



“Can Fin Homes Limited Conference Call”

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SPEAKER:

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

Interviewer: Good morning. You are in Singapore, so I guess good afternoon.

Suresh Iyer: Hi. Good morning. Good afternoon.

Interviewer: Maybe just first from broader perspective around growth. So we have started seeing some level of disbursements pick up, we got to Rs. 2,500 crores. If you could sort of help us understand on the underlying within the markets, Karnataka was an issue at some point in time. How has that turned? What's happening in Andhra? These two markets.

And then what does that mean for the trajectory of disbursements over a period of time? There also if you could cover at that point where we have seen some balance transfers going up a little bit in Telangana. I do not know how much of that was a function of rates given some of the public sector banks have become more competitive and how much of it was around DSA induced churn.

So, maybe just from a broad perspective on each of the markets what's happening just in terms of disbursement trends and what's happening? How does that scale up happen? And around repayments, is the pace picking up because maybe our rates are not competitive enough at this point in time. So maybe if we could just start off over there that would be a good place.

Suresh Iyer: Sure. So in the last couple of quarters, we have seen disbursement pickup. This quarter also we are targeting Rs. 2,800 crores in terms of disbursement. So that will also be a growth over Q2 as well as a substantial growth over Q3 last year, because last year in Q3 was when the maximum hit happened out for this E-khata problem of Karnataka. So that is where in last year in Q2 also we had done about Rs. 2,300-plus crores disbursement. But in Q3, it dropped to almost Rs. 1,850 crores. So that was mainly because we lost about Rs. 400 crores of disbursement in Karnataka, which otherwise would have done much better.

So this year, in fact this year we will be one year into the Karnataka problem, we should be able to do much better. Karnataka by the end of the Q3 will turn positive, YTD is positive. And we are almost under Rs. 250 crores run rate in Karnataka back to Rs. 250 kind of crores run rate. So that we should be able to –

Interviewer: Rs. 250 crores run rate a month?

Suresh Iyer: Month, yes, per month disbursement.

Interviewer: This was, so I remember, I think in the first half of last year Karnataka was about Rs. 250 crores and then second half completely collapsed.

Suresh Iyer: Second half was much less, that is correct. So in the first half, if you look at it, we had done Rs. 278 crores, Rs. 275 crores we were doing in August and September last year.

- Interviewer:** We have gone back to Rs. 250 crores now.
- Suresh Iyer:** Now we have come back to around Rs. 250 crores kind of disbursement. So that is what was the main improvement. So, by last year in the first nine months we had done about almost Rs. 1,985 crores. So, now by the time we end December, in Karnataka alone we should be more than Rs. 2,000 crores. So we will definitely go close to 5%, Rs. 2,100 crores we should be able to touch.
- Interviewer:** Okay. And is the issues largely on the ground getting sorted out on E-khata?
- Suresh Iyer:** On E-khata?
- Interviewer:** On some E-khata or something, some other khata?
- Suresh Iyer:** No, no, no. A-khata was already there. A-khata is a proper total clean registrations that are happening. There was a B-khata where there have been some deviations and it is not still registered in the overall thing, that was a B-khata. But now when they have come with the E-khata which basically says that everything will be put electronically and then there will be a complete, that is the E-khata.
- Basically it is an attempt by the government to regularize all the activities including the land documents as well as the revenue record updation and also the payment of the outstanding dues, because this property tax and everything they are also collecting. So, indirectly it is also a way where the government is trying to regularize everything plus also take the arrears and improve or boost their income. That is what is the whole objective.
- So, at least in corporation limit areas and all we are now heading back to normal you can say, because within seven days even if somebody wants to go and get an E-khata, if the papers are clean, they can easily get it within seven days easily. Government has also started doing some drives where they are taking bigger societies and there people are going and having camps in the societies where the entire society can in one go get all the papers clean and it can be done. It also helps because say X has a property document which I do not have, then also they know that this document is common for the entire society that can be used and it can be done.
- Interviewer:** So, it is getting resolved.
- Suresh Iyer:** So the corporation area, the government is also taking those kind of steps and it is getting in order. But the panchayat areas and all, it is still not happening. That link between the panchayat because those documents and the revenue records and everything, the linkage through IT has not yet been done, that is still not happening. And we used to have a very large proportion of our business happening in the panchayat areas. Now, obviously, when this E-khata thing happened, we started doing more business in the corporation area, plus we started slightly changing our mix to LAP and all.

Interviewer: LAP is not affected by this.

Suresh Iyer: Yes. So, LAP and all we started doing because then the documents are already available, at least the registry will not get stuck. So, that we have started. We have reached Rs. 250 crores. By the end of this quarter, we should be crossing Rs. 2,000 crores so we will be YTD positive. And next quarter, obviously, we will get the benefit. So, we should end up in Karnataka also positively. Andhra, I mean, Andhra is actually not a problem.

Interviewer: Hyderabad was a problem.

