



“Can Fin Homes Limited

Conference Call

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MANAGEMENT: MR. – CAN FIN HOMES LIMITED

Executive: Yes. Good morning. So, how do you want to start? You want some update on the quarter what do you want, how is it or you have some questions you can straightaway with that?

Analyst: Briefly give an update on things.

Executive: Sure. Well, actually, January and February, we've had disbursement has been fairly good. We had given a guidance of about INR3,200 crores for this quarter. So, in Jan and Feb put together, we've already crossed INR1,900. So, we are almost on course for this INR10,500, that is INR3,200 crores which will take us to INR10,500 in terms of the disbursement.

In terms of our AUM, there's been slightly higher prepayments, which is in line with what our Q2, Q3 was also there. It's a little higher than what we had anticipated, but that's the same trend has continued in this quarter as well in Jan and Feb. So, we expect in this quarter also, prepayments to be slightly elevated around INR1,700 crores, INR1,750 crores for the entire quarter as a whole.

So, that would make about INR42,100 to INR42,200 would likely be the AUM for the end of the quarter. And this is slightly higher because we had anticipated in a normal year, the entire last year we had prepayments, part payments and amortization, everything put together, in the range of about INR1,450.

So, this is something like, almost every quarter for the last two, three quarters, we are doing about INR200 crores, INR300 crores higher prepayments than the normal. That's one. And in terms of delinquency, there is no pressure. In fact, the last four quarters, we have consistently brought the actual delinquency numbers down. And that is likely to continue in this quarter also.

We are confident that across the board, SMA-0, 1, 2 as well as NPA, numbers will come down compared to December. So, that could also result in some bit of provision reversal also in this quarter based on ECL. But we'll see. So, that's likely. Last year, we had in Q4 about INR20 crores reduction in our NPA. That resulted in about INR10 crores of reversal in provisioning.

As of now, our provisioning for the first three quarters is put together about INR39 crores. And with some reversal, probably INR30 crores, INR35 crores if we end with that, it will be somewhere around 8 basis points would be the credit cost for the year. We had actually guided for about 15 basis points, but we will be well below that.

So, in terms of delinquency, the numbers look a little comfortable. We should be actually ending with a lower delinquency numbers compared to December also, which will make it a fifth quarter in a row where our delinquency numbers will be coming down. Then as regards spread, in fact, we will be moving to our quarterly reset as we had indicated, effective 1st of April, because we have sent communication to our customers and seeking their consent and all.

And based on that, about another 1.2 lakh customers, which is almost another 32%-odd of our entire book will move from annual to quarterly reset. So, that way, in fact, by end of this quarter, we might have almost 85% of our book will be converted to quarterly reset, which will give us a buffer in case the rates go up or something.

So, that is there. But because of this lag in the annual reset to quarterly reset, in this quarter also, our spreads will hold. In fact, it may go up by a couple of basis points, but at least in terms of spread, it will not be lower than December. So, that is what we are expecting. So, spread is not a problem.

Although in Q4, we've had a slightly higher borrowing cost compared to the previous quarter. But thankfully, because we had planned in such a way that we had un-availed funds in the end of Q3, we had also un-availed NHB sanctions. So, basically, we didn't have the pressure to actually borrow from the market in terms of NCD or CP.

So, we could do with bank borrowings. So, therefore, our incremental cost even now is almost 7, only one CP we raised at 7.10 around INR1,000 crores. But other than that, entire borrowings we've kept at rates below 7% in this quarter. NHB funds, in fact, came at around 6.6%. So, basically we've had overall incremental borrowing cost for Q4 also at below 7%. So, in all likelihood, we will not have any major pressure on spreads. So, that's in short on all the three key parts of it.

Analyst: What is the BT-out for [inaudible 0:04:48]?

Executive: See, BT-outs in a quarter we have about close to INR380 crores is what we had last quarter. Last month also was almost you can say INR400 crores is the BT-out which is there the customers close down. We have a higher chunk of loans where people make a payment, but they don't close the loan, which means they have some surplus which they reduce their liability.

