is still 6%, but if you look at a lot of other players, because as I said, affordable is not growing, technically it is below 10%, but still affordable housing finance companies are growing. Basically, it is their LAP book which is growing.
- Interviewer:** No, but is it like business demand has grown so much? I am just trying to understand the end-use. What is driving this LAP?
- Suresh Iyer:** The end-use is business, obviously, because in a LAP, it is definitely not for house, construction or-- So, it is obviously for business.
- Interviewer:** Sir, I think the change that you are doing now, a part of that you mentioned that after there will be some cost, overall productivity increase will be there. Barring this transition cost and potential gain later on, is there anything material changing for your modern systems with respect to the processing? Because one of the things that you had mentioned earlier, earlier you used to be a very heavy DSA company, you started building a home app for a channel. Does this IT infrastructure help you in this, along with that sourcing, risk management? What are the areas that this IT?
- Suresh Iyer:** Currently in our system, we don't have an HRMS, we don't have a DMS, we don't have a digital sourcing platform, we don't have a CRM.
- Interviewer:** You don't have a CRM?
- Suresh Iyer:** No. So, we are now building all those things around this, what will come into it. And even the present LOS, LMS vendor which is there, who is there, who is servicing us, that LOS, LMS vendor was we tied up with them way back in 2011. So, you can imagine that the system is also quite outdated and needs a bit of upgrade. Second thing is it was only an LOS, pure play and LOS, LMS service provider, no add-on of deposits or GL also. For that also, some stopgap arrangement was made with them, which has been servicing us perfectly, no issues on that. There are challenges, but at least it is supported so far. So, now when we are going, there will be a

proper GL package, there is a financial accounting, there is a treasury and ALM and borrowings package, HRMS, DMS, all those things, plus mobile solutions, mobile applications, of course, mobile applications for recovery, for property visits and onboarding. All those things we have already upgraded in the last 2 years, we have already done that. But then that goes, we were not there prior to 2023. So, all those things, in the last 2 years we have upgraded, plus in the new system they will be part of the LOS, LMS. Pennant itself is having all those things. So, some of the third-party solutions which we have onboarded in the last 2 years will be replaced by Pennant, having its own native solutions for those applications. So, that is one thing. Digital onboarding is the major thing which we will be able to get. That is, if you see, we want to have about 10% business in the book coming from digital sourcing. So, that is something which we have not started. We have started the FOS, and we have started the APF, all those things, but we have not started the digital because once this comes, then we will be able to do that.

- Interviewer:** So, this IT part will also be the critical role for incremental sourcing going forward?
- Suresh Iyer:** Incremental sourcing also, plus the fact that the system today is completely working on a 12-year-old, 14-year-old package, which anyway is kind of too many patches and things like that. We have to have a more robust package.
- Interviewer:** Any changes in underwriting or risk management?
- Suresh Iyer:** Underwriting and risk management, no.
- Interviewer:** You mentioned part of this transition is done and when this happens eventually, we have seen with a lot of other companies also, the agenda is that it gets done in a bit, somehow it spills over into multiple quarters as well. So, how are you sort of protecting for that or re-fencing for it in any way?
- Suresh Iyer:** See, first thing in our case is the LOS, LMS provider is the same. So, we don't have that integration challenges which normally other players will have, like a sales board working with a Flexcube or something else working on so and so. We don't have that. So, in fact, straight it can go. It is already a ready-made package, which is already functioning in a couple of other players.
- Interviewer:** Is there an end-up?
- Suresh Iyer:** We have a pennant base. The LOS LMS is coming from pennant, and pennant is already running at Bajaj, housing finance and also LIC. So, basically it is tried and tested. We don't have to replicate any kind of thing. Then, second thing is compared to a lot of other companies.
- Interviewer:** So, my understanding, LIC also uses same pennant for both LOS and LMS?

Suresh Iyer: They are using pennant for I think at least LOS definitely. Bajaj is using both. Now, Bajaj in fact has invested in pennant also. They have a 25% stake in pennant also.

Interviewer: Because LIC actually, I remember had had quarter or two issues when they did this transition, which is why I was wondering if they have both same.