Suresh Iyer: Hyderabad, so that is Telangana. In Telangana, we were at a point in time in 2023, we had done almost Rs. 2,250 crores we had done in Telangana. After this problem started of this Hydra, it dropped to Rs. 1,700 in FY '24 and dropped to around Rs. 1,200 in FY '25. This year again from going down, it went down to as low as Rs. 60 crores in a month, Rs. 60 crores, Rs. 68 crores or something. And now it has started picking up. Month on month, last two months we have been able to cross Rs. 100 crores and now this thing is also improving month on month. So, going forward, end of the year we should cross Rs. 1,200 crores, so we will be positive in Telangana also.

But it will be a very marginal positive. We were thinking of having almost 10% positive in Telangana, may not touch 10% but we will definitely be positive the way we are doing now. Consistently, we are doing month on month better. Rest of the states, we are fairly doing well. The growth rate in north is upwards of 30%. North is Punjab, Haryana, Himachal, Uttarakhand, UP, parts of UP and Delhi. That is almost 30% kind of a growth rate. In fact, growth rates in west is also picking up for us.

Interviewer: But you are not very large, the north book itself is not so large.

Suresh Iyer: If I look at the incremental business today, north is contributing around Rs. 130 crores per month, which is like almost 15% to 20%, you can say. Same way, west is also doing about Rs. 130 crores, Rs. 125 crores, Rs. 130 crores west is also contributing. So both put together are contributing 30%. And north is growing at 30%. West is now growing around 25%. Tamil Nadu is also a good market for us. We are doing on an average about Rs. 160 crores, Rs. 165 crores a month run rate. And there also we are growing at 25%. AP, which was east zone for us, was actually flat last year because it's only after the change of government where the Naidu government has come the sentiments have improved. They are very positive. A lot of investment is also happening. And there, in fact, we are now again doing around 25% to 30% growth is happening in AP market also.

Interviewer: So, I mean, if you had to look at your aggregate, so I think you put out a number of Rs. 10,500 crores of disbursement, so you may get to there from what you are talking. I mean, so Karnataka would be sort of grown Y-o-Y, Telangana will be flat Y-o-Y, but otherwise your disbursements could have been even higher.

Suresh Iyer: So, if this Karnataka problem had not happened, we would have done easily Rs. 11,000 crores plus in this year. So, next year, we will obviously from here in every state almost be doing a positive growth. We are looking at the next year almost Rs. 13,000 crores is what we would want to do in terms of disbursement. And coming to your prepayments, what has happened is last year, I mean, in Q2 last quarter we had about Rs. 1,661 crores as a total prepayment, amortization and everything put together.

Interviewer: Prepayment plus amortization.

Suresh Iyer: Prepayment plus amortization. Now, the total if you look at both the quarters, it is 1,400 plus 1,600, so almost it is Rs. 3,000 crores. So, of which if you break it, in fact, I have the October number also, so October number is slightly lower than July. But if I add that also, then the total number is coming to around Rs. 3,500 crores. Of which Rs. 2,500 crores is the prepayment, part prepayment, takeovers, BT-outs, everything and Rs. 1,000 crores is the amortization.

The Rs. 2,500 crores that in Q2 slightly increased, where we had from Rs. 1,449 crores or something, it increased to Rs. 1,600 crores and something, so Rs. 202 crores was the increase. But out of the Rs. 202 crores, Rs. 80 crores was only part prepayment where customers have made some payments, but the loans are still lying with us. So, it is not a BT-out, it is not a closure. It is just that cash flow has improved, they have paid some payment, and it is there with us.

So, therefore, we have slightly changed our internal process. We have added one more layer where from head office also we are trying to call the customers and trying to understand what is the reason for the prepayment, whether it is a BT, whether it is a service issue, whether it is a rate of interest issue. And if it is just a part payment where the customer is looking at, we are also trying to now push next, explore if we can ask the customer to in fact deposit with us because we are also deposit accepting HFC.

So, our deposit has also seen a little bit of an improvement in the last two months. So, we are also trying that. So, October at least is lower than July and August and September month in terms of prepayment. That is what we have seen.

Interviewer: I mean, given public sector banks have cut their rates, has rate been an issue while prepayment? So, for example, very visibly, I mean, LIC HF, for example, not able to grow because they are seeing more competition versus PSU banks. That has been a struggle. But have we faced any issues because of this?

Suresh Iyer: Actually, for us, PSU banks is not as much of an issue. But what I see, because we are still a little below the radar, we are at Rs. 25 lakhs. But Bajaj and LIC I think are doing a little higher ticket business. So, there I am sure they are facing the competition and their narrative has also been very clear about it that they are facing pressure from banks.

So, I have a feeling, Bajaj might probably come down also in the ticket size. Earlier also I had indicated that we do see some of our loans in the Rs. 20 lakhs, Rs. 25 lakh segment being picked up by Bajaj, which earlier two, three years back was not the case because they were particularly clear about the ticket segment of Rs. 40 lakh kind of thing. So, there I am sure, yes, it is possible. So, for us, still the competition is LIC and Bajaj.