But basically, they don't close the loan, which means so they have the loans continue and it's not therefore a prepayment. I mean, it's not a closure, it's not a BT-out. BT-out is where they close. So, we are assuming all the closures are basically for BT-outs. So, that's about INR400 crores in a quarter.

Analyst: And maybe for FY27 what will be your AUM [inaudible 0:05:34]?

Executive: For FY27, we are targeting about INR13,000 crores in terms of disbursement. And this quarter also, considering if this same trend continues, then we would expect somewhere around INR7,000 crores to run down. So, which means a book addition would be around INR6,000 crores. INR6,000 crores compared to INR42,000 will be about 14% to 15% for the next year.

Analyst: 14% AUM growth?

Executive: AUM growth for FY27 is what we are targeting.

Analyst: And disbursement?

Executive: INR13,000 crores.

Analyst: I believe you already clarified in Q3 call that e-Khata related issue now we have?

Executive: At least in case of Municipal Corporations. Gram Panchayat still not done, but we have still brought our numbers to around INR250 crores run rate in Karnataka. We are able to do that

much, consistently we've been doing that. Q4 will be slightly higher, obviously, because Q4 is always the peak quarter. So, we may end up with a INR275 crores to INR300 crores average disbursement for this quarter, around INR275 crores, but otherwise, you can say INR250 crores is our run rate per month here.

Analyst:

And is this overall similar, is there any impact of slowdown in growth etcetera?

Executive:

So far, not much. But Yes, if it prolongs then maybe we may see something. But right now anyway we have a sizeable chunk of disbursements which are under-construction properties. 65 percentage construction and self-construction properties. So, there anyway, the disbursements are all continuing. There is nobody stopping.

But maybe new launches and all also so far not an issue. But if this continues, maybe there could be some pressure. Delinquency also, but that would be only if it prolongs and more so in the smaller ticket loans. In our case, in fact, our incremental long-term, I mean, if you look at our incremental lending, it's more in the 25 to 75 or 20 to 75 is what you can say.

So, basically, the real small ticket is a little less for us. Plus the fact that almost 70% today also incremental disbursement that we are doing is in the salaried segment, on the book. Incrementally, of course, we are doing about 60-40. But in terms of the book, we still have about 70% who are salaried. And 90% of our loans come via NACH. And this month also, we have observed that normally we have 5, 10, and 15 as the key NACH dates. All the dates we have had a decent, we have had no change or any impact on the NACH clearances.

Analyst:

But have you done any scenario analysis that in case the war prolongs, when would be that point where things might get worse, like if the war should go on for six more months, then things might [inaudible 0:08:46]?

Executive:

No, even before that if it goes, it could be impacting because obviously for the smaller ticket customers, first it will happen where their cash flows will get impacted. But in our case, as I said we have more of salaried segment. So, as long as the income continues and there has been some increase in terms of -- I don't think there will be so much of an issue.

Analyst:

And what about the generic industry as a whole, not specific to what you expect?

Executive:

See, we had some impact on the delinquencies a couple of quarters back, particularly after the microfinance issues happened. But over the last one or two quarters, I think the industry generally has been the delinquency levels have been improving. And so I don't think that is so much of an issue.

But affordable segment, I have consistently been saying that the supply has been going down and there will be an impact and growth rates in the affordable segment will go down. So, that's why, in fact, we for the last three years have consistently moved our book more towards the 20-plus segment.

And our average ticket sizes have also been inching up a little bit, but because I personally believe CLSS, which was a big push for affordable segment earlier is not so very -- has still not

caught up as much as one would have expected. So, the supply also in that particular segment has not been coming much. Earlier, we had a lot of -- in CLSS 1, there was a good push coming from the state governments, particularly Gujarat, Tamil Nadu, Maharashtra and some of the other states also.

But now what has happened is in some of these states, I feel that I find that the demand has kind of dried up or that the possibility or the shortfall has kind of dried up. So, it's for the other states to pick up. And unless they start doing really something in terms of bringing in supply we will not be able to see the kind of growth that we saw from 17 to 20 to 93.

Analyst: And this time [inaudible 0:11:02] cycle which will be three to four years?