Suresh Iyer: No, I think they have both same, but I will just check. So, basically pennant is the thing. So, LOS LMS being a different vendor where there is integration issues is taken care of. We don't have. Second is that in terms of our products, in terms of our offerings, we are comparatively less complicated than most others because we don't have appraised incomes. We have a lesser deviation matrix. We don't have those kind of verticalized approach where one moves to the other and things like that. So, it is a simpler kind of offering that we are having. Therefore, even pennant when they are offering, actually 85% of the module I think probably is as is you just have to deliver it. No complication, no new modification required for us. Whatever we are saying is already inbuilt into the basic offering itself. Then, there are about some more 30-40 order customizations like integration for PAN, integration for Aadhaar, account aggregator, CIBIL, Experian, all those kind of things where they will obviously have to have a linkage with the third party which is also a normal business practice. Only thing is they will have to customize it because our vendor, they will have to have their APIs with them. There are only about 8 or 9 such applications where our thing is a little different from what the industry is offering. Those are the only things where really we have to go into the depth in terms of the testing and stuff like that. Other than that, everything is quite simple. There is no complication that we foresee in that thing. The other packages like DMS or work line, which is for HRMS, even today we don't have it. So, whatever is coming is not going to basically affect the business front and business part of it. The other major one is the GL, which is the financial package. The financial package, since we have already implemented our first phase which is our treasury ALM and borrowings package, for that time part of the finance infor package has already been implemented. Trial balance sheet and all has already been brought in. Some of the data migration issues also which from the previous vendor in relating to the ALM and all those things have also been migrated and brought in. So, we know that these are all functioning properly. So, there also the complication expected is less because we have already seen some of it. Some of our people are already working on the infor package currently also. So, there is some familiarity slowly getting built in also. So, there it may be a little less complicated.

Interviewer: Also just in the beginning you said that the demand has been quite strong. Is it from your point of view where you are coming from a low base or is it a general industry?

Suresh Iyer: At least from our point of view because of a low base definitely, we don't see much of a challenge. But I don't know others because some of the bigger players are facing challenges.

Interviewer: Your growth has very much been since your organic growth has been very much sorted out internally at least for the next 1 or 2 years. But you are also yet to finalize the policy on co-

lending co-organization. Why have you not finalized? Because home loans and gold loans are by far the most preferred products for this and we have seen the kind of outtake people have taken without taking any material hit to any of the line items of P&L. So, many of the companies are now opting for this route as a plug-in to incremental growth. Of course, it speeds up your balance sheet also. So, why have you not yet finalized it?

Suresh Iyer: Just that our Board also has to be open to so we will be putting it up and informally the objective is you have a good amount of growth anyway organic growth available. It is a small base. Why take a risk of by another lender's credit appraisal when our internal. That is it. We have not pushed out so much. I think we will.

Interviewer: But it doesn't look like this. There is no resistance from the Board.

Suresh Iyer: No. It is up to us. We will have to take it to the Board.

Interviewer: But for the appraisal you are saying when that happens you do not co-appraise it. It is just going to be?

Suresh Iyer: No. If it is a DAV it will always be only on the appraisal of the pool performance. But for the co-lending it will have to be.

Interviewer: We will have to appraise together to integrate the system.

Interviewer: I think that might make sense after your transition.

Suresh Iyer: I think once the transition happens then because for co-lending we will have to have another package which will allow us that--

Interviewer: In terms of sourcing DSA versus your direct what is the thought process?

Suresh Iyer: Our experience on the direct sourcing which we have started has been very good. Today, we have about average productivity of our sales team is around close to 80 lakhs per month per staff. So, we had only about 39 people up to June which now we have increased close to 90 now. And even in September, because the moment new people come in, they will take a little time to adjust. But still within 3 months, when we added more people in July, initially it dipped but again it has come back to close to 80 lakhs per staff per month productivity. So, that is definitely positive. In another next 2 years, I think we would like to increase this number to around 250 by 8. So, that we can add. This year alone we are looking at this team contributing about INR 750 crore in terms of incremental business. And incrementally, if you look at September, if you look at October, they have been contributing more than 8% of the incremental business already even with just about 90 people.

Interviewer: And when did you start this?

Suresh Iyer: It was only in June 24th.

Interviewer: Just October. And incrementally, 7%-8% can move towards 15%?

Suresh Iyer: We want to take it up to 20%.

Interviewer: And what is the difference when you said directly, when you said experience has been better?

Suresh Iyer: See, one is our ticket sizes have been a little higher in the self-sold business. Second thing is, unlike DSAs and all where they choose what customer to bring to us. Here we have a choice of selection. We can actually select what kind of customer we want to do. What kind of profile we want to target. What kind of builders we want to tie up with, APF and all. So, that is the second advantage. And plus the fact that stickiness because if the DSA moves out then we will obviously the chance of BT-out is there. And now in fact in the industry also, we are seeing these kind of instances where corporate DSAs are just picking up the retail DSAs.

Interviewer: And earlier the resistance for this initiative wasn't there because of costs?

Suresh Iyer: No. Earlier, it was not tried. So, actually when we initially the board was also clear that we want to bring it down. Actually, if you look at it up to 2018-19 our business mix was 50%, 51% was DSA, 49% was direct. It is only when COVID hit or somewhere around that time when the business completely shifted to DSAs and it suddenly went up from 50% odd to 87% in March 23. So, that is the 3-4 year period where it suddenly shot up. So, now the Board was very clear that we were very comfortable with that 50-50. Now, at least we would like to bring it down. So, that is where we have done it. But once the business and once the down the line team is also comfortable with the direct full readymade files coming so that resistance and all is there.

Interviewer: What is the salary you pay to the sales staff?

Suresh Iyer: This sales staff? They are proper on the roll staff only. It is not that DST or DME kind of a concept where INR 15,000, INR 17,000, INR 18,000. These are proper staff. So, our entry level salaries are somewhere around INR 38,000-INR 40,000. That is what we pay.