Interviewer: So, what you had higher prepayment, some of it was customer paying because they had cash, but the rest, I think you made a point of the call saying that the DSAs churned out the portfolio.

Suresh Iyer: That is in Telangana, because in Telangana two years back when all this we also had some bit of fraud, if you recollect, in '23-'24 in Telangana. So, there we were a little tough, we have actually churned out quite of our DSA portfolio. So, in the sense that DSAs, we have kind of DM paneled and removed and all. So, that has kind of done, some prepayment is higher.

That Rs. 120 crores where which actually went up in terms of our prepayment, 45% of that almost has been from one single state of Telangana. So, for one single state, other states the prepayments was little higher than Rs. 10 crores more, Rs. 12 crores more, Rs. 17 crores more, was not making so much of an impact.

Interviewer: So, essentially actively churned out by some of the DSAs, that is because issues which you are not having with the DSAs?

Suresh Iyer: They are no more working with us, so they obviously would have gone and done some business outside.

Interviewer: Okay. I think you made one more point just on the disbursement is that pickup will happen mostly in the fourth quarter because you have some IT issues, IT which you are implementing right now, but you seem to indicate that disbursements are going pretty smoothly.

Suresh Iyer: So, first two quarters, there was absolutely zero impact on the branches because whatever was happening on the IT transformation side was on the head office side only. Requirement specifications, technical aspects to it, giving our documentation and all those things. So, that was purely on the head office, branches were not at all impacted.

Q3 and Q4, Q3 mainly is when the retail application will start getting implemented. Like in this month we are planning our implementation, or we have just triggered the implementation of our HRMS module. But of course, that is also not going to affect the business. Next month, we are looking at the implementation of our deposit module. That also is not going to affect our disbursement thing. But starting now, now that our module has started getting delivered and the screens are coming up, we have started that training.

So, slowly some impact will be there in terms of when we pull out people for a two-day training, three-day training, there will be some impact. Next quarter is when we will be implementing our core application which is LOS and LMS. At that time, yes, there will be some issues.

Interviewer: That is like peak quarter?

Suresh Iyer: That is also unfortunately the peak quarter. We would have preferred to do it in December and November, but the way it is working out, our customization requirement is also a little on the higher side. So, instead of December, we could not put it in December, we have to implement it in January only.

Interviewer: So, there is a chance maybe that Rs. 10,500 crores disbursement may be missed by a little bit here and there.

Suresh Iyer: The way it is going, I think we will try to cover it up.

Interviewer: Self-employed today is about 30% and the share has increased gradually over, just what are the kind of incremental customers that we are onboarding on the self-employed? I mean, how are we able to onboard more now than in the past? I mean, have we changed the kinds of customers which we are willing to onboard now versus in the past?

Suresh Iyer: See, there are two parts to it. One of course is the markets nowadays where we are opening, if you see the branches, particularly in Rajasthan, Gujarat, some of the northern states, there the percentage of self-employed is a little higher, that is one thing. Because there is a slight state thing also, like Tamil Nadu also the percentage of self-employed is a little higher, whereas Karnataka and Telangana it is lower. Today, we are not expanding anything in Karnataka and Telangana. Our branches are coming more in the west and north, so there slightly that percentage is higher, that is one thing.

And second of course is that with more and more IT ITR filing and more of that, and now most of the customers also having Jan Dhan accounts and having their GST and their mobile UPI payments coming in, so they are also now having more of this thing. So, two-year ITR returns are now available. And then going forward next year, we may have more customers with three-year ITRs.

Interviewer: Banks typically use three-year ITRs, you are okay with two-year ITRs.

Suresh Iyer: We are okay with two-years also. We are getting therefore more customers. But mainly, yes, it is this north and west geography where we are getting more of that.

Interviewer: I am also asking this because our growth on the salaried side has been quite weak, it is only 5% Y-o-Y. I mean, the delta which we have been getting in the loan growth pickup has been made up by, A, LAP; and then on self-employed.

- Suresh Iyer:** As I said, so mainly our salaried segment was very strong in Karnataka and Telangana, where both states we are not unexpanded and both states are also going through a little bit of a pain. So, that should improve as Karnataka and Telangana improve.
- Interviewer:** What is the share of DSAs today? I mean, where you want to take it and just how do you sort of think in terms of cost benefit analysis of adding more people? I think you have added 180 people.
- Suresh Iyer:** Yes, we have, that is correct. We were about close to 1,200 people, now we are 1,311 odd.
- Interviewer:** Yes, we are adding more people. How do you think of the cost benefit of adding people on rolls versus doing DSA business over a period of time as well? And why do you want to change DSA shares?
- Suresh Iyer:** See, first of all, this entire staff increase is not because of the sales team. We have also been strengthening our assurance functions. This year, in fact, if you see, this year as in about a year back, we also brought in a zonal concept. Earlier it was only branches and there was a head office. There was only two step, two layers. We have introduced a zonal layer also. We have six zonal offices. All the zonal offices are also staffed by people. This will help us in a little more oversight on the branches, a little more control.
- So, that is the whole purpose. So, that is also one of the reasons why the staff has gone up. In fact, these zonal offices are also much larger offices. We have all conference rooms and all those things also. So, obviously, the rent also was one of the things, but that is a small component. So, the staff is, if you look at it, only about 90 people today are in terms of our sales team.
- Second thing what we have done is, in terms of our branches we have also done a lot of standardization in terms of the staffing. Like for example, because eventually when we want to grow, we have the branches divided into small branches, medium branches, large, very large and extra large, depending on the book size. So, we have done a lot of, tried to create second lines, good deputy even in all the large branch and above. So large branch, extra-large branch and very large branch also we are having a deputy. So, there will be not only a manager, there will be a chief manager also in the larger branches. That is how we have kind of brought in.
- So, that is also one of the things where we have standardized the staffing across the branches so that we do not have issues on, if a chief manager or a branch manager leaves in a big branch, it should not be a complete vacuum. So, those kinds of things we have tried to bring in and done it. Over a period of two years, we have added almost 250 plus staff, but then this has helped in ensuring that there is a good stability and continuity, business continuity does not get affected in the branches. That has also been one of the things.
- Now, coming to the aspect of the cost of a DSA channel vis-à-vis a direct channel. So, a DSA roughly gets about Rs. 0.45 to Rs. 0.50 is the payout that is there. So, if they are doing Rs. 1 crore, they will be getting about Rs. 50,000 is the payout they will be doing. So, effectively, only

today our staff that we are recruiting, most of them are in the entry level which is officers, so they get about Rs. 38,000 to Rs. 40,000 is the salary cost for this officer levels. So, which means they also have to do at least Rs. 1 crore a month to be able to see that in cost benefit analysis this is better.

Today on an average, we have about 90 people, they have done about Rs. 70 crores plus on an average. In the month of September, they did about Rs. 78 crores. So, that is about Rs. 80 lakhs on an average is the average present productivity. We have to slightly cross Rs. 1 crore so that now this becomes a profitable channel vis-à-vis the DSA channel.

However, there is an additional advantage to the direct sourcing channel in the sense that we are able to get a better quality portfolio. We can pick and choose the segment, the customer and the market, unlike a DSA where we have to depend on whatever business they bring to us. So, howsoever training we give, if tomorrow some competitor starts paying and offering a better payout, the better quality customers will go there and the inferior ones will come to us. So, we do not want to totally depend on that. Here we have a control on the quality, that is one thing.

Plus, going forward as a channel, it is better to have multiple sources because industry wise there is a risk in the sense that a couple of players have been facing this problem where their retail DSAs are getting picked up by the corporate DSAs. The corporate DSAs negotiate for 1%, 1.25% and 1.5% DSA payout. They simply say, I will pay you Rs. 0.60, you give your loans to me. So now, tomorrow that risk is also there that tomorrow our retail DSAs might also start giving their loans to somebody as a connector. So, we must develop our own channel so that there is a stability. We cannot depend on a DSA channel. Tomorrow if the DSAs get picked up, we will have a problem. So, that is also one additional cost of this.

So, as of now in terms of cost benefit, I do not think we are at an advantage by doing this. But in the long run, I think it will bring stability, better quality. And eventually when they cross Rs. 1 crore kind of a productivity, it will help, then it will be profitable.

Interviewer:

What is the share today of DSA?

Suresh Iyer:

DSA roughly incrementally we are doing between 75% to 80% incrementally. And 8% of the incremental business is coming through our sales team.

Interviewer:

I think you said you want to get DSA down to 60.

Interviewer:

By FY '28, yes, we want to bring it down to 60. Because today we have about 90 people. Eventually, we want to at least by FY '28 increase the in-house channel to around 250 people. So, the contribution will also increase, productivity will also increase.

Interviewer:

250 people?

Suresh Iyer: 250 people, yes. We have another two years at least. This year we added close to around --

Interviewer: So, Rs. 3,000 crores of disbursements, around at least Rs. 3,000 crores of disbursements.

Suresh Iyer: 250 people a crore, so at least you can say 225 to 250 per month possible.

Interviewer: That is 3,000 crores per annum you want to get out of DSA?

Suresh Iyer: No, direct. So, next year even if they do not do Rs. 3,000 crores, but even if they are able to do Rs. 1,500 crores.

Interviewer: And can you remind why are your DSA payoffs lower than, typical market at a DSA will pay 100, 110 basis points, how is your DSA costing?

Suresh Iyer: That is a corporate DSA get 100.

Interviewer: I mean, bulk cases and at higher ticket sizes. Your ticket sizes, they will work at Rs. 0.40, Rs. 0.45.

Suresh Iyer: So, basically it is like, directly they are like little connectors only you can say. Connectors or little better than connectors.

Interviewer: Yes, I mean, Home First also tells us, I think they cost about 40, 45 bps. So, you all also work, I mean, that is the costing which you get.

Suresh Iyer: That is it, exactly. But the more you build it out directly, the better it is.

Interviewer: How are ticket size changing across segments and what would it mean eventually for yields?

Suresh Iyer: Ticket sizes, now if you see, we are giving the breakup. Unfortunately, I do not have it for salaried versus self-employed. But if you see our ticket size breakup that we are giving, we are now finding more in the 30 to 50s where the growth is coming. And up to 10, definitely it is coming down. Whatever up to 10 we are showing also, most of it is either top-up loans where customers are doing a little top-up or this thing, or it would be the funding which we are giving for insurance and all those kinds of things. Because when a customer comes for a home loan and wants insurance, we also offer a small loan for that. So, up to 10 for a house construction, in fact, it is very, very less. So, the entire thing has changed from 10 to 20 and now more so in the 20 plus segment.

Interviewer: But as you move to these segments, is not there an issue that you start getting more and more balance transfers? I mean, how do you start doing businesses at these ticket sizes without a yield pressure? You will have yield pressure, and you will have runoff pressure also.

Suresh Iyer: So, yield pressure is where we said we have a scope to at least slightly change the mix from salaried self-employed as well as housing, non-housing, so that we can offer a little more competitive pricing in this segment.

Second thing, in terms of the excluding the banks, if you look at it, we are having one of the lowest cost structures. That is why we are able to offer, even with a steady 2.5%, 3% kind of a spread, we are able to offer rates which are very competitive. So, definitely compared to any of the affordable housing finance companies, we would say or any of the mid-size housing finance companies, we will be able to offer better rate to the customer. Therefore, we can pick and choose the quality.

But yes, if we get to the direct competition with the banks, definitely we do not stand a chance because with repo rate cut happening, and all banks having EBLR linked pricing, the differential today has become like they are offering starting from 7.4%, 7.5%, our lowest rate is 8.7%. There is a definite 120 basis points, another rate cut means this will further increase. So, the more we go closer to the banks in terms of the ticket size --

Interviewer: But as you go to these ticket sizes, you will be dealing with more.

Suresh Iyer: So, we have to be below the radar, that is the whole thing.

Interviewer: So, you have to find some 35 lakh customers who a typical bank will not.

Suresh Iyer: Either that or we have to be more on the outskirts. Because banks typically are the bigger towns within the corporation limits only. So, we will have to look at slightly moving out and picking up those cities which are more of macro markets.

Interviewer: Larger ticket sizes, but in the smaller towns.

Suresh Iyer: In smaller towns.

Interviewer: And you are doing this because there is just more growth in this segment relative to?

Suresh Iyer: Affordable housing. Today, affordable housing growths have been coming down. Today, clearly the industry data shows that today the affordable housing segment is growing at sub 10%, in single digits only now.

Interviewer: Yes. But if the market turns, I mean, you do not know what can happen either which way.

Suresh Iyer: Correct, that is true. In fact, I mean, if you look at it, I have mostly been in the affordable segment. It is just that today the segment is not growing that fast. And we are primarily in the home construction and purchase segment only; we are not in that LAP. So, today a lot of affordable housing finance companies are able to grow because they are also doing LAP, which

we do not do. So, we would rather wait it out a little bit, maybe a couple of years, we will see some change. And once it picks up, we will do it.

Because last time also if you see, CLSS-1 when it had come, the immediate pickup did not happen. After CLSS-1, it took a while, a couple of years for the supply to come in and then the growth started reflecting. So, maybe now also the new PMAY has happened, PMAY 2.0, maybe a year down the line we will start seeing the supply coming in, we will start seeing the growth. At that time, we will be able to probably again get back into that segment.

Interviewer: I think if I look at my model, LAP ticket sizes that earlier used to be 8 lakhs, LAP ticket sizes have moved up to Rs. 14 lakhs, why?

Suresh Iyer: Correct. Because earlier we were not doing LAP as a product only. It was only to existing customers LAP was being offered. Then around '24 somewhere in the middle, we decided to also start offering LAP as a product. Because once the business strategy was there that we need to slightly increase our non-housing portfolio, so we started offering LAP to new customers also with a lower LTV obviously. So, that is why now we have a new customer. Otherwise, existing customer we have already given Rs. 30 lakhs now or Rs. 20 lakhs and suddenly the customer says I wanted Rs. 4 lakhs, he would give it. That is why the ticket size was so low.

Interviewer: And this is salaried LAP?

Suresh Iyer: We have both actually. We have both. I do not have the breakup of how much is salaried LAP and self-employed LAP.

Interviewer: In the past, I mean, some of these self-employed LAPs have had an issue, but should be pretty much mirroring our book?

Suresh Iyer: Kind of, I guess, yes.

Interviewer: Suresh, I had a couple of questions around spreads, margins. Just can you remind us what is the PLR level cuts which you have taken so far?

Suresh Iyer: See, we have taken a 25 bps cut in existing as well as new customers, housing customers. That is 10 bps in May and 15 bps in July. We have a scope to do another 10 bps. Probably, we will do it in December we will just look at it.

Interviewer: So, the understanding is that the gap between us and the PSU banks in terms of yields have actually gone up.

Suresh Iyer: Yes. So, prior to this rate cut that is up to say January '25 if you look at it, they were offering it from the 8.4%, starting from 8.4%, we were offering starting from 8.9%. There is a 50 bps increase. Now you see, they have gone down by 100 bps. So, their rates start from 7.4%. Ours,

we have done by 25 bps, we were at 8.95% actually, lowest rate, which has come down to 8.7% now.

Interviewer: And the reason we have not passed on more right now, our liability book is more repo linked versus MCLR linked which it used to be earlier. So, we are getting the cost of fund benefits. So, the reason we have not passed on more is because?

Suresh Iyer: See, actually, our cost of this thing on 31st of March was 7.55%. Today, it has come down to 7.17%. So, it is almost kind of 37, 38 bps is the reduction. That is an equivalent amount which we can pass on. Now, we originally did plan to pass it on somewhere in the month of September. Frankly, in fact, if you see my July earnings call also, we had said that we will look at it, because there was a good chunk of a big bank this thing where more than close to Rs. 3,000 crores where we were yet to receive that 50 bps benefit. So, we said once we receive that, we will pass on another 10 bps in September.

We did get that 10, 50 bps benefit from that particular bank and all. But somewhere in September when we had ALCO, that was the time when there was a 7 to 8 bps increase in the bond yields and all. It started going up. So, we said let us wait and hold on. So, basically, we took a call to hold on and see where it is going. Because the geopolitical situation was not very convincing, anything would have happened. So, we said it would not be looking nice where we cut the rates now and immediately next month we increase it, so we did not pass on. But there is a definite case to pass on another 10 bps to the customer and we are looking at it. So, this month ALCO, we will definitely consider that.

Interviewer: And I wanted to understand this nuance around some customers having only an annual reset. Why would some customers have only, we have 59% of our customers having an annual reset. So, that means there are some portion of the book today which has still not got a yield drop even now.

Suresh Iyer: Correct.

Interviewer: So, they are still working on the previous yield. So, like banks have cut their rates, while our blended yields are down by some, a certain portion of customers have not got any cuts. Why is this?

Suresh Iyer: So, I will tell you. Up to 31st of December 2023, Can Fin was only offering annual reset cases. In fact, prior to that from '22, '23 or when the rates actually started going up, at that point in time, unfortunately, we had a negative listing where on the liability side it went up and on the asset side there was a lag. So, our spreads at that time, which were almost at one point in time 2.7 plus kind of percentage dropped to 2.31%. So, that is when we felt that that policy needs to be changed and aligned and more in sync with our liability repricing.

So, we did that effective 1st of January 2024. So, from 2024 January, all incremental loans are having quarterly reset only. On the older portfolio, it continued to be at annual reset and since up to January '25, there was no change in the rates so there customers also do not see any benefit in actually changing from annual to quarterly, although every month we send communication to our customers to change it.

Now, after February, now obviously when the repo rates are happening and they are not getting the benefit, it is impacting, that is why customers are coming forward and changing it. So, we actually have to have a documentation, we need to take their consent before they can change from annual to quarterly. So, we are now pushing for it.

And in this quarter, this Rs. 120 crores also that whatever payments we have observed, we have done that analysis. In fact, our 80% of the prepayments are happening in the annual reset portfolio. So, that is a clear case that we need to go back to these customers and tell them to please change as early as possible.

Interviewer: The customer has to do it proactively?

Suresh Iyer: And maybe our communication, they are not looking at it, among all those messages it is getting lost or maybe they are not getting that time or else they are coming and making a prepayment.

Interviewer: So, you are actively telling them to please convert to a quarterly reset?

Suresh Iyer: Yes. Now, we have taken a view that since our prepayment, 80% of the prepayment is in the annual reset portfolio, we are doing a bigger outreach to the customers to convert them into the quarterly reset.

Interviewer: I mean, essentially, the first half of this year, obviously, margins have moved up, spreads have moved higher than where we were. A function of this has obviously been liability costs, repo linked have gone down. But also, on the asset side, because there are so many people still, they have not seen the --

Suresh Iyer: The entire benefit has not been, 25 bps has not been passed on to them.

Interviewer: Yes, it has not been passed to the entire customers so far. So, about 59% of the customers have still not received --

Suresh Iyer: No, out of that, so it is a month on month kind of a cycle.

Interviewer: So, every month, yes, every month.

Suresh Iyer: So, from February to now, some of the customers could have received, some would have received at 10 bps, some would have received at 25 bps and all. Correct. So, anybody after July,

whose reset has happened from July to October, the entire benefit has already 25 bps has been passed on to them. It is not that entire thing is going to happen. But there is a little bit of impact which when they convert from annual to quarterly will come. That is why we are saying that while our incremental spread is 2.79% and Q2 spread was a little better, we are guiding for 2.75%, because we have to factor in this change also.

- Interviewer:** No, but earlier our long run was always that we will run at 2.5% spreads and 3.5% NIM.
- Suresh Iyer:** Correct.
- Interviewer:** We are now comfortable saying that 2.75%?
- Suresh Iyer:** Now that it is 2.75%, I think we will be able to maintain it for another little while.
- Suresh Iyer:** But the longer run is still, I mean –
- Suresh Iyer:** Up to 2.5%, we are comfortable. I think 2.5%, even if tomorrow when the reversal happens in interest rate cycle and we have to go down, I mean, up to 2.5% we are comfortable.
- Interviewer:** It will not drop below 2.5%.
- Suresh Iyer:** No, we will not.
- Interviewer:** It can be at 2.75%?
- Suresh Iyer:** So, if tomorrow the rates start going up, then we will have to be a little more proactive in increasing on to that extent. So, if a 25 bps increase happens, we will have to increase by 10 bps.
- Interviewer:** So, again, just trying to put, we have some pressure which may come on yields because of moving to slightly higher ticket sizes. We make some of that up by doing a little more self-employed and some more LAP app, so that broadly balances out.
- Suresh Iyer:** Correct.
- Interviewer:** And despite more customers moving to quarterly, eventually at some point in time, the entire backbone will be on a quarterly.
- Suresh Iyer:** Correct,
- Interviewer:** We still think we can run at higher spreads than the 2.5%, and 2.5% now becomes a floor.
- Suresh Iyer:** It is a floor, yes.

- Suresh Iyer:** Sorry, 2.5% for the spreads is the floor. And NIMs will be 3.5% would be the floor. Of course, right now also we have guided for 3.75% and 2.75%. We will definitely this year be able to maintain 2.75%, 3.75%.
- Interviewer:** But going forward the floor should be?
- Suresh Iyer:** We have always maintained the floor we will not go below 2.5% spread and 3.5% NIM. Because 2.5% spread and 3.5% NIM also with all our current structure, we will be able to maintain a ROA of 2.2%. 2%, 2.2% we can easily maintain, that is the kind of a thing. So, we would like to maintain that kind of an ROA and 6.6% is the gearing, maybe we can go up, the gearing a little higher.
- Interviewer:** That is the other question is that gearing has been gradually dropping.
- Suresh Iyer:** Because our growth has been lower than that, correct, so that gearing has been coming down. But we have a scope to take it up to 7.5%. Although rating agencies, we have said 8x is the gearing, also fine was for a AAA and the current rating.
- Interviewer:** And when you say gearing here is the asset to equity, this is you are talking about debt to equity or asset to equity?
- Suresh Iyer:** Debt to equity.
- Interviewer:** So, this number will move up?
- Suresh Iyer:** Yes. Asset to equity will be not 7.5%, it will be 8.5%.
- Interviewer:** Suresh, how come we sort of missed a lot of any asset quality issues which have happened anywhere? I mean, we had some frauds earlier which were coming, but that is all history. But there has been some rumble around on the affordable side there have been some pickup in delinquencies, there have been some at the lower ticket sizes. Is it a function of the ticket sizes where we are operating where we have had no issues or is there something else?
- Suresh Iyer:** One is the ticket size, of course, we are slightly above the affordable segment today. And second thing is, of course, that even in the segment that we do, self-employed, we are not doing the upraised and surrogate income proof for customers. What we do is, even self-employed that we do, we have a two-year or a three-year IT returns. And there also now we are strengthening that now instead of the customer giving the ITRs and we depending on that, we are now checking directly from the portal and confirming that it is the return which has been filed on the portal. So, all those things we are doing. So, it is not the self-employed or the appraised income customers.

And currently, if you look at our segment is such that average, our sweet spot is somewhere around Rs. 60,000 family income to Rs. 1 lakh family income per month. That segment, there is not much of an overlap with the microfinance customers. So, that is also one small because currently that is what is a little bit of a pain point.

Interviewer: And did we get you right that you said that only 15 bps of credit cost this year?

Suresh Iyer: Yes, 15 bps. Last year also excluding the management overlay it was 13 bps only. This year also it is 15 bps, it will be lower than that only. Because if you see our delinquency in absolute value has been coming down over three quarters. And this quarter also in December quarter and ending quarter, we expect that the absolute value of delinquency will probably be a little lower. It was 3849 as of 30th of September, we expect it to be 3750 or below. That is the kind of target.

Interviewer: Why is that? Why is it coming down?

Suresh Iyer: So, some of it is obviously we changed particularly after that October circular where advanced EMI was not there, that necessitated that we had to change a little bit of our internal process. So, one is, we now are sending more messages to the customer pre-intimation, immediate check bonds intimation, multiple number of intimations, plus we have also added a call center for tele-calling of delinquent customers from all the buckets. Plus, e-NACH and all those things now at least we are ensuring that all those at least matters are 100% taken care. So, it is more of streamlining the processes which have helped in this particular matter.

Interviewer: Because I would have thought that, given that other than for the change in your source rate, everything else is taking you up the risk curve, right, less salaried, more LAP. So, I would have thought actually credit cost should be increasing, not decreasing.

Suresh Iyer: See, segment wise or profile wise, yes, you can say that. But if you also look at it, there are a lot of other things that we have done in the last two years. Like for example, the system changes that we have done, one is, our disbursements are centralized now. Credit review monitoring, which was earlier not there, from '24 onwards or rather October '23 onwards, now 100% of the cases there is a credit review monitoring. So, within 48 hours the credit review monitoring department is reviewing the sanctions also.

Then we have also brought in, we had this tie up with Karza. So, now what happens, Aadhaar is getting verified through OTP, PAN is getting verified from the portal. Our ITRs also earlier was the customer used to manually self-certify it or CA certified ITRs would be earlier taken. Now, we are verifying it from the portal. So, that is also another strengthening that we have done. So, these kinds of processes that are happening, plus earlier it used to be a manual NACH, it used to take a longer time, there used to be some rejections also. Now, with e-NACH happening now, almost 100% of the portfolio is compulsorily now with NACH and all. So, these are some of the other process related changes which I have also helped.

Interviewer: Understood. Last question, I mean, there will be obviously a lot of movement in the housing finance industry, a lot of musical chairs, people are moving around. How do you think about your own continuity here, your terms, you will be finishing it up next year? And given a lot of musical chairs are happening, how do you think about?

Suresh Iyer: My present term is a three plus two. So, my first three-year stint comes to an end in March '26 and then extendable by another two years. So, this I think will happen. From my side, there is no problem. The only thing is the process normally will happen three to four months before. I guess over the next, in December, the company will be taking it up, it is already in motion. So, I guess around that time it will happen.

But again, it will have to go to the RBI for approval and also have to go for shareholder approval also. Mostly by postal ballot it will happen because it will have to be done before March, there is no AGM or any such thing. So, it will be through postal ballot. That should happen somewhere around, I guess Jan, Feb once the RBI approval comes. So, somewhere around December, I think from the board or the management side, it should happen by December.

Interviewer: But you are like fine with it?

Suresh Iyer: Absolutely fine with it.

Interviewer: And have you sorted out issues around compensation at the senior management level? Because this is something which you are pushing for because there were slight uneven scales of pay, how have you sorted?

Suresh Iyer: So, two things we did. One is of course, we had the ESOP which came in November 2024, the first round. Now again, there should be, the first vesting will happen now in November '25. So the ESOPs is one thing which we have done, but it is only for senior management. The second thing is, last year we had a compensation benchmarking exercise we carried out through AON. After that, effective April 2025, we have had a salary division.

Interviewer: So, the OPEX actually went up.

Suresh Iyer: So, if you see the average salary hike that we passed on was about 22%.

Interviewer: That is at the senior management level/

Suresh Iyer: No, no, across the board.

Interviewer: There is a certain level which are linked to PSU grades, how will they get a 22%?

Suresh Iyer: No, no, no, it is not like a PSU grade. So, the structure is somewhat that kind of a structure. But otherwise, I think the minimum was 16.5% to 17% or something was the minimum even in the

lowest grade or this thing. It went up to around 26%, 27% in the very senior, that is the president and vice president grades. So, this is the kind of salary increments that have happened.

So, now at least in terms of the lateral hiring that we are doing, we are able to get a good quality, and we are able to offer a very competitive pay structure to the people whom we are able to hire. So, in the last six to eight months, we have done a good amount of hiring at the middle management level, so that we can strengthen and the business continuity is also taken care of.

So, almost at the branch levels, wherever the large branches are there, which is we qualify it as more than Rs. 200 crores AUM. So, in all those branches we have been able to have at least a senior manager or a chief manager level person heading the branch with a deputy who would be at least a manager or a senior manager, so that business continuity is taken care of. Same way at the head office also we have ensured that the second line in all the departments, we have got good at least senior manager, senior or chief manager level, second lines also onboarded in every department. So that we have a good talent pool available to grow and take charge as we move forward. So, this also we have done that has really helped.

Interviewer: Just to summarize, I mean, disbursements at 10.5% at the end, we will end up with maybe low double digit AUM growth this year and then just about low double digit and then we pick up to 13% to 14% next year.

Suresh Iyer: We are targeting 15% next year. So, if you do about Rs. 13,000 crores, even if we --

Interviewer: Rs. 7,500 crores of repayments.

Suresh Iyer: Yes, it will be around Rs. 7,500 crores repayments next year. So, that way we should be able to have around Rs. 6,000 crores additional, so mid-teens.

Interviewer: Nitin, anything else from your side? Perfect. All right, great. Thanks so much for your time, Suresh. Really appreciate it.

Suresh Iyer: Thank you so much.

Interviewer: Thank you. Bye.