Executive: I won't say that because the government is really trying to push hard in terms of affordable and right now if you see actually states like in fact Maharashtra also the government has spoken a lot of pushing a lot under MHADA and CIDCO, lot of these options these things have happened and allotments have happened in MHADA and CIDCO even UP for that matter we have been hearing a lot of things happening in UP in terms of affordable segment where they have also trying to follow the same model of activating all the urban, local bodies.

So those kind of things if they start happening it will really be good and UP is a huge market. So that is also there. Similarly some of the other states where the shortfall is still there in terms of affordable segment. EWS and LIG segment particularly. There in fact those states also if they start doing something in terms of bringing supplies, urban local bodies doing the construction or new tenders doing it or modification in the land laws or putting in control like MP did earlier where they said every big property, any construction that is happening, a certain percentage of the construction has to be for EWS.

They have to construct it, then hand it over to the government, then only they will be able to get the OC and everything further and be able to sell the remaining units also. So, basically, those kind of things if the governments do, then definitely that will bring in good amount of supply.

But like, for example, Gujarat was one of the very important states in the first CLSS 1. But now if you look at it, the second and third phase of constructions and projects that they came out with, they didn't have so many takers also. Because there were not many people who were left who could avail that kind of a benefit. Most of them already had a house, the shortfall was anyways little less and that also got bridged.

Analyst: So precisely, what is the take on the slowdown whether overall housing market may be okay, but only affordable segment?

Executive: It's a supply, it's a supply issue. I say it's a supply issue. Because builders, the large builders are not -- don't have that kind of an incentive to come and do the construction, which the government earlier had provided under CLSS 1. This time, the incentive is a little less. So, the government has to play the role of doing the thing. Plus some of the earlier mover states like Gujarat, Maharashtra, Tamil Nadu and all, they've already kind of exhausted to some extent the shortfall.

Analyst: Sorry, you mentioned Gujarat, Tamil Nadu, and Maharashtra?

Executive: Maharashtra. They were the ones early ones in CLSS 1 which did well.

Analyst: And sir [inaudible 0:13:57] so which affordable you can highlight where the competition is higher?

Executive: See, in our case, mid-segment, I think it's LIC, which is the major competition for us, because they have cut their prices substantially. They've also kind of competing at 7.15, 7.25 kind of rates. So, obviously, that is a segment which is directly, in terms of rate, able to offer something good. Other than that, affordable housing, that those kind of customers we don't see, because today our loans also are from 8.10 or 8.25. They are offering up to 11.5, 12% depending on housing, non-housing, salaried, self-employed, the individual credit score, and all those kind of things in this range band.

So, at least affordable housing segment customers, those who are going to other players, that anyway don't pose a thing, because our rates are better. Rate when it comes to rate, it is Bajaj and more so it is LIC which is for us there. Banks, of course, do offer a good rate. But then in terms of the ticket size, they are playing at operating at a slightly higher ticket size. Not much for us. I think the first would be LIC, if I seven or eight out of my ten branches whom I ask, they will say the maximum takeover is from LIC.

Analyst: So mostly they are able to because they are able to borrow at a lower rate?

Executive: No, I mean, in terms of cost of borrowing, probably we are almost same as LIC or probably lower. As of the moment, probably we might be borrowing at a lower rate also. Our overall cost of blended cost of borrowing might be lower than LIC also. But they've taken a very aggressive stance in terms of pricing, whereas in our case, we've been a little more conscious of the spread.

Analyst: This is the general strategy of LIC?

Executive: It's Yes, we don't want to compromise with the spread. We at least want to operate at 2.5, 2.75. We actually had guided for 2.5 in the beginning, but later on because of this lag in rate pass-on it, because of the annual reset, we've had the advantage, so our spreads are now almost at 2.75 plus.

Analyst: And for the point going forward, are you building in any reduction in overall yields?

Executive: So, with this change that I was mentioning earlier about this customers, 1.2 lakh customers moving from annual to quarterly, our third quarter yield on the blended yield on the entire book was around 10.06. So, 1st of April, we expect that that will come down to around 9.8, because of our reset changing from annual to quarterly.

However, on the borrowing side, we had a higher rate in the beginning and then it has continuously kept on coming down because the repo rates also were coming down. So, what has happened is for the entire year, our cost of borrowing is showing on the books as around 7.2, but if I look at the actual cost on Q4 at the end of April, it will be around 7%. So, basically, we'll still have about 2.8% as the spread. So, I think we will continue to give the have a guidance of

2.75 for next year also. Because also, on 1st of April when the entire it starts from zero, we will have our yield as 9.8 and cost as 7.

Analyst: Sorry, you're saying effectively yield will come down to 9.8 in Q4, right?

Executive: As on 1st April, after all the annual reset customers move to quarterly reset.

Analyst: And overall my spread will be around?

Executive: 2.75 is what you will be guiding. It will be around 7 and 9.8, so 2.8. But I'm saying 2.75 is what we'll be guiding for, which is what we've been saying this year as well.

Analyst: I think from an LIC perspective we already know that even in the call also you have mentioned what about Bajaj at what rate they currently offer?

Executive: They are also offering attractive rate. But I think their cost is a slightly higher than ours. So, what their strategy is to also takeover plus do a top-up, aggressive top-up. And so basically the blended rate would be a slightly higher, but the customers would get the advantage of a higher loan.

So, basically, some more funds would be available to the customer. That is the attraction for customers, not only the rate because eventually there will be rate they will give for the takeover component that will be a good rate, but for the top-up loan, there will be a higher rate. So effectively that that is fine.

But for those kind of customers, we do try to convince the customer and if possible there is a scope within our LTV norms, we do try to offer it from our end also. But we're not able to always match the aggressive LTV that they are able to take the calls that they are able to take. So some loans do go to Bajaj as well.

Analyst: And just for correction for LIC and Bajaj is primarily I would say focused towards Prime, right? Very less exposure towards affordable, even though that has been the key focus area. But from the affordable perspective, how is the competition currently? Is there any name which really stands out as being very aggressive?

Executive: See Aadhaar is doing fairly well consistently well. HFFC is doing fairly well.

Analyst: Sorry, which one?

Executive: Home First.

Analyst: Home First.

Executive: Home First and Aadhaar I think are the two ones who are consistently doing okay. But again as I said their rates start from around 12 if you look at it. So basically when our customers don't generally move there. It's a different set of customers. But Yes, they've been doing fairly well. I think Aadhaar is doing almost INR800 crores, INR850 crores run rate per month.

Analyst: Maybe on one of the smaller uncertainties, I mean, from the investor perspective that we always want to be focused more towards secured and even be on affordable side, where we believe that growth is likely to be there when consumer is focusing on home and again 15 to 20 lakh category.

But maybe from demand perspective, how do you think that which are the states or customers are likely to hold back or will not go for or maybe delay the disbursement? How do you see? Can you just give us some color in terms of how demand might or likely to get impacted because of all these issues?

Executive: See right now there is no specific area which is not doing well in housing overall per se. Combined if you look at the affordable, mid-segment and the Prime put together, I think across there is a good amount of growth. A lot of Tier-2 towns are also showing good amount of growth. So, it's not that the demand is not there.

But as I said, for the affordable segment, there's a supply issue because builders are not coming in in a big way. And so basically, growth-wise today we are seeing across all our regions. To some extent probably Karnataka, I would say we could have done better, but as I mentioned, the Gram Panchayat e-Khata is still not resolved.

So, which is a fairly large chunk of our business. So, that is one area where we might just have some we could have done better. And Telangana for us is a little slow. We might just end up flat this year. But otherwise, all other zones for us are doing quite well. The North zone, West zone, East zone, all are doing at 35%, 40% plus.

Our Tamil Nadu is also doing almost close to 30% growth. It's only Karnataka which is around 7% to 10% growth and Telangana which will probably be around flat for the year for us, but I mean if you see Andhra Pradesh, Andhra Pradesh is doing well. It's only Telangana where Hyderabad we are more concentrated in Hyderabad and we have some of our own internal issues also like we had a tough thing on our DSAs. We've also had some change in our internal teams. And of course, we had in 2023-24 we had some issues in Telangana, so that is still continuing and in terms of that slightly. So otherwise, you know, all other zones we are finding very good growth.

Analyst: What is your branch expansion number?

Executive: This year we've opened 15 branches and for FY27 we are planning 26 branches. FY27 25, 26 branches we are looking at.

Analyst: So do we have a policy with respect to this current uncertainties, RBI policy, so maybe there is hike in rate cut?

Executive: In what sense I mean policy for what?

Analyst: Maybe if there is a hike in the repo rate going forward and also internally what proactive approach are you taking to tackle this current issue of the on-going war, anything internally you are doing, you are planning?

Executive:

See, big RBI already has guidelines for LCR, we have to maintain liquidity ratio, that of course we are maintaining. We are comfortable in that because we have a good amount of unutilized sanctions from banks. So, we are comfortable in terms of our LCR position. So, RBI has already put in place LCR requirement.

Second thing is in terms of PLR. We have about 40% of our liability which are linked to repo rate for us. Almost 55% of our borrowings are 55% to 60% is linked to bank borrowing of our liability side. The rest is NHB and NCDs and CPs and all. So, out of that 55%, 60%, almost 70%, 80% -- 80% actually is linked to repo.

So effectively, on the entire book, if I look at it, about 40% of my borrowing side is linked to repo. So, when a 25 basis point cut happened, we passed on 10 basis points. So, if you see totally there was a combined from February 20. onwards, we've had a 125 basis points cut.

We've passed on 50 basis points to our customer, which effectively works out to the same kind of a thing, 40%. Going forward also, unless our mix of borrowing changes, we will do the same. So, if the repo rate goes up by 25 basis points, 10 basis points is what will be increase for our customers, 10, 12 basis points depending on what it is.

Analyst:

Okay and this 125 to 50 has remained same for the past?

Executive:

I wouldn't say for the past because when the rates were going up at that time NHB it was different, the mix was more of PLR linked normed. Okay it's only in 23. So 23, 24 that we shifted all our MCLR link loans to repo linked loans. So prior to that the mix was different. So that was different. So we would have passed on differently. As I said today also if our mix changes and we have to shift more for repo linked or to shift more out of rep linked depending on that we will have to change our pricing.

But what I am saying is we will ensure that whatever is the impact on our liability side to an extent, similar extent we will have an impact on the asset side so that the spread is maintained around 2.75. So we will try to keep that thing and we have a fairly detailed interest rate policy which also RBI has stipulated for all HFC.

So we have a interest rate policy also which linked to cost borrowing or credit cost or CRP BSP and all those things. So based on that we will also correspondingly make a change. So unlike other many other cases where in the past regulators have pointed out, in our case whenever we passed on the rates, we passed on uniformly to our existing as well as to new customers. So, that parity we've maintained.

Analyst:

And sir broadly in the industry level because of this liquidity like situation and the short term yield going up, also the Gsec yield has remained at higher levels. So is it transmission lacking. So I mean so earlier maybe in a previous cycle would have transmitted more rate cuts and now?

Executive:

See in terms of the repo-linked rates, wherever it is there, the banks have no option, they have passed on the entire 125 bps to us. So, something where our 8.95 was our sorry bank term loans today are at around 6.95, 6.85, because at that time it was around 8.1 or thereabouts earlier when it was there.

Exactly 125 basis points has been passed on because it's all linked to repo. MCLR obviously, yes, that banks have not been doing it. They have used MCLR did not come down, they did not bring it down when the rates were coming down, it was only the repo-linked loans. So, to that extent, yes, transmission has not happened.

In terms of the money market, I mean, in terms of the debt market, I think that has been more reactive to all these kind of things. Like, for example, in Q4, there's been a sizeable increase in the CP rates, short-term CP rates. NCD rates have also gone up by almost 40 to 50 basis points. So, that impact has been more pronounced in the debt market as compared to the bank term loans. Anything else?

Analyst:

Thank you so much.

Executive:

Thank you so much. My pleasure.