Interviewer: That is a fixed and they have a variable compliment.

Suresh Iyer: That is a fixed and there is annual incentive and all those things.

Interviewer: So, that 87 going to 50 was because that employee base just saw attrition?

Suresh Iyer: No. So, probably, one was COVID so rather than going out the DSAs were bringing business and that is what was happening. Plus I think once they got accustomed used to it, going out was also kind of not happening.

Interviewer: In terms of cost is there any big difference when you source it from DSA versus them?

Suresh Iyer: See, currently probably we are a little is more expensive. Direct sourcing is a little more expensive right now although we have good recent productivity, but once you probably cross INR 1 crore productivity per staff per month then I think it will be because today if you are paying INR 38,000-INR 40,000 then effectively INR 1 crore business is what they have to bring otherwise I mean if you are paying 40 average payout to the DSAs is around 0.45.

Interviewer: What percentage of your branch has a venture less than 3 years currently?

Suresh Iyer: Less than 3 years, we have about 53 branches.

Interviewer: And at branch level what is the attrition total?

Suresh Iyer: Total attrition today is about 14%.

Interviewer: Significantly lower than the--Is there a function of the higher salary or?

Suresh Iyer: That is also there plus I guess some of the staff older and all there is a bit of a loyalty, lot of them have had some kind of.

Interviewer: At Branch Manager level you have it?

Suresh Iyer: No. Only Chief Manager and above high staff. So, some of the larger branches, so what we have a level based things, small, medium, large, very large and all those things. So, almost every, the large and very large and all they would be headed by Chief Manager or above or an AGM. So, there the Chief Managers have it so basically we have about Chief Manager and above only are having resources right now.

Interviewer: At senior management level, has there been any changes in last 6 months or?

Suresh Iyer: Of course, the CFO has joined, we had the CFO leaving. Other than that we have had a couple of people retiring, senior people retiring and we have had to replace them, so not all of them have come from within, some of them we have had to recruit like the head of HR at the AGM level, we got them about 6-7 months back or something. We took them from the market. Now, in fact on the second line we are having but not on the otherwise no CFO and head HR.

Interviewer: The frontline is now aligned to the way of doing business now especially since you said long enough vintage have things changed for the material in terms of targets etc.,?

Suresh Iyer: So, I would say to some extent the sales team concept is yet to 100% sink in, it is happening, but we are having a mix when we put our existing staff to sales, push them to sales. Not everybody is being able to adapt to that, so we are having some attrition coming from there. So, newer

people also yes, because when we are taking from the market, we are having this challenge that in the market probably we and may be a Repco are the only ones who are having this branch concept otherwise it is a complete vertical concept so if you are doing sales, you are only doing sales. Once you pick up the file and give it, somebody else does the data entry, somebody else does the appraisal sanctions. So, here, it is a little bit different. So, that is not many. That is the one. But in terms of incentivization, in terms of this, yes, we have brought in quite a bit of a change, and I think it is more from, it is a positive acceptance is there. Even, we had a compensation benchmarking, we reviewed the salary packages, and we have increased it in effective April. That has also been positive, so I think this change is coupled with an increase. They are fine with it.

Interviewer: So, the branch concept that you are saying that you are doing was established do you see a lot of merit in sticking with it given that everybody else is doing more vertical?

Suresh Iyer: See, there are there are what do you call certain areas like salary segment may be green channel where we can do a little bit of centralization, but I think the USP for us is that decentralized sanctioning power because 75% of the sanctioning is happening at the branch level. So, that is one big advantage that we have on the ground. Our boys are able to meet the customer and give that comfort, yes, I can do. So, that is actually one of the USPs because most of the players when they say the person picking up the file can only say no, I am collecting, give me, this give me that, give me 20 documents, but I will have to send it somewhere, they will tell you.

Interviewer: What about let us say someone like Home First also, we just fainted all of the data and frontline also in itself, especially given that you have a like you said you don't have a lot of deviations, pretty standardized, even I guess if you have the system for it we should be able to give that kind?

Suresh Iyer: So, pre-sanction and all is already there so that we have also built into our lead generation app also when you are able to immediately based on these things the system can itself give you an initial pre-sanction which then you can modify or whatever so those things yes they are possible but still I think and any such kind of abrupt change from 30 years, 35 years to suddenly saying that we will go from match to vertical is not possible. Maybe we will slowly take that.

Interviewer: Sure. Just from your LAP, how is the underwriting, is it cash flow based or again the property?

Suresh Iyer: It is based on property and based on ITRs or salary whatever, there are some.

Interviewer: But the decision is taken on ITR, just trying to understand because LAP you always have that issue right, you cannot liquidate the property?

Suresh Iyer: No, there is no issue. LAP also, we don't have. So, LAP in fact has a lower LTV. So, in fact, we have a better margin in case of LAP.



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Interviewer: Alright. Thank you so much.

Suresh Iyer: Thank